

RSM! Tenon



Slough Borough Council

Internal Audit Progress Report
Audit and Risk Committee Meeting: 8 November 2012

Introduction

The internal audit plan for 2012/13 was approved by the Audit and Risk Committee on the 5th March 2012. This report provides an update on progress against that plan and summarises the results of our work to date.

Since the last Audit and Risk Committee held in September 2012 the following audit reports, relating to the 2012/13 plans have been finalised:

- Penn Wood School (14.12/13); and
- Business Rates (25.12/13)

A summary of the key issues contained within these report and the high priority recommendations made is detailed in the report below.

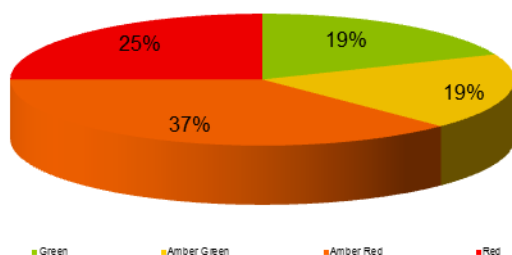
KEY ISSUES

Of the 13 RSM Tenon audit reports issued to management in respect of the 2011/12 Internal Audit plan, three of these still remain in draft. (Note – RSM Tenon provided the IA service for Quarter 4 of 2011/12 only).

Of the 33 reports which have been issued to management in respect of the 2012/13 Internal Audit plan, 20 of these still remain as draft reports. Of these 20, 12 of these have been outstanding for more than 30 working days, with the average time that draft reports remain outstanding being 35 days. Whilst management assurance has been provided in the audit debrief meetings that the weaknesses identified as part of these audits will be addressed, in the absence of a completed action plan, assurance cannot be provided over the time-frame for the completion of these, or whether suitable priority has been given to addressing the issues raised.

Of the 33 reports issued to the Council to date for the current financial year, the breakdown with regards to the levels of assurance provided, is as follows (20 of these reports remain in draft and are subject to management agreement / responses received from management):

Assurance Levels 2012/13 to date

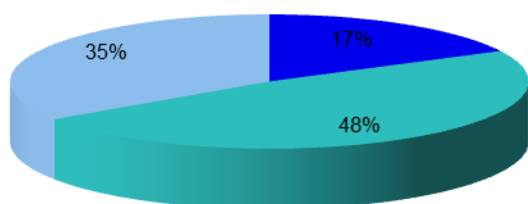


■ Green ■ Amber Green ■ Amber Red ■ Red

	Audit opinions					Total
	Green	Amber / Green	Amber / Red	Red	Advisory	
Assurance levels 2012/13 to date	6	7	11	8	1	33

The breakdown in the type of recommendations for the year to date is highlighted below:

Recommendations 2012/13- to date



■ High ■ Medium ■ Low

	Recommendation grade				Total
	High	Medium	Low	Other	
Recommendations raised 2012/13 – to date	35	96	69	7	177

Of the 32 reports issued for the current year to date where a formal opinion has been provided, 8 of these have resulted in a red opinion (please note six of the eight remain in draft at this stage). Whilst four of the red opinions relate to audits of schools, we have issued red opinions in respect of the following areas relating to the Councils control framework:

- Declaration of Interests (Final)
- Business Rates (Final)
- Contract Management (Draft)
- Contract Management – Block Nursing Contracts (Draft)

It is therefore imperative that actions to address the weaknesses identified within these reports are undertaken on a timely basis to ensure that these systems can operate effectively in the future. Failure to do so may impact on our ability to provide an unqualified Head of Internal Audit Opinion for the year, which may also have implications for the Annual Governance Statement. As part of our audit follow up process we will undertake a detailed follow up review in respect of all of these audits to provide assurance regarding the extent to which previous recommendations have been implemented.

Other Matters

Planning and Liaison:

Monthly meetings have been arranged with the Interim Assistant Director, Finance. We have also attended the most recent meeting of the Risk Management Group and provided guidance on the proposed content of the Risk Management Policy.

As our audits of Schools have identified a number of significant issues which have resulted in red assurance opinions, we have agreed with the Assistant Director of Education and Children’s Services to attend both the School’s Forum and Bursar’s Forum on a regular basis to provide an input regarding the findings of our reviews. We have also been invited to attend a number of governor meetings at individual schools to provide advice regarding the key financial controls which we would expect to see in place.

Internal Audit Plan 2012/13 - Change Control:

No proposed changes have been made to the Internal Audit plan.

Information and Briefings:

We have issued the following updates electronically since the last Audit and Risk Committee:

LG eUpdate September 2012

Fraud Alert: Changing Suppliers’ Bank Details An Update 12 October 2012.

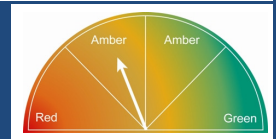
This update highlights the increased need for vigilance and strong controls in respect of the management of changes to supplier details, as this has become a particular target for fraudsters over the last 18 months.

Key Findings from Internal Audit

2012/13 Internal Audit Plan

Assignment: Penn Wood School (14.12/13)

Opinion: Amber /
Red



We found that the following controls were designed adequately:

- The roles and responsibilities of the Governing Body, the Resource Committee, the Headteacher and the Business Manager were set out in writing in the Financial Procedures and Terms of Reference.
- The Governing Body agreed with the Headteacher, the minimum frequency, level of detail and general format of the financial information to be provided to it.
- Minutes were taken of all meetings of the Governing Body and the Resource Committee and included all decisions and by whom action is to be taken.
- The Governing Body had established a register of interests of Governors, the Headteacher and any other staff who influence financial decisions.
- The School's budget was based on realistic estimates of all expected expenditure and income, including grant income. The surplus from 2011/12 of £91,336 had been carried over to 2012/13 and a surplus of £51,761 was forecasted for the year end position in 2012/13.
- The Governing Body approved the School's budget for 2012/13 in May 2012 after careful consideration.
- The Business Manager provided budget monitoring reports to the Resource Committee quarterly.
- The Headteacher received monthly Budget Monitoring updates from the Business Manager comparing the amount spent or committed to date against the budgets.
- The school considers price, quality and fitness for purpose through obtaining quotations for large expenditure and utilising recommended suppliers.
- Pre-numbered purchase orders created on the FMS system for all goods and services except utilities, rents, rates and petty cash payments. Where urgency requires an oral order, these should be confirmed in writing. Orders are approved by the Headteacher or one of the Deputy Headteachers.
- The school checks goods and services on receipt to ensure they match the order.
- Invoices are annotated to record the payment reference details.
- Segregation of duty exists between the requestor, authoriser and individual processing payments.
- Up to date records of all ICT equipment is retained by the School which is maintained by the IT Manager.
- A physical verification of existing assets is carried out by the School.
- School property loaned out is recorded by the School.
- The Schools safe was locked when not in use as was the petty cash tin and the room in which these were stored.
- The School's backup is carried out internally for all the IT systems daily.
- School meals are provided by an external provider and free meals are appropriately authorised through a check conducted by the Council or obtaining evidence from parents.
- The School maintains adequate segregation of duty between those who process and those who authorise employees' starter, leaver, expenses and overtime forms.
- Personnel files with employee records are held by the Business Manager.
- Payroll transactions are only processed through a payroll system managed by Moore Stephens. The School did not utilise petty cash for payroll transactions.
- The School did not have any significant variances within the sampled Budget Monitoring Reports for expenditure and therefore corrective actions would not have been expected. However, when variances are identified we were informed that these are appropriately scrutinised.

In addition, we identified the following weaknesses in relation to the design of the controls:

- The Governing Body had not established financial limits of delegated authority for expenditure between £15,000 and £60,000. This may result in approval of purchases being undertaken by an inappropriate level of authority. We accept that the School refers to the Scheme for Financing Schools for further guidance and that being a PFI School that expenditure above £15,000 is likely to

be limited; however, the procedures should still be specifically recorded for the School.

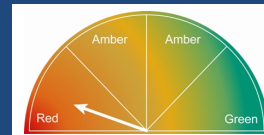
- The School had inconsistencies in the approval limits for petty cash in the Financial Policy and the approved Register of Certifying Officers.
- The Finance Policy did not clarify who was required to approve the Headteacher's travel expenses or timesheets. Inappropriate claims could potentially be processed if the appropriate level of authority is not obtained.
- The Governing Body has not established who is required to approve disposals within the School. This may result in inappropriately authorised disposals taking place in the School. Again, we noted that the School refers to the Scheme for Financing Schools for further guidance; however, this should be explicitly recorded within their own Finance Policy.

Application of and compliance with control framework

We found that a number of controls identified above were not adequately complied with. We identified the following weaknesses during our testing:

- One sampled order for goods/services was made without creating a purchase order and therefore prior approval was not obtained. This may result in the School committing itself to expenditure where funds are not available and value for money may not be demonstrated. Purchase orders were not authorised at the appropriate level in accordance with the Financial Management Manual. Items or services could potentially be purchased that are not required or that the School cannot afford if the appropriate level of approval is not obtained.
- Delivery notes were not signed to confirm receipt of goods or services. This may result in payments being made for invoices where goods or services have not been delivered to the School.
- Records of inventory checks for IT items such as desktops and printers were carried out were not sufficiently evidenced to demonstrate on the record the date each asset was checked. Albeit the electronic register recorded the date it was last updated. If checks are not regularly conducted the School may not be appropriately accounting for items that have been misplaced or have been damaged and require depreciating.

High Risk Recommendation(s):	Management Response	Responsible Officer	Date
<p>Rec 3.1 – High</p> <p>The School should ensure that no orders are made without a pre-approved purchase order (except where urgency requires an oral order then this should be confirmed in writing).</p> <p>Purchase orders should be approved from the appropriate level of authority to ensure segregation of duties as well as adherence to the Financial Policy.</p>	Agreed.	Anne Sheridan, Business Manager	Immediately



Headline Findings:

Design of control framework

We identified the following weaknesses in the design of the control framework:

- Arvato were not in possession of any Council approved authorisation requirements for awarding reliefs and exemptions which could result in reliefs being awarded without appropriate approval in which case the Council would be forgoing on further income.
- There was no cyclical check carried out to confirm those claiming relief or exemptions for business rates were still eligible. The Council could miss out on potential income if reliefs are not reviewed appropriately.
- The NNDR team had no dedicated Inspection Officer prior to transfer and There was no Inspection Officer in post at the time of our review to carry out checks to confirm that properties in receipt of business rate exemptions remained empty. This could lead to the Council not receiving appropriate revenue when properties are reoccupied.
- The Arvato shared services inherited out of date valuation lists. This means the Council cannot confirm the accuracy of the data held on the Academy system by undertaking reconciliations between the Valuation Office data to the Academy System data. Properties could be valued inaccurately on the Academy system and subsequently the Council could potentially be forgoing additional income if properties are undervalued.
- No regular aged debt reports had been run to date by management to review the level of debt chasing conducted by employees. Management may fail to identify a lack of debt chasing conducted by staff if this is not regularly reviewed, which could result in debt levels escalating and ultimately financial loss to the council.

There was no clear guidance on outstanding arrears that are considered uneconomical to recover.

We also found that the following controls were designed adequately:

- The Department for Communities and Local Government (DCLG) issued an annual statement detailing the National Non-Domestic Rates (NNDR) multiplier this had been appropriately applied to the Academy System parameters to calculate rateable charges.
- Annual bills for 2012/13 were sent out to rate payers for the forthcoming year on the 9th of March 2012.
- Customers are refunded when accounts are closed and produce a credit balance. A letter request is required from the account holder if the refund is to be paid to a different account or under a different name.
- The refunds are to be input on the Academy System by a different person from the one who authorises them therefore maintaining appropriate segregation of duties.
- Refunds are paid via BACS or by cheque by the Accounts department at Airways House.
- Arvato promotes the use of direct debit payments as part of the monthly bills issued to customers
- There is an annual recovery timetable that prompts the sending of reminders, summons, court orders and liability orders.
- The Council processes write offs on an annual basis. A report presented to the Cabinet including £2.013m was approved in February 2012. It should be noted that the Council also has a further £777,853.81 awaiting approval.
- NNDR accounts and related suspense accounts are reconciled on a monthly/quarterly basis. The reconciliations receive a peer review to demonstrate segregation of duty and are reconciled in a timely manner.
- Arvato submitted to the Government the required NNDR1 form for 2012/13 and NNDR3 for 2011/12 forms on behalf of the Council as well as the QRC1-4.
- Arvato reports on monthly Key Performance Indicators (KPIs) to the Council.

Application of and compliance with control framework

We found that some of the controls identified above were not adequately complied with. We identified the following weaknesses:

- There was no communication within Arvato of the procedure documents send to the Arvato for NNDR at the beginning of the Contract. This could lead to processes not being carried out or

authorised to the Council's requirements.

- Supporting documentation could not be found for some of the applications made for reliefs and exemptions. This could mean insufficient supporting evidence was obtained before awarding reliefs and exemptions. It should be noted that the relief was granted prior to the handover to Arvato.
- Reconciliations between the Academy system and the Valuation Office were not being undertaken prior to handover and as such the valuation lists were not up to date at transfer.

High Risk Recommendation(s):	Management Response	Responsible Officer	Date
<p>Rec 1 – High</p> <p>Procedure documents for Slough Borough Council Business Rates should be created by Arvato to meet the requirements of the Council. These procedures should be reviewed and approved by the Council providing information on how to undertake different Business Rate processes such as:</p> <ul style="list-style-type: none"> ▪ Reliefs and Exemptions; ▪ Refunds; ▪ Valuations; and ▪ Debt Management including the authorisation for writing off irrecoverable debts or debts that not an appropriate use of resources to chase. <p>The guidance should provide guidelines for timeframes to complete tasks.</p> <p>The procedure documents should also include authorisation requirements.</p> <p>The procedure's review dates should be included on the front page of the review dates.</p>	<p>Procedures were in existence; however they have gone missing in the handover to Arvato. The hope is that the existing procedures can be recovered which should fulfil this recommendation.</p> <p>If they cannot be located new procedures will be established based on Arvato procedures which should hopefully require minimal revisions.</p> <p>It has been agreed that the procedures need updating.</p>	<p>Charlie McKenna Head of Revenues & Benefits</p>	<p>March 2013</p>
<p>Rec 3 – High</p> <p>Arvato should create a review timetable to ensure that regular checks are undertaken to confirm continued eligibility to reliefs and exemptions.</p>	<p>To be produced once the system integrity is improved</p>	<p>Charlie McKenna, Head of Revenue and Benefits</p>	<p>December 2012</p>
<p>Rec 4 – High</p> <p>An inspector should be put in place and regularly investigate empty properties and small businesses to ensure that these are still eligible for the reliefs and deductions they receive.</p> <p>An inspection timetable should be created to ensure that all properties in receipt of exemptions are inspected cyclically.</p>	<p>Resource to be identified and allocated to this role</p>	<p>Charlie McKenna, Head of Revenue and Benefits</p>	<p>End of November 2012</p>
<p>Rec 7 – High</p> <p>A regular aged debtor report should be produced and reviewed by management. This review should be signed off to provide a</p>	<p>Head of Revenues and Benefits will raise this with the Business rates Manager to understand what reports can be run</p>	<p>Charlie McKenna, Head of Revenue and Benefits</p>	<p>December 2012</p>

suitable audit trail that the level of debt chasing is appropriate.	and an appropriate frequency for the review.		
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APPENDIX A - Summary of Progress against the Internal Audit Plan

2011/12 Audit Plan

Assignment <i>Reports considered today are shown in italics</i>	Status	Opinion	Actions Agreed (by priority)		
			High	Medium	Low
Purchase Cards (4.11/12)	Draft Report Issued 23 March 2012 – awaiting management comments				
St Anthony's Primary School (7.11/12)	Draft Report Issued 5 April 2012 – awaiting management comments				
VAT (12.11/12)	Draft Report Issued on 9 May 2012 – awaiting management comments				

Quarters 1 - 3 2012/13 Plan

Assignment <i>Reports considered today are shown in italics</i>	Status	Opinion	Actions Agreed (by priority)		
			High	Medium	Low
Thames Valley – Governance Arrangements (12.12/13)	FINAL	GREEN	0	1	2
Data Image Management (22.12/13)	FINAL	GREEN	0	1	1
Care Home Fee Increase Project – Project Management Arrangements (15.12/13)	FINAL	GREEN	0	0	2
Housing Benefits (20.12/13)	FINAL	GREEN	0	0	3
Multiple housing occupation (7.12/13)	FINAL	AMBER GREEN	0	3	1
Performance Management (1.12/13)	FINAL	AMBER GREEN	0	3	1
Leisure Services (17.12/13)	FINAL	AMBER GREEN	0	2	1
Registered Bed Based Services (5.12/13)	FINAL	AMBER RED	1	0	6
Hire of Council Buildings (16.12/13)	FINAL	AMBER RED	0	4	4
Rent Accounts (21.12/13)	FINAL	AMBER RED	1	2	2
Penn Wood School (14.12/13)	FINAL	AMBER RED	1	2	4
Business Rates (25.12/13)	FINAL	RED	4	4	2
Employee Declaration of Interests (2.12/13)	FINAL	RED	2	4	0
Budget Setting Process (13.12/13)	Draft Report – 18/7/12				
Cash Handling and Management (6.12/13)	Draft Report 28/6/12				
Gold Projects – Project Management	Draft Report 14/8/12				

Arrangements (19.12/13)					
Housing Management Systems (23.12/13)	Draft Report 24/8/12				
Procurement (24.12/13)	Draft Report 24/8/12				
Council Tax (18.12/13)	Draft Report 13/8/12				
Schools Development Budget (3.12/13)	Draft Report 6/6/12				
Willow School (4.12/13)	Draft Report 6/6/12				
Bayliss Court Nursery School (11.12/13)	Draft Report 11/7/12				
Haybrook School (9.12/13)	Draft Report 5/7/12 Revised Draft 31/7/12				
Western House School (8.12/13)	Draft Report 2/7/12				
Parlaunt School (10.12/13)	Draft Report 5/7/12				
James Elliman Primary School (27.12/13)	Draft Report 5/10/12 Revised Draft 22/10/12				
Data Protection Act (29.12/13)	Draft Report 12/10/12				
Children's and Families Assessment Teams (26.12/13)	Draft Report 4/10/12				
Recruitment (28.12/13)	Draft Report 10/10/12				
Contract Management	Draft Report 19/10/12				
Iqra School	Draft Report 19/10/12				
Arbour Vale School	Draft Report 19/10/12				
Block Nursing Contracts	Draft Report 19/10/12				
St Ethleberts School	Fieldwork Completed				
Safeguarding	Fieldwork In Progress				
Tenancy Fraud	Fieldwork In Progress				
FIMISIS/VSFS	Fieldwork In Progress				
General Ledger	Fieldwork In Progress				
Cash and Treasury Management	Fieldwork start 25/10/12				
Capital	Fieldwork start 1/11/12				
Use of Agency	Fieldwork start 9 Nov 2012				
Anti-Social Behaviour	Fieldwork start 6 Nov 2012				
Payroll	Fieldwork start 20 Nov 2012				
Debtors	Fieldwork start 21 Nov 2012				
Business Continuity Arrangements	Fieldwork start 26 Nov 2012				
Creditors	Fieldwork start 4 Dec 2012				

Avaro - Performance Management	Fieldwork start 10 Dec 2012				
St Joseph's School	Fieldwork start 10 Dec 2012				
Demand Management	Postponed to Q4 at the request of Director of Resources				
IT Strategy	TBC				

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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