Slough
Borough Council

Taking pride in our communities and town

Slough Borough Council
Head of Audit Opinion
2010/11

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Contents

Introduction

Purpose of this Report

The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006.

Overview of Internal Audit Approach

As Internal Audit, our role is to provide an annual assurance statement on the adequacy and effectiveness of the Authority's systems of governance, risk management and internal control.

Overview of Work Done

The Audit Plan for 2010/11 included a total of 80 projects. We have liaised with senior management throughout the year to ensure that internal audit work undertaken continues to focus on the high risk areas and, in the light of new and ongoing developments in the Authority, ensure the most appropriate use of our resources. As a result of this liaison, some changes were agreed to the plan during the year and a number of low risk audits have been deleted from the Plan, others have been consolidated or split into separate elements, and the timing of a number of others has been changed. Consequently, the total number of projects actually undertaken in 2010/11 was 80 compared to 101 in the prior year - refer Overall Summary.

We generally undertake individual projects with the overall objective of providing the Members, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls over a number of management's objectives. Other projects are geared more towards the provision of specific advice and support to management to enhance the economy, efficiency and effectiveness of the services and functions for which they are responsible. We also undertake IT audits, probity audits and anti-fraud work.

All internal audit reports include our recommendations and agreed actions that, if implemented by management, will enhance the control environment and the operation of the key management controls.

This report sets out the results of the work performed as follows:

- **Overall summary** of work performed by Internal Audit including an analysis of report gradings; and
- **Key themes identified** during our work in 2010/11.

In this report, we have drawn on the findings and assessments included in all internal audit reports issued in 2010/11, including those that, at this time, remain in draft. It should be noted therefore that the comments made in respect of any draft reports are still subject to management response.

Overall Summary

As illustrated in the tables below, we have noted an overall improvement in Slough Borough Council's control environment during the audit year. During the 2010/11 year, some 51 (72%) of internal audit projects were rated 'full/substantial assurance' compared with 61 (63%) in the prior year. We have also noted an improvement in the number of internal audit projects rated 'limited assurance' down from 36% to 28% and 'nil assurance' down from 1% to 0%.

Report Ratings

As in 2009/10 we have noted areas of improvement throughout the Authority, including better control over key financial systems.

We are pleased to report that we have not issued any 'nil assurance' opinions in 2010/11 (1 was issued in 2009/10). Similarly we issued 20 reports (28%) with 'limited assurance' opinions compared with 35 (36%) in the previous year, which shows a clear improvement in the level of control.

	Number of Projects			
Assurance Opinions	**2010/11**		**2009/10**	
Full Assurance	8	11%	0	0%
Satisfactory Assurance	43	61%	61	63%
Limited Assurance	20	28%	35	36%
No Assurance	0	0%	1	1%
Sub-Total	**71**		**97**	
Merged Audits / No Opinion Audits	9		4	
Total Audits Delivered	**80**		**101**	
Audits Cancelled / Deferred	0*		0	
Total	**80**		**101**	

* Audits were cancelled as a result of the changes to the way in which Internal Audit Services were provided during the year.

Opinion 2010/11

From the Internal Audit work undertaken in 2010/11, it is our opinion that we can provide **Satisfactory Assurance** that the system of internal control in place at Slough Borough Council for the year ended 31 March 2011 accords with proper practice, except for the significant control environment issues as documented in Appendix 1. The assurance can be further broken down between financial and non-financial systems, as follows:

ASSURANCE - FINANCIAL SYSTEMS

Our overall opinion is that internal controls within financial systems operating throughout the year are fundamentally sound.

ASSURANCE - NON-FINANCIAL SYSTEMS

Our overall opinion is that internal controls within operational systems operating throughout the year are fundamentally sound.

Key Themes

As Internal Audit continues to apply a risk based approach, our reviews assess the governance framework, the risk management process as well as the effectiveness of controls across a number of areas. Our findings on these themes are set out below. Overall, we have seen a significant improvement in the control environment and whilst further remedial action needs to take place, we have noted that management has already started addressing our most significant findings.

Corporate Governance

As part of our work this year, we have again completed a review of the governance arrangements in order to assist the Authority and the S151 officer in the preparing the Annual Governance Statement for 2010/11.

As in 2009/10, we have concluded that there is reasonable assurance that the Authority's governance arrangements are largely compliant with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on:

- Assurance provided by the external auditors in their 2009/10 Annual Audit Letter, dated December 2010 and Annual Governance Statement, dated September 2010, with regard to the Authority's accounts and governance, which concluded that arrangements were adequate.
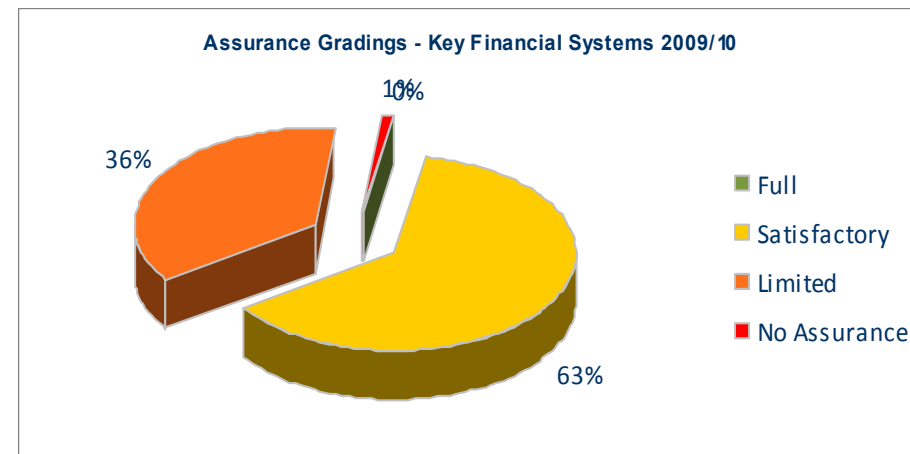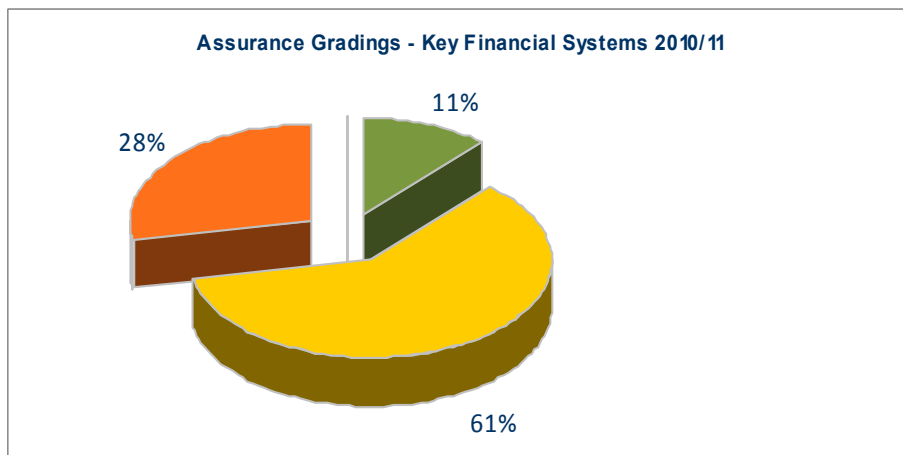- Our knowledge of the Authority's corporate governance arrangements.

Risk Management

Following on from our observation that the risk management process needed to be properly embedded, Internal Audit has worked closely with senior management to update risk registers in the final quarter of the year and to provide advice on how the risk management process could be improved. We undertook work to comment on the Council's compliance against the BSI Standard for Risk Management (BS 31100) audit during quarter 4 to help management finalise the next steps needed. We are satisfied that sufficient focus and resource has been dedicated to this area and with the current risk management project plan nearly finalised, we would expect to see good progress made in 2011/12 and beyond.

Internal Control - Key Financial Systems

Each year Internal Audit carries out audits of the Authority's key financial systems, working in accordance with the managed audit process agreed with the Audit Commission.
This process allows the Audit Commission to place reliance on the work performed by Internal Audit to provide the Authority with the necessary assurance that key financial controls in the fundamental systems are operating satisfactorily and support a robust control environment. It also allows the Authority to limit Audit Commission fees spent on reviewing the Authority's activities. The tables below show the audit gradings in this key area for both 2009/10 and 2010/11.

Assurance Gradings - Key Financial Systems 2010/11

11%
28%
61%

Assurance Gradings - Key Financial Systems 2009/10

1%
0%
36%
63%

Legend:
- Full
- Satisfactory
- Limited
- No Assurance

Overall we have seen improvement in the control environment around key financial systems. The number of nil/limited assurance opinions and the number of full/satisfactory assurance opinions remained at similar levels compared to the previous year. However the majority of issues relate to compliance with controls and this is unsurprising given the significant amount of change in the structure and personnel in the finance services in the course of the year. This reflects the effort made by management to address key control recommendations raised previously.

A summary of key findings for all 2010/11 Internal Audit projects rated as no assurance/limited assurance is included at Appendix 1.

Performance of Internal Audit

The provision of the Internal Audit Service was challenged during the year resulting in a number of changes and the decision to outsource the in-house team. As a result the performance for the first two quarters was therefore fully on target to meet the key performance indicators set. However, following the decision to outsource the service performance dropped off in the final two quarter with sickness and the earlier departure of an auditor. New performance targets have now been set for the interim contractor providing internal audit services and the achievement of targets will be reported to the Audit Committee periodically throughout the financial year.

Appendix 1 - Projects with Limited and No Assurance 2010/11

Project	Report Status	Grade	Number of agreed actions	Areas of Significant Control Weakness	Progress against action plan
Capital Finance	Final	Limited ⭐	5	• Asset disposals should authorised and supporting documentation retained • Annual valuation report should be authorised and external valuer verified • Existing use valuation form should be available for all asset re-valuations	• Issued July 2011 • Follow up due October 2011 when all actions should have been completed
General Ledger	Draft	Limited ⭐	9	• Key systems to General Ledger reconciliations not satisfactorily completed • Insufficient clearing of suspense accounts • Inappropriate authorisation of General Ledger code amendments • Former employees not removed from Oracle system • Insufficient segregation of duties with regards to journal entries • Four medium recommendations	• Reconciliation actions put in place during audit • Suspense accounts now being cleared on a monthly basis • Code amendments are now being authorised • Leavers list now received from HR and appropriate action taken on a timely basis • Retrospection action taken on journals and new processes put in place • Follow up due September 2011
Petty Cash & Imprest Systems	Draft	Limited ⭐	5	• Irregular reconciliation of imprest • Miscellaneous cash funding of petty cash tin • Lack of training for managers • Imprest incorrect and not resolved	• Training of managers has been undertaken • Follow action to ensure reconciliations are now correct • Follow up due September 2011
Procurement	Draft	Limited ⭐	7	• Contracts should be monitored and reported to ensure compliance with council procedures • Business exemptions should be monitored and	• Various actions are being taken to ensure that compliance is in place across

				reported to ensure that there are relevant business cases • Procurement card expenditure should be monitored • Four medium recommendations	all directorates • This issue has been included in the annual governance statement and progress will be reported to the audit committee on a regular basis
Partnerships (Cross Cutting)	Draft	Limited ⭐	8	• The Council have a Partnership Protocol in place; however, this was last subject to review in February 2008 • Whilst the current Partnership Protocol describes the use of a Partnership Register, it was identified that no such register is currently in existence at the Council • There was no evidence that responsibility for the establishment and maintenance of key partnership documents and arrangements had been allocated to an appropriate Officer • The number of partnerships that the Council is involved in could not be verified • No formalised process of reporting of key strategic partnership performance to the Cabinet was in place • Confirmation that partnership risks, their identification, assessment, mitigating action, and ongoing monitoring could not be verified	• A new partnership protocol has been issued and formally agreed by the Cabinet on 13th June 2011 • This issue has been included in the annual governance statement and progress will be reported to the audit committee on a regular basis
Carbon Reduction Commitment	Draft	Limited ⭐	7	• Lack of policies or procedures to govern and provide guidance to staff over the Carbon Reduction Commitment (CRC) • No timetable in place in relation to the receipt and gathering of data or the creation and submission of reports to the Department of Energy and Climate Change (DECC). • Lack of evidence pack to show the participant has complied with its obligations under Section 57(4) of the CRC Energy Efficiency Scheme	• Report currently being finalised with agreed action plan

				Order 2010 • No formal process for the regular review of sites eligible for inclusion in the CRC Energy Efficiency Scheme • Data received as part of the NI 185 scheme is not checked for accuracy upon receipt from the relevant sites. • No separate funding in place for the CRC and no decision has been made relating to the funding responsibility • No formal plans regarding the allocation of responsibility and the direction of compliance activities for the CRC Energy Efficiency Scheme within the Council.	
Related Party Transactions	Draft	Limited ⭐	6	• Additional work being undertaken July 2011 so report will be re-issued shortly	• Staff are currently being asked to complete declarations to ensure an up to date log • New processes currently being reviewed by management to ensure future compliance on a timely basis • Separate processes already in place to ensure that senior management team have completed a declaration
Wrexham Nursery	Final	Limited ⭐	8	• Insufficient stock reconciliations • Nursery Strategy not in place • Documented procedures are not in place for the costing of goods for external sale, refunds or cashing up. • Two medium recommendations	• Follow up in progress
Emergency Planning	Final	Limited ⭐	6	• Reliability and integrity of records • Testing and post-exercise programme • Business Continuity	• Follow up in progress

Gas Safety	Final	Limited ⭐	5	• No procedural document in place detailing how gas safety checks are processed and monitored • Insufficient information in quarterly performance reports • Two medium recommendations • One low recommendation	• Follow up in progress
St Ethelbert Catholic Primary School	Final	Limited ⭐	13	• Budget and quarterly review not ratified by Full Governing Body • Ten medium recommendations • Two low recommendations	• Follow up in progress
Hershel Grammar School	Final	Limited ⭐	10	Eight medium recommendations including: • No annual review of Governing Body Terms of Reference • Financial Risk and Control checklist (R52) not completed • Infrequent review of whistle-blowing policy • Lack of segregation of duties regarding financial management • No three year budget forecast in place • Inventory check not reported to Governors	• Follow up to be undertaken in September 2011
Governor Services & Training	Final	Limited ⭐	11	• No Service Level Agreement or contract in place for the provision of the Governor Services • Eight medium recommendations • Two low recommendations	• Follow up in progress
Safeguarding Arrangements - Adults	Final	Limited ⭐	8	• Non-compliance with procedures identified in testing • Insufficient training arrangements • Insufficient audit of safeguarding cases • Risk assessments not performed • Four medium recommendations	• Follow up in progress
Appointeeship (power of attorney)	Final	Limited ⭐	10	• No documented guidelines regarding the duties of the Appointeeship / Receiving Officer • Only one Officer trained in the duties of	• Follow up in progress

				Appointeeship/Deputyship with no succession planning • Lack of supporting documentation regarding expenses • Three medium recommendations	
Network Infrastructure ⭐	Draft	Limited	18	Sixteen medium recommendations including: • Password complexity facility no enabled • Weak Domain Account Policy intruder settings • Absence of lockout facility of local administrator accounts • Frequency of requirement to change passwords for some accounts • Generic user accounts • Review and removal of redundant accounts • Excessive number of Administrator accounts • Review of installed services • Installing latest service pack Two low recommendations	• Report currently being finalised with agreed action plan
Integrated Children's System (ICS) Application ⭐	Draft	Limited	6	• Shared and generic user accounts in operation • Failure to undertake test restores of the system • Lack of business continuity procedures • Three medium recommendations	• Report currently being finalised with agreed action plan
Capita Housing Management Application ⭐	Draft	Limited	5	• The application does not automatically enforce regular password changes • There is no regular review of all user accounts to ensure that they are being actively used and to ensure that they remain appropriate to all users' needs • There is no formally agreed, tested and documented Business Continuity and Disaster Recovery Plan • There have not been any application upgrades since the initial implementation in June 2009 • The system has not been configured to prevent the supplier from accessing the system	• Report currently being finalised with agreed action plan

Remote and Third Party Access Management	Draft	Limited ⭐	9	• Eight medium recommendations including: • Lack of Third Party Remote Access policy • No Intruder Detection System in place covering remote access connections • Security Incident Reporting and Response procedure not in place • Unencrypted laptops • Generic admin user account in operation • Lack of formal process regarding management of Third Party Supplier access • One low recommendation	• Report currently being finalised • Action plan already in place and follow up in progress
Information Governance	Draft	Limited ⭐	7	• Responsibility for information governance not clearly defined • Policy and framework needs to be developed • Information security policy needs to be updated and approved • Password policy and use of protective markings policy needs to be updated • Incident procedures to be drawn up • Ownership and disposal procedures need to be drawn up	• Draft issued July 2011 • Report currently being finalised with agreed action plan

Appendix 2 – Internal Audit Coverage 2010/11 (Notes: (1) these are included under the new directorate structure actually in place from 1st April 2011. (2) 4 audits undertaken for People 1st (ALMO) are included under Resources and Regeneration). (3) audits were cancelled as a result of the withdrawal of the Financial Management in Schools Standard; as a result of changes in the provision of internal audit services and reductions in staffing levels in the final quarter – these are not shown.)

Project	Audit Days Delivered		Assurance	Status
Central Financial Systems				
Treasury	10	★	Satisfactory	Final
Capital Finance	10	★	Limited	Draft
VAT	10	★	Satisfactory	Draft
Financial Planning & Budgetary Control	12	★	Satisfactory	Final
Creditors	10	★	Satisfactory	Draft
Payroll	15	★	Satisfactory	Draft
Cashiers	10	★	Satisfactory	Final
General Ledger	15	★	Limited	Draft
Petty Cash & Imprest Systems	5	★	Limited	Draft
Procurement	15	★	Limited	Draft
NNDR	12	★	Satisfactory	Final
Council Tax Billing & Collection	10	★	Satisfactory	Final
Council Tax & Housing Benefits	10	★	Satisfactory	Final
Discretionary Housing Payments	10	★	Full	Draft
Journals	10	★	Satisfactory	Final
Corporate Issues				
Partnership Working – Cross Cutting	15	★	Limited	Final
Performance Management	10	★	In Progress	

Data Quality	10		In Progress	
CRC Energy Efficiency Scheme	15	★	Limited	Draft
Risk Management	10		Management Letter	Final
Proactive anti-fraud work	20		As Needed	No Report
NFI	30		In Progress	No Report
Related Party Transactions	5	★	Limited	Added in final quarter
Resources and Regeneration				
Annual Governance Statement	5		Completed	Annual Governance Statement
Corporate Governance	15		Completed	No Report
Mayoralty & Civic Expenses (including car)	10	★	Satisfactory	Final
Absence Management	10	★	Satisfactory	Final
Corporate Landlord	10	★	Satisfactory	Draft
Wexham Nursery	15	★	Limited	Final
Development Control	10	★	Full	Final
S106 Agreements	10	★	Satisfactory	Final
Transportation Planning	10	★	Full	Final
Highways	15	★	Full	Final
Community Safety	10	★	Satisfactory	Final
Emergency Planning	10	★	Limited	Final
Housing Development / Enabling	8	★	Satisfactory	Final
Cash / Bank control with SBC reconciliation	10	★	Satisfactory	Draft
Rents including IT issues	10	★	Satisfactory	Final
Housing Management	10	★	Satisfactory	Final
Gas Safety	7	★	Limited	Final
Improvement and Development				
Customer Service Centre – Telephones	10	★	Full	Final
Education and Childrens Services				

Castleview School	6	⭐	Satisfactory	Draft
Our Lady 0f Peace Infants	6	⭐	Full	Final
Ryvers	6	⭐	Full	Final
St Ethelbert	6	⭐	Limited	Final
Saint Mary's CE	6	⭐	Satisfactory	Draft
Western House School	6		Management Letter	Draft
Wexham Court	6	⭐	Satisfactory	Final
Pen Wood School	6	⭐	Satisfactory	Final
FMSiS Management	20		No report	
Beechwood School	10	⭐	Full	Final
Hershel Grammar School	10	⭐	Limited	Draft
Langley Grammar	10	⭐	Satisfactory	Final
The Westgate	10	⭐	Satisfactory	Final
Redundancies / Teachers Pensions	2	⭐	Satisfactory	Final
Governor Services & Training	6	⭐	Limited	Final
Behaviour Support Team	7	⭐	Satisfactory	Final
Breakaway	10	⭐	Satisfactory	Final
Youth Offending Team	15	⭐	Satisfactory	Final
Community and Wellbeing				
Safeguarding Arrangements	15	⭐	Limited	Final
Lettings Management	10	⭐	Satisfactory	Final
Appointeeship (Power of Attorney)	10	⭐	Limited	Final
Hanover Contract (Pines & Northampton)	10	⭐	Satisfactory	Final
Occupational Therapy Team	14	⭐	Satisfactory	Final
Supported Living Procedures	8	⭐	Satisfactory	Final
Priors Day Service	10	⭐	Satisfactory	Final
Slough Community Mental Health	10	⭐	Satisfactory	Final

Speedwell Enterprises	10		Satisfactory	Final
Personalisation	5	★	Satisfactory	Final
Stroke Care Grant	5	★	Satisfactory	Final
Supported Living Additional Audit	5	★	Satisfactory	Final
IT Audits				
Network Infrastructure	15	★	Limited	Draft
IAS Application & Operating System (ICS) Application)	10	★	Limited	Draft
Flare & Operating System	8	★	Satisfactory	Final
Capita Housing Management System – Stage 1	4	★	Limited	Draft
Capita Housing Management System – Stage 2	11	★	Satisfactory	Draft
Income Management & E-Payments	12	★	Satisfactory	Draft
CRIS Payroll System	10	★	Satisfactory	Draft
Remote & Third Party Access	7	★	Limited	Draft
Information Governance	7	★	Limited	Draft

Appendix 3 - Key to Assurance Levels

Assurance Opinions

We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

Assurance Level		Evaluating and Testing Conclusion
Full Assurance	★	There is a minimal risk of serious fraud, loss, error or loss of reputation. You may have some minor control issues to address, but generally: • you apply key controls, or satisfactory compensating controls consistently and effectively • procedures work well • you achieve your business objectives efficiently, effectively and economically • you manage business risk effectively • you comply with relevant laws and regulations • you safeguard Council Assets • you produce reliable data
Satisfactory Assurance	★	There is some risk of fraud, loss error or loss of reputation. You: • apply key or compensating controls, but with some inconsistencies or shortfalls, and procedures are generally adequate • generally achieve objectives and value-for-money, but there are some identified weaknesses • do not always manage business risk optimally • may have some minor shortfalls in compliance with laws and regulations, asset safeguarding, and compiling data
Limited Assurance	★	There is a significant risk of fraud, loss, error or loss of reputation. We found some or all of the following problems: • significant evidence that key or compensating controls do not exist or are not applied consistently and effectively • procedures are poor, and need urgent improvement • inefficiency and ineffectiveness • objectives that are not met • major shortfalls in risk management • assets are at risk, inaccurate information

No Assurance	★	There is a high risk of significant fraud, loss, error or loss of reputation: The business:
		- does not operate key or compensating controls - has poor or non-existent procedures - does not comply with relevant laws and regulations - does not manage its risks - produces only unreliable information - leaves assets vulnerable

The assurance gradings provided above are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated objectives.

Risk Categories

Category	Definition
Significant	We perceive the threat to your business to be considerable- there is a fundamental weakness in the control system that poses a threat to the business. It would be hard for a manager to justify inaction on such a risk without agreeing this course of action with their line manager
Medium	There is a weakness in the control of your system that poses a moderate threat to your business You are likely to want to take action to reduce the risk, but other priorities may mean that you cannot do so urgently
Low	The risk to the business is relatively minor, and poses no great threat to your business as a whole. We regard our recommendations on such risks as suggestions, if you have the appetite and capacity to implement improvements. We will not carry out follow- up work on such recommendations.