

Slough Borough Council

Internal Audit Annual Report – Year ended 31 March 2014

Presented at the CMT meeting of: 11 June 2014

Updated and presented at the Audit & Risk Committee meeting of:

10 July 2014

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Baker Tilly Risk Advisory Services LLP





1 Internal Audit Opinion



1.1 Context

As the provider of the internal audit service to Slough Borough Council we are required to provide the Section 151 Officer and the Audit & Risk Committee an opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

As your internal audit provider, the audit opinions that Baker Tilly Risk Advisory Services LLP (Baker Tilly) provides the organisation during the year are part of the framework of assurances that assist the Council prepare an informed annual governance statement.

1.2 Internal Audit Opinion 2013/2014

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the adequacy and effectiveness of Slough Borough Council's arrangements. It should be noted that at the Council's request we had not included any targeted Internal Audit coverage in the 2013/14 audit plan in the area of children's social services. This was due to the number of other external assurances and inspections that the Council was receiving in this area during 2013/14. Our opinion shown below therefore excludes the area of children's social services.				
For the 12 months ended 31 March 2014, based on the work we have undertaken, our opinion regarding the adequacy and effectiveness of Slough Borough Council's arrangements for governance, risk management and control is as follows:				
	Red	Amber	Green	Direction of travel
Governance We conducted an advisory review of Project and Programme Management of Gold Projects and we made some recommendations to enhance the existing arrangement in place. Our specific assurance audits of governance arrangements within the Council resulted in two positive opinions. A reasonable assurance (amber green) opinion being provided for the Training for Members and some assurance (amber red) opinion provided for our review of employee Declaration of Interests. Whilst governance structures and processes were in place, some weaknesses were identified which need to be addressed.				 
Risk Management The Council has in place the basic principles of good risk management in terms of its existing Risk Management Strategy and the approach it is taking to identifying, assessing and managing risk at a strategic, operational and project level. However, there is further work that can be done to improve the risk management process and culture within the organisation, the quality of the information captured and reported and the manner in which it is monitored and scrutinised.				 

<p>Control</p> <p>Positive assurance opinions were provided in 37 of the 46 audit reports issued in 2013/14 (excluding follow up and advisory reviews). Of the nine red assurance opinions issued, five of these related to our audits of schools, in which a common theme was weaknesses in safeguarding procedures relating to employment checks conducted. Whilst our overall opinion of the internal control environment is positive, we have identified significant weaknesses in respect of the following areas:</p> <ul style="list-style-type: none"> • E-Learning: Training & Development; • Contract Management Arrangements: Amey Plc.; • Atkins Limited: Third Party Procurement & Contract Management; and • Rent Accounts. <p>Appropriate commentary in respect of actions proposed to address these weaknesses should therefore be recorded within the Annual Governance Statement.</p>		
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Note: The direction of travel arrow indicates whether the change in our opinion related to the previous year is upward (improving), downward (adverse) or static.

1.3 The Basis of the Opinion

1.3.1 Governance

Our review of the Council's governance framework resulted in:

- A reasonable assurance (amber green) opinion being provided for Training for Members. Whilst this represents a positive internal audit opinion over the effectiveness of the governance framework in place, we did identify three medium priority weaknesses and a further four low priority issues.
- Some assurance (amber red opinion) being provided for the employee Declaration of Interest review. This also represents a positive internal audit opinion. However, two high, one medium and a further two low priority recommendations were raised.
- An advisory review for Project and Programme Management of Gold Projects. No formal opinion was provided on this review. However, it did include eight general recommendations, of which two related to project governance and four related to CMT governance.

1.3.2 Risk Management

Our review of risk management for 2013/14 was undertaken in an advisory capacity however the results were used to inform this year end opinion. The Council had in place the basic principles of good risk management in terms of its existing Risk Management Strategy and the approach it was taking to identifying, assessing and managing risk at a strategic operational and project level. Governance arrangements had been established to manage risks through the Risk Management Group. However, further improvements were required to ensure risk was brought to the regular attention of the Audit and Risk Committee to ensure that strategic risks are appropriately scrutinised.

Progress had been made on implementing prior year recommendations on Risk Management by the Insurance and Risk Officer and Risk Management Group.

The key findings relating to the design, application and compliance of the control framework within the review were:

- As part of the Corporate Risk Register, controls to mitigate the risks identified had been documented; however there was no clear evidence to demonstrate the assurances received to demonstrate that the controls in place were working and effective.
- While the Council had a Corporate Risk Register and a Corporate Plan, there was no link between the two documents in relation to risks to the Council's Strategic objectives to determine if a particular objective was at increased risk of non-achievement.
- While an approved Risk Management Strategy was in place and available via the Intranet for all staff to access, the Strategy was not complete and the 'Assessment of Risks' section was incomplete.
- The online Risk Management Training risk scoring matrix was not consistent with the matrix per the Risk Management Strategy.

- Information on the uptake and successful completion of this online training was not regularly reviewed by the Council.

We concluded that Taking account of the above issues the opinion of Internal Audit was that Slough Borough Council had demonstrated a 'Risk Developing' approach to Risk Management in terms of governance, risk identification and risk mitigation. Whilst we would conclude that the risk assurances are yet to emerge and risk monitoring is 'Risk Emerging'. These assessments are in line with Baker Tilly's Risk Maturity methodology.

1.3.3 Control

During the 2013/14 year a total of 46 reports were issued where a formal assurance opinion was provided. Of these, a positive opinion was provided in 37 reports, with four of these receiving substantial assurance (green), 21 reasonable assurance (amber green) and 12 some assurance (amber red). However, nine of the audits undertaken resulted in a no assurance (red) opinion. Five of the red opinions relate to audits of schools in which there were common themes identified relating to non-adherence to financial control mechanisms on purchasing (i.e. raising purchase orders and verifying receipt of goods) and safeguarding issues in relation to the completion and retention of appropriate risk assessments in the absence of a returned Disclosure and Barring Service check prior to employment.

We have also issued four red opinions relating to the Council's control framework:

- E-Learning: Training & Development;
- Contract Management Arrangements: Amey Plc. (draft report);
- Atkins Limited: Third Party Procurement & Contract Management; and
- Rent Accounts (draft report).

It is imperative that actions are taken by management to address the weaknesses identified within these reports to ensure that controls are operating effectively in the future. Furthermore, we would expect to see appropriate commentary in respect of actions proposed to address these weaknesses recorded within the Annual Governance Statement.

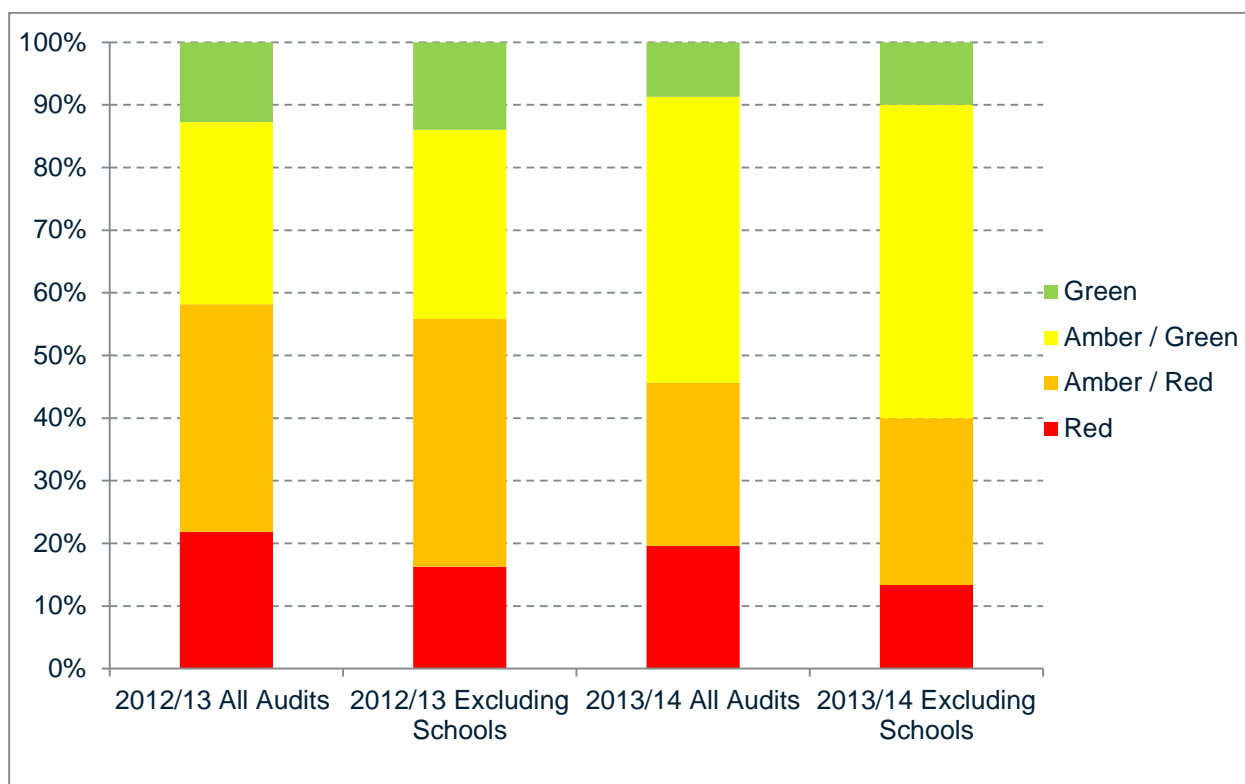
(PLEASE NOTE FOUR OF THE NINE RED REPORTS REMAINED IN DRAFT AT THE TIME DRAFTING THIS ANNUAL REPORT, TWO OF WHICH WERE SCHOOL REPORTS).

1.3.4 Acceptance of Recommendations

All of the recommendations made during the year were accepted by management where reports has been finalised. However a high number of audit reports remained in draft at the time this annual report was produced. As at the 25th June 2014, 10 reports from the 2013/14 audit plan remain at draft report stage.

Whilst we have a number of reports at draft stage, we have been provided with assurances by management as part of our debrief process that the recommendations we have made are being or will be appropriately considered by management.

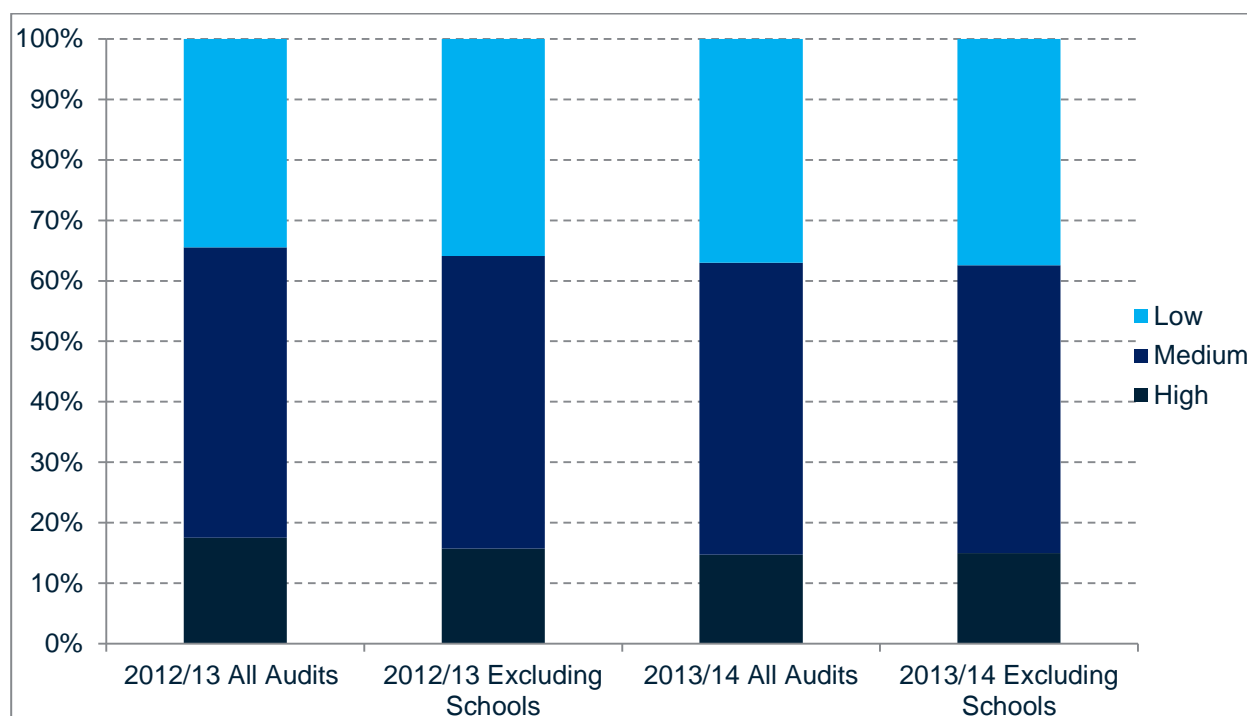
1.3.5 Comparison of Internal Audit Opinions (Assurance assignments) in 2013/14 compared with 2012/13



The main difference noted is that a greater proportion of Green and Amber /Green reports have been provided collectively in comparison to Amber / Red and Red reports in 2013/14 compared to 2012/13.

	Green	Amber / Green	Amber / Red	Red	Advisory / Follow Up	Total
2012/13 All Audits	7	16	20	12	3	58
2012/13 Excluding Schools	6	13	17	7	3	46
2013/14 All Audits	4	21	12	9	6	52
2013/14 Excluding Schools	3	15	8	4	6	36

1.3.6 Comparison of Internal Audit recommendations made 2013/14 compared with 2012/13



The graph above highlights a similar spread of recommendation priorities when comparing 2013/14 with 2012/13. However, it should be noted that the number of recommendations across all three categories has reduced by 55 as shown by the table below.

	High	Medium	Low	Total
2012/13 All Audits	61	167	120	348
2012/13 Excluding Schools	35	108	80	223
2013/14 All Audits	43	141	108	292
2013/14 Excluding Schools	28	89	70	187

1.3.7 Progress made with previous internal audit recommendations

We have followed up any prior recommendations raised when auditing a topic that has been subject to an Internal Audit review in the previous two years.

In addition we conducted a standalone follow up review to determine the effectiveness of the Council's recommendation tracking tool. This focussed on the key financial control recommendations made in 2012/13. We concluded that consistent overall findings were reported to the Audit and Risk Committee and therefore the recommendation tracking tool implemented by the Council is a useful assurance tool for the Committee.

The results of the follow up review showed that the organisation has made adequate progress in implementing the agreed recommendations, as summarised below:

Recommendation Priority	Number made in 2012/13	Of which:	
		Addressed	Not implemented or still in progress
High	10	4	6
Medium	30	21	9
Low	22	15	7
Totals	62	40	22

As Contract management was an area where no assurance could be provided in 2012/13 we also conducted a follow up review in this area in 2013/14. The original recommendations were assigned to the Assistant Director, Commissioning, Procurement & Shared Services in 2013/14 who has left the Council. An Interim Assistant Director, Commissioning & Procurement was recruited to take forward these recommendations.

The results of the follow up review showed that the organisation had made poor progress in implementing the agreed recommendations, as summarised below. The implementation dates stated by management in the revised action plan suggested that the qualified opinion would not improve by the 2013/14 year end.

There was therefore a significant risk that those weaknesses identified through our previous audit still exist and had not been addressed. Therefore assurance could not be provided that effective systems were in place for contract management within the Council.

Recommendations Summary:			
Recommendation Priority:	High	Medium	Low
Date of previous audit: September 2012 (debriefed)			
Number of recommendations made during previous audit	3	5	0
Revised Action Plan: December 2013 (debriefed)			
Number of recommendations raised:	4	4	0

1.3.8 Reliance Placed Upon Work of Other Assurance Providers

In forming our opinion we have not placed any direct reliance on other assurance providers.

Whilst not forming part of our Internal Audit plan, we have noted that the Council has received a Ministerial Letter (dated March 2014) informing the Council of the intention of using intervention powers under section 497A of the Education Act 1996 with respect to the Council's exercise of its children's social services functions to remove the provision of this function from the Council, and to commission a review to identify the future service provider.

The Council therefore needs to ensure that this issue is highlighted as a significant control weakness for the year within the Annual Governance Statement together with the proposed actions which are to be taken.

It should be noted that at the Council's request we had not included any targeted Internal Audit coverage in the 2013/14 audit plan in the area of children's social services. This was due to the number of other external assurances and inspections that the Council was receiving in this area during 2013/14. As noted in Section 1.2 our opinions shown in this report exclude the area of children's social services.

2 Our Performance

2.1 Wider value-adding delivery

We have provided the Council management with an appendix to this report highlighting the wider value added service that Baker Tilly has continued to provide throughout 2013/14. This is available to Members of the Audit and Risk Committee on request.

2.2 Conformance with Internal Audit Standards

Baker Tilly affirms that our internal audit services to Slough Borough Council are designed to conform with the Public Sector Internal Audit Standards (PSIAS) which came in to effect from 1 April 2013.

Under the standards, internal audit services are required to have an external quality assessment at least once every five years. During 2011 our Risk Advisory service line commissioned an external independent review of our internal audit services to provide assurance whether our approach meets the requirements set out in the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA). The PSIAS are based upon the IPPF, and therefore we are confident that the results of this review apply to our continuing services in the sector.

The external review concluded that *“the design and implementation of systems for the delivery of internal audit provides **substantial assurance** that the standards established by the IIA in the IPPF will be delivered in an adequate and effective manner”*.






2.3 Conflicts of Interest

During 2013/14 our Software Solutions Team has provided support to the Council in the form of a software solution product (4 policy) which is being used to manage the declaration of interest process within the Council. We (Baker Tilly) do not consider this would lead us to declare any conflict of interests as these have been completed under separate engagement letters and Engagement Partners.

Appendix A: Internal Audit Opinions and Recommendations 2013/2014

Audit	Link to risk or rationale for coverage	Opinion	Actions Agreed (by priority)		
			High	Medium	Low
Chief Executive Directorate					
Health and Safety	Risk: CEC0008 – Failure to adhere to Health and Safety practice		0	3	3
Training and Development e-Learning	Risk: ORG0020 - Delivery of Change; risk that employees are not adequately skilled to fulfil their duties and responsibilities and assist the Council in achieving their strategic objectives.		2	2	2
Project Management Support	Risk: Failure to meet planned expectations with regard to attracting investment or completion of the project by required deadlines	ADVISORY	-		
Governance – Training for Members	Risk: Reputational damage to Council if processes are not fair and transparent		0	3	4
Declaration of Interests	Rationale: To provide assurance that robust processes are in place to ensure that declarations of interest are obtained for all Councillors, Members and senior members of staff within the Council.		2	1	2
Customer & Community Services Directorate					
Implementation of New Council Tax Support Rules	Risk: ORG0022 - Delivery of Change to Council Tax Support Rules: Localism Bill due to be passed in November 2011 will encourage a mixed economy approach to local service provision accountability and governance key aspects.		0	0	0
Blue Disabled Parking Badges	Rationale: Management request to provide assurance on the service.		0	0	3
Trading Standards	Rationale: Management request to ensure a fair and safe trading environment for consumers and businesses in Slough.		0	2	0
Freedom of Information Act	Risk: Ineffective co-ordination of the arrangements within the Council to ensure the requirements of the FOI are met.		0	0	2

Audit	Link to risk or rationale for coverage	Opinion	Actions Agreed (by priority)		
			High	Medium	Low
Youth Service	Rationale: Management request to determine whether: <ul style="list-style-type: none"> A clear strategy is in place. New service is delivering against objectives and outcomes; and Governance arrangements to ensure performance against objectives is reported. 		0	4	2
Contract Management – Revised Action Plan	Risk: GBEG0001 Failure to deliver services at agreed cost/specification/quality	POOR PROGRESS	4	4	0
Atkins Limited – Contract Management & Third Party Procurement	Risk: The Council fails to deliver value for money where contracts incur excessive costs and providers procure works on behalf of the Council that also do not offer value or that do not comply with Council/EU Procurement procedures.		2	6	0
Use of Agency / Workforce planning	Rationale: Deferred from 2012/13, review to consider effectiveness of new outsourced agency arrangements.		2	1	3
Arvato Contract Performance Management	Risk: The outsourced is unable to deliver against proposed objectives, which could result in a failure to deliver appropriate services to the public and value for money to the Council.		1	2	1
Procurement	Risk: ORG0025 - Failure in Procurement		0	3	1
Council Tax	Rationale: Coverage to meet External Audit / Regulatory Requirements and any management concerns.		0	2	2
Housing Benefits			0	2	2
Business Rates			0	2	1
Rent Accounts			2	2	4
Payroll			0	4	2

Audit	Link to risk or rationale for coverage	Opinion	Actions Agreed (by priority)		
			High	Medium	Low
Resources, Housing & Regeneration Directorate					
School's Financial Value Standard (SFVS)	Rationale: To provide assurance that robust processes are in place to ensure that schools have completed the SFVS statements by the required time-line, and that completion of these is effectively monitored by the Council	ADVISORY	0	9	1
Budget Setting including Cost Savings	Risk: The Council fails to set a suitable budget that enables the organisation to deliver its financial objectives.		2	2	3
Data Quality: Corporate Balanced Scorecard	Risk: Senior management could fail to ensure suitable decisions and corrective actions are implemented in a timely manner where data presented within the Corporate Balanced Scorecard is inaccurate.		0	2	3
Contract Management Arrangements – Amey Plc	Risk: Failure to deliver services at agreed cost/specification/quality. Rationale: A review at the request of the Assistant Director, Finance & Audit, which will be scoped in year.		3	4	2
Budgetary Control & Financial Reporting	Risk: RSF0026 - Failure to Deliver Service Plan.		1	1	4
Capital Expenditure	Risk: RSF0006 – Budget control failure. Over and under spends of Capital – Either overall or individual schemes.		0	3	3
Data Analytics – Accounts Payable System	Rationale: A strategic Internal Audit Plan needs to have some coverage of IT systems. We agreed the t scope of this work with management.	ADVISORY	1	1	0
Risk Management	Rationale: A maturity review to consider the approach to risk appetite and identifying controls and assurances on key risks.	ADVISORY	0	5	4

Audit	Link to risk or rationale for coverage	Opinion	Actions Agreed (by priority)		
			High	Medium	Low
Debtors & Cash Management	Rationale: Coverage to meet External Audit / Regulatory Requirements and any management concerns.		0	4	1
Treasury Management			0	3	0
Creditors			1	3	2
General Ledger			1	1	3
Asset Register			1	3	0
Wellbeing Directorate					
Children's Service Procurement	Rationale: Management request to provide assurance on the adherence to the appropriate procurment rules and effective implementaion of a procurment plan within Children's Services.		2	2	1
Qualitative Monitoring & Block Nursing Contracts	Risk: Failure to deliver services at agreed cost, specification and quality.		1	2	2
Safeguarding Adult Social Operating Model Review	Risk: ORG0035 - Safe Guarding	Audit Postponed until 2014/15			

Audit	Link to risk or rationale for coverage	Opinion	Actions Agreed (by priority)		
			High	Medium	Low
Slough Maintained Schools:					
Cippenham Nursery School	<p>Risk: ECB0002 - Service taken over by Government or other agency</p> <p>Schools fail to provide acceptable quality of education for children and young people in Slough</p> <p>Children and young people do not receive high quality education, affecting their current and future achievements.</p>		0	5	3
Priory School			0	2	1
Lea Nursery School			0	2	4
Littledown School			0	2	1
Beechwood School			0	1	3
St Bernard's Catholic Grammar School			1	0	3
Montem Primary School			2	5	3
Baylis Court Nursery			0	3	4
Parlaunt Park Primary School			2	5	2
Wexham School			1	1	2
Foxborough School			0	5	4
Our Lady of Peace Catholic Junior School			1	6	2
Slough Centre Nursery			2	4	3
St Ethelberts Catholic Primary School			2	4	3
Claycots School			2	5	5
Pippins School		2	2	2	

Audit	Link to risk or rationale for coverage	Opinion	Actions Agreed (by priority)		
			High	Medium	Low
Cross-Directorate					
Follow Up Review	Rationale: To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.	ADVISORY	0	1	1
Total			43	141	108

We use the following levels of opinion classification within our internal audit reports:

Red	Amber / Red	Amber / Green	Green
<p>Taking account of the issues identified, the Board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.</p> <p>Action needs to be taken to ensure this risk is managed.</p>	<p>Taking account of the issues identified, whilst the Board can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.</p>	<p>Taking account of the issues identified, the Board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.</p> <p>However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.</p>	<p>Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.</p>

As a practising member firm of the Institute of Chartered Accountants in England and Wales (ICAEW), we are subject to its ethical and other professional requirements which are detailed at <http://www.icaew.com/en/members/regulations-standards-and-guidance>.

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

This report is supplied on the understanding that it is solely for the use of the persons to whom it is addressed and for the purposes set out herein. Our work has been undertaken solely to prepare this report and state those matters that we have agreed to state to them. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from Baker Tilly Risk Advisory Services LLP for any purpose or in any context. Any party other than the Board which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, Baker Tilly Risk Advisory Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to our Client on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

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