

Slough Borough Council

Internal Audit Progress Report

20th February 2015

For presentation at Audit & Risk Committee 12th March 2015

Introduction

This report summarises the work completed up until 20th February 2015 in relation to the 2014/15 internal audit plan.

2014/15 Internal Audit plan update

The internal audit plan for 2014/15 was approved by the Audit and Risk Committee on the 13th March 2014. This report provides an update on progress against that plan and summarises the results of our work to date.

Since the meeting of the Audit and Risk Committee held in December 2014, the following **eight** final audit reports have been issued in respect of the 2014/15 Internal Audit plan:

- Procurement Cards
- Wexham School
- Troubled Families (Aug 2014 submission)
- Troubled Families (Oct 2014 submission)
- Contract Management – Slough Community Leisure
- Our Lady of Peace RC Infant School
- Rent Accounts
- Income and Debt Management

Of these eight final reports, we have issued one some assurance (Amber Red) opinion in relation to the Procurement Cards audit. The Troubled Families submissions and the Contract Management report were undertaken on an advisory basis and the two schools audits resulted in positive opinions (Green and Amber Green respectively). In addition, the Rent Accounts audit and the Income and Debt Management audit have resulted in positive reasonable (Amber Green) assurance opinions.

Outstanding Reports from 2014/15

As at the 19th February 2015, the following audit 11 reports remain outstanding in draft:

- Carbon Reduction Commitment
- Khalsa Primary School
- St Mary's CE Primary School
- St Anthony's School
- Capital Expenditure
- Housing Benefits
- Contract Management Arrangements – AMEY Follow Up
- General Ledger
- Council Tax
- arvato Phase II Contract Management review
- Cash Collection and Management

Of the above 11 reports, five were issued in the previous two weeks (Council Tax, General Ledger, AMEY follow up, arvato Phase II and Cash collection and management). The St Mary's and Khalsa schools audits were issued in draft in September 2014. In addition, we are actively working with St Anthony's school following comments received in relation to the draft report, and we are also working with the Council regarding responses received in relation to the Carbon Management Audit, Housing Benefits and Capital Expenditure reports.

Further details on the key findings from reports finalised since the December 2014 Audit and Risk Committee can be found at Appendix B below.

APPENDIX A – SUMMARY OF PROGRESS AGAINST THE INTERNAL AUDIT PLAN

2014/15 Annual Plan (as at 20th February 2015)

Assignment Reports finalised since the last meeting are shown in bold	Status	Opinion	Actions Agreed (by priority)		
			High	Med	Low
Customer & Community Services:					
avarto phase 2 – IT & Customer Services	Draft Issued 6/2/15	ADVISORY	-		
Mobile Data Security	Final Issued 20/11/14	AMBER RED	0	5	0
Contract Management – Slough Community Leisure	Final Issued 15/12/14	ADVISORY	4	2	0
Carbon Reduction Programme	Draft Issued 6/11/14	ADVISORY	-		
Procurement	Commencing 2.3.15				
Procurement Cards	Final Issued 5/2/15	AMBER RED	1	4	2
Direct Payments	In progress				
avato performance management	Commencing 6.4.15				
Council Tax	Draft Issued 13/2/15	AMBER GREEN			
Housing Benefit	Draft Issued 6/2/15	AMBER GREEN			
Rent Accounts	Final report issued 10/2/15	AMBER GREEN	0	2	2
Business Rates	Quality Assurance review				
Payroll	Commencing 11.3.15				
Wellbeing:					
Troubled Families Review (May claim)	Final Issued 31/7/14	ADVISORY	1	1	1
Troubled Families Review (August claim)	Final issued 18/12/14	ADVISORY	0	1	1
Troubled Families Review (October claim)	Final issued 18/12/14	ADVISORY	0	0	0
Troubled Families Review (February claim)	In progress				
Children's Services – Access to Records	Commencing 24.3.15				
Educational Services – Contract Management Arrangements	Commencing 2.3.15				
Children's Services Procurement	In Progress				
Social Care Operating Model	In Progress				
Chief Executive:					
Lone Working Procedures	Final Issued 30/10/14	AMBER RED	1	4	3
Governance	In Progress				
Annual Governance Statement	In Progress				
Resources, Housing & Regeneration:					
Data Quality – KPI's within Contracts	Final Issued 12/11/14	RED	3	5	1
Contract Management Arrangements – Atkins	Final Issued 30/09/14	AMBER RED	1	5	0

Assignment Reports finalised since the last meeting are shown in bold	Status	Opinion	Actions Agreed (by priority)		
			High	Med	Low
Schools Financial Value Standard	Final Issued 13/10/14	ADVISORY	No recommendations		
Budget Setting inc Savings Plan	Final Issued 17/7/14	GREEN	0	0	2
Risk Management	Quality Assurance Review				
Housing Arrangements	Commencing 9/3/15				
Contract Management Arrangements - Amey Plc Follow up	Draft Issued 18/2/15	ADEQUATE PROGRESS	0	3	3
General Ledger	Draft Issued 18/2/15	AMBER GREEN			
Cash Collection	Draft issued 20/2/15	GREEN			
Treasury Management	Quality Assurance review				
Income and Debt Management	Final Issued 12/2/15	AMBER GREEN	0	1	3
Capital Expenditure	Draft Issued 16/1/15	AMBER GREEN			
Budgetary Control and Savings Plans	In Progress				
Creditors	Quality Assurance review				
Counter Fraud Arrangements	In Progress				
Asset Register	Commencing 16/3/15				
VAT	Final Issued 30/10/14	POOR PROGRESS	1	13	0
Schools:					
Holy Family Catholic Primary School	Final Issued 4/6/14	RED	2	5	2
Chalvey Early Years Centre	Final Issued 18/09/14	RED	2	3	6
Wexham Court Primary School	Final Issued 01/12/14	GREEN	0	0	1
St Mary's CE School	Draft Issued 12/09/14	AMBER GREEN			
Khalsa School	Draft Issued 12/09/14	RED			
St Antony's Catholic Primary Care School	Draft issued 20/11/14	AMBER GREEN			
Our Lady of Peace Catholic RC Infant School	Final Issued 8/1/15	AMBER GREEN	0	2	4
Other Internal Audit Activity:					
Follow Up	Commencing 26.3.15				

Key Findings from 2014/15 Internal Audit work

We have issued 29 reports to date for the 2014/15 plan, 21 of these contain assurance opinions and 8 were advisory reviews. Of the 28 reports issued to date, five of these have resulted in negative opinions and these relate to:

- Holy Family Catholic Primary School
- Chalvey Early Years School
- Khalsa School (still in draft)
- Data Quality – KPI's

- VAT follow up (poor progress).

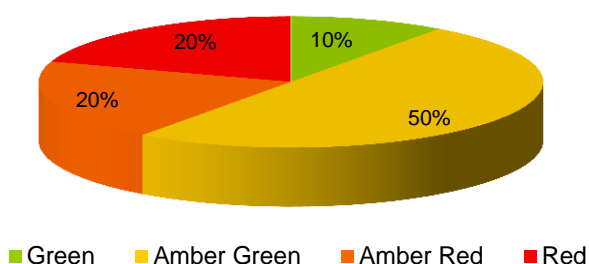
We have also identified some significant weaknesses in two advisory reviews; arvato Phase 2 and Contract Management – Slough Community Leisure.

Some of these reports remain in draft and we are actively working with management to finalise these. Where we have issued qualified opinions or identified significant weaknesses in advisory reviews we have agreed actions plans and recommendations with management to address these weaknesses.

Whilst some of these findings will impact on our annual opinion they will not in isolation result in a qualification of the annual opinion.

A BREAKDOWN OF THE ASSURANCE LEVELS AND TYPES OF RECOMMENDATIONS MADE FOR THE YEAR TO DATE IS DETAILED BELOW

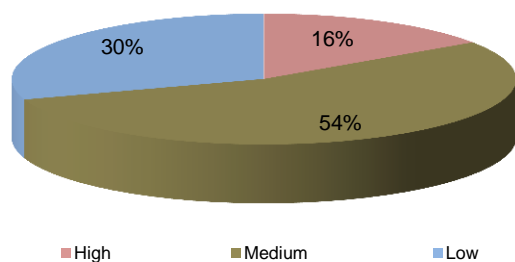
Assurance Levels 2014/15 to date



	GREEN	AMBER GREEN	AMBER RED	RED	ADVISORY	TOTAL
ASSURANCE OPINIONS 2014/15	2	10	4	4	8	28

THE BREAKDOWN IN THE TYPE OF RECOMMENDATIONS FOR THE YEAR TO DATE IS HIGHLIGHTED BELOW:

Recommendation categorisations in 2014/15 reports to date:



	HIGH	MEDIUM	LOW	TOTAL
RECOMMENDATIONS RAISED 2012/13	16	56	31	103

Other Matters

Planning and Liaison:

We have regularly attended meetings of the Risk Management Group and provided guidance and input on the proposed content of Risk Management arrangements at the Council, for instance, the governance structures and processes employed by the Council to discuss risk and facilitate continuous review.

We also attend quarterly meetings of the Berkshire Internal Audit Group where common themes/audit proposals are shared and the group shares any emerging fraud issues, and discusses common areas of risk across the Berkshire area.

To assist in embedding risk management throughout the Council we have attended Senior Management Team meetings across the majority of Directorates. During these meetings we have highlighted; outstanding reports and progress in relation to the implementation of recommendations, common themes for audits, upcoming audits and enquired about emerging risks. This has proven successful in identifying progress made on remedial actions where weaknesses had been identified in previous Internal Audit reviews and to provide a forum for proposing internal audit coverage in 2014/15.

Given the issues identified in the past 18 months at schools we issued a version of our common themes paper. This highlighted to all schools across Slough the issues identified during audits in Slough and across our wider client base. The paper also highlighted the impact and potential solutions that schools could implement to avoid future issues arising.

Given a common theme within a number of audit reports has been contract management arrangements we have attended a meeting with the Strategic Director, Customer and Community Services and Interim Assistant Director, Commissioning & Procurement where we have explored potential ways in which Baker Tilly may be able to assist the Council in its development of Contract Management through our use of area specific parts of the firm, including Carbon Management and Contract Management Specialists.

Appendix A - Client Briefings:

We have issued two Local Government News Briefing Updates to the Council since the previous Audit and Risk Committee. These provide a roundup of recent key publications and issues in the sector:

19th November 2014

Interpreting the Accounts: A Review of Local Government Financial Ratios 2007/08 to 2012/13

Between 2007/08 and 2012/13 local governments faced considerable financial challenges. This report by the Audit Commission looks at five national financial ratios during this period of change and provides benchmarking data against which individual local governments can compare their performance. The financial ratios analysed are: current assets to current liabilities; useable reserves to gross revenue expenditure; long-term borrowing to tax revenue; long-term borrowing to long-term assets; and school balances to dedicated schools grant.

Local Welfare Provision in 2015/16

The Government has set out in this consultation its intentions for the funding of local welfare provisions in 2015-2016. Although at present the Government is investigating three different approaches to funding, the consultation document is seeking responses in relation to four different approaches: funding from existing local government budgets; separate visibility of local welfare provision funding; topslice revenue support grant to fund section 31 grant; and other options for delivering and funding local welfare provision. The consultation consists of six questions and responses are sought by 21 November 2014.

Supporting People Payment by Results Pilots: Final Evaluation

The final evaluation of the pilot schemes for Payment by Results has been published by the Department for Communities and Local Government (DCLG). The evaluation has concluded that across the pilot schemes only two core models of delivery were used. DCLG also notes that spending under the Payment by Results contracts was lower than during pre-Payment by Results and where the pilot scheme was embraced by providers and commissioners the experience was generally positive.

Protecting the Public Purse 2014: Fighting Fraud against Local Government

This report by the Audit Commission is the last in the Protecting the Public Purse series and draws on the commissions 25 years of experience. Fewer cases of fraud were detected in 2013/14 although their value increased by six per cent. Since 2009 councils have focused more on non-benefit fraud which includes: council tax discount fraud; right to buy fraud; social care fraud; insurance fraud; business rate fraud; and procurement fraud. The commission outlines the core components that should be used to tackle fraud, notably: prevention and deterrence; investigation and detection; recovery and redress; and openness and transparency.

Universal Credit Pathfinder Evaluation

The pathfinder evaluation of Universal Credit (UC) by the Department for Work and Pensions sets out the experiences of those in the North West and is intended to inform future improvements to UC application. The evaluation focuses on six key areas: claimant experience; job search; budgeting and monthly payments; understanding of UC; attitudes to work and job search behaviour; and moving into work. UC claimants were looked at in comparison to Job Seeker Allowance claimants providing a comparison of the two benefit systems.

Care Act 2014: Statutory Guidance for Implementation

The Department of Health has issued statutory guidance to provide further information and assistance to local authorities in relation to the implementation of part one of the Care Act 2014 which comes into effect from April 2015. The guidance focuses on the areas of: general responsibilities and universal services; first contact and identifying needs; charging and financial assessment; person-centred care and support planning; adult safeguarding; integration and partnership working; moving between areas: inter-local and cross-border issues; and other areas of impact.

Fraudulent PayPal Account

We have recently become aware of an attempted fraud concerning a fraudulent PayPal account being set up through an organisation's bank account. Three £0.01 transactions were identified as being paid into the organisation's main bank account. These nominal value transactions are used by PayPal as part of their account verification process and to enable bank accounts to be linked to PayPal accounts. Once a PayPal account has been verified, there is no limit on the total amount of money that can be sent from the PayPal account and subsequently taken from the linked bank account.

On this occasion the organisation identified the unusual transactions through the daily bank reconciliation process and was able to freeze the PayPal account before any further payments could be made. To ensure the early identification of unusual or unauthorised transactions organisations should ensure that bank accounts should be regularly monitored, including for what appear to be very small value transactions.

14th January 2015.

Auditing the Accounts 2013/14: Local Government Bodies

This is the final Auditing the Accounts report the Audit Commission will issue before it is closed in March 2015. The report notes that audited accounts are fundamental to good governance and also enable local authorities to fulfil their accountability in relation to public monies. The report states that since 2008/09 there has been an increase in both principle and small bodies receiving an audit opinion by 30 September and that, at the time of preparing the report, all principal bodies had received an unqualified audit opinion with regard to the 2013/14 accounts. This deadline for accounts publication is however likely to change to 31 July for the 2017/18 accounts.

Bolder, Braver and Better: why we need local deals to save public services

The independent Service Transformation Challenge Panel has published a report looking at how improvements can be made to local public services for the benefit of those that rely on them. The report makes six recommendations: a new approach to people with multiple and complex needs; flexible and longer term funding with strong local accountability; smarter use of assets and more enterprising places; information sharing and better, bolder use of smart data and digital technology; adapting proven delivery models to suit local needs; and better collaborative leadership.

Council Tax and Business Rates Collection: An Update

This briefing by the Audit Commission updates previous briefings issued in June and October 2013 and provides information on the collection of council tax and business rates up to the end of March 2014. A total of £1.21 billion was uncollected across both council tax and business rates in 2013/14. This means the current amount outstanding to councils in long term debt is £4.55 billion. The collection rate for council tax in 2013/14 was 0.4% lower than the previous year. In contrast the collection rate for business rates was 0.2% higher than the previous year.

Local authority housing statistics: year ending March 2014

Annual statistics produced by the Department for Communities and Local Government shows that local authorities saw a decrease of 0.8% in owned dwelling since 2013/14 compared to the previous year. Following a general decline, local authorities experienced an increase in lettings and an increase in social rent compared to 2012/13. Local authorities also experienced a decrease in 'non-decent' dwellings and the number of people on their waiting lists; although local authorities saw an increase in evictions due to rent arrears.

Public Health England's grant to local authorities

The National Audit Office has produced a report on the new public health arrangements; the introduction of Public Health England (PHE) and the transfer of responsibility for public health from the NHS to local authorities. The report outlines key findings on: local authority public health spending and outcomes; governance and accountability arrangements; and supporting and advising local authorities. The report also makes five recommendations to help both the Department of Health and PHE to support local authorities in the delivery of public health services.


Draft local government finance report for 2015 to 2016

The Department for Communities and Local Government has released a draft report that sets out the grant that is proposed for each receiving authority and specified body for 2015/16 in England. The report contains details of: central and local shares; revenue support grant; distribution of revenue support grant; distribution of baseline funding level; tariff and top-up amounts; credit to the levy account; and pooling.

Keeping children safe in education: childcare disqualification requirements - supplementary advice

The Department for Education has issued guidance which supplements the keeping children safe in education guidance previously issued. Schools providing care for children under the age of eight are required to check staff are not disqualified from working with children, either personally, or by association. These checks must be conducted on staff already employed by the school and should form part of pre-employment checks for all future appointments.

Appendix B – Key Findings from Red and Amber Red rated reports (or advisory reviews where significant issues were identified)

Assignment: Procurement Cards	Opinion: 	1 high recommendations 4 medium recommendations	
<p>We identified one issue in relation to the design of the control framework which resulted in 1 ‘Medium’ category recommendation;</p> <ul style="list-style-type: none"> ▪ The Purchasing Cards Policy was dated September 2013, and there was no evidence to demonstrate that it had been reviewed since. In addition, the document was not available to staff as it was not on the Intranet, did not contain clear guidance on the merchants or types of products which could be used with Purchase Cards and did not reflect current practice in relation to the requirement to provide a business case prior to new applications being accepted. If the policy is not updated and made available to all staff, there is an increased risk of inappropriate expenditure. <p>Application of and compliance with control framework</p> <p>We found issues that resulted in 1 ‘High’ and 3 ‘Medium’ category recommendations.</p> <ul style="list-style-type: none"> ▪ We found that the checking of Purchase card statements and receipts was the job of the accounting technicians when they were based with the Council and the function was therefore transferred over as part of the outsourcing contract to arvato as when the Accounting Technicians were transferred to arvato, all jobs undertaken for the Council remained with them While the SLA between the Council and arvato documented the responsibility for ‘verifying the accuracy of Purchase Card returns’, this was only being undertaken for schools as it was presumed by arvato that this requirement was not applicable to all returns. As such, no check is undertaken on the accuracy of returns submitted by Council officers. This increases the risk of inappropriate expenditure on the basis of a lack of verifying the appropriateness of expenditure (High). ▪ In addition, we found that the SLA between the Council and arvato was in need of review, as the document stated the next review date of April 2014, however we had no evidence to show that this had subsequently been updated, and it was confirmed during testing undertaken that arvato were still working to the version due for review in April 2014. ▪ Sample testing of 15 cardholders identified that VISA Purchasing Card cardholder schedules and Cardholder Agreement forms had not been appropriately completed. Our findings included: <ul style="list-style-type: none"> ○ For two out of 15 sampled instances, cost centres had not been appropriately recorded ○ Financial Limits were not recorded on Cardholder Agreement forms in six instances. For three of these six cases, Cardholder Agreement forms had not been retained by the Council and we were therefore unable to determine whether financial limits had been correctly recorded. <p>There is a risk of inappropriate expenditure by card holders if procedures are not followed in relation to the completion of documentation prior to a card being issued.</p> ▪ 10/15 sampled cardholder’s files did not have evidence to demonstrate that as part of the application process for a Purchase Card, that suitable ID (e.g. Passport, Driving License) had been seen and verified. Without recording the witnessing of ID, we could not provide assurance that this task has been completed. The risk of not obtaining any identification is the incorrect Council employee could obtain use of the Purchase Card, potentially acting in a fraudulent manner and misuse the card. 			
High and Medium Risk Recommendation(s):	Management Response	Date	Responsible Officer
The Council need to ensure that responsibility is assigned to staff for ensuring that receipts are submitted on a monthly basis, where expenditure has been incurred to validate expenditure on Purchase Cards, and that a mechanism is introduced for checking the accuracy and validity of purchases made, including ensuring that the preparer and budget holder physically sign the journal prior to processing. (High)	Meeting to be had between the Council and arvato to discuss and take this forward.	March 2015	Barry Stratfull Corporate Financial Controller

<p>The Purchasing Card Policy should be enhanced to include:</p> <ul style="list-style-type: none"> ▪ A field for the next proposed review date to be recorded. ▪ Periodic exercises with the bank to verify all existing purchase cardholders. ▪ Clearer guidance in relation to the criteria for acceptable usage. ▪ The requirement for new purchase card requests to be supported by business cases. (Medium) 	Agreed	March 2015	Barry Stratfull Corporate Financial Controller
<p>The Council needs to undertake a review of all completed VISA Purchasing Card Cardholder Schedule and Purchase Cardholder Agreement forms to ensure that:</p> <ul style="list-style-type: none"> ▪ Two separate approvals have been provided by appropriate levels of authority; and ▪ Cost centre codes are recorded on cardholder schedules by the Finance Department. (Medium) 	New cards will have to be issued when the bank tender exercise is completed. This review will for part of this transfer	March 2015	Barry Stratfull Corporate Financial Controller
<p>Future Purchase Cards should only be issued where the member of staff responsible for this process has confirmed appropriate completion of the Purchase Cardholder Agreement form and witnessed identification documentation to confirm the user, and the Agreement form annotated accordingly.</p> <p>Financial Limits should be recorded on Cardholder Agreement forms. (Medium)</p>	My understanding is there are set limits for the cards and anything over and above these limits or changes to categories requires a business case to be submitted.	March 2015	Barry Stratfull Corporate Financial Controller
<p>The Transactional Finance Service Level Agreement between the Council and arvato should be reviewed to ensure that it clearly represents the work undertaken by arvato and the expectations of the Council. (Medium)</p>	Currently being looked at by finance management team	March 2015	Barry Stratfull Corporate Financial Controller

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.

Baker Tilly Risk Advisory Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.

© 2013 Baker Tilly Risk Advisory Services LLP