

Slough Borough Council

Annual Internal Audit Report - Year ended 31 March
2015

Presented at the Audit and Corporate Governance
Committee meeting of: 8th July 2015

Baker Tilly Risk Advisory Services LLP

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

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1 Introduction

In accordance with Public Sector Internal Audit Standards, the Head of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes.

This is achieved through a risk-based plan of work, agreed with management and approved by the Audit and Risk Committee (now Audit & Corporate Governance Committee), which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led corporate risk register. As such, the corporate risk register is one component that the Council takes into account in making its annual governance statement (AGS).

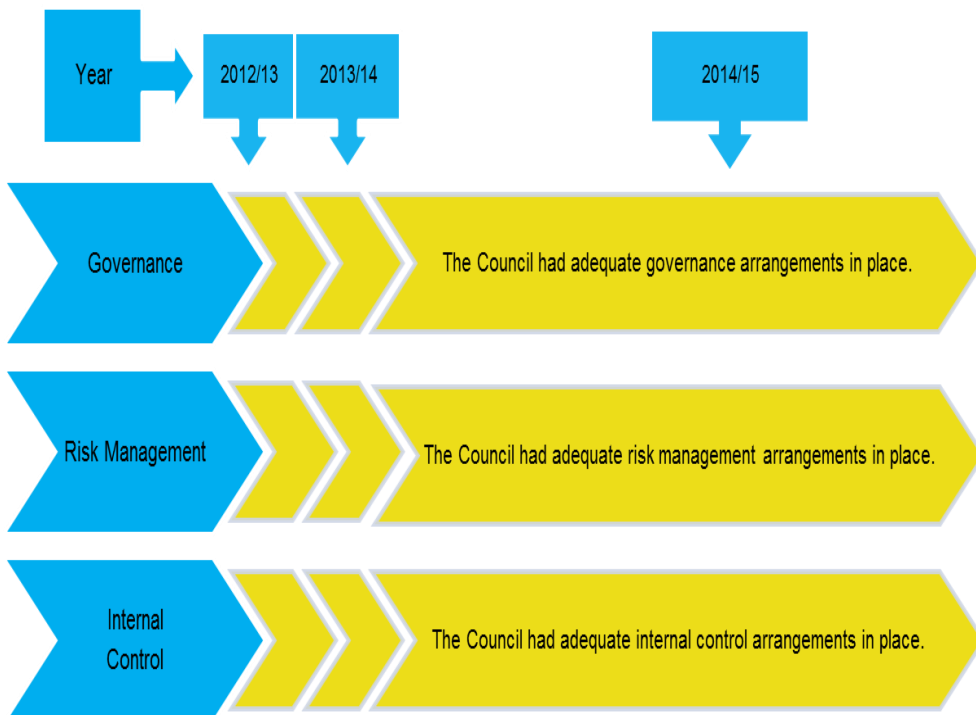
The AGS is an annual statement by the Accountable Officer, on behalf of the Council, setting out:

- How the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- The purpose of the system of internal control as evidenced by a description of the risk management and review processes, including the corporate risk register; and
- The conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

2 The Head of Internal Audit Opinion

The purpose of our annual Head of Internal Audit Opinion is to contribute to the assurances available to the Accountable Officer, Section 151 Officer and the Cabinet through the Audit and Risk Committee (now Audit and Corporate Governance Committee). This opinion will in turn assist the Council in the preparation of its annual governance statement. It should be noted that at the Council's request we had provided limited Internal Audit coverage in the 2014/15 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 2014/15 together with the actions being taken in establishing a Children's Trust. Our opinion shown below therefore includes minimal coverage in the area of children's social services.

For the 12 months ended 31 March 2015, based on the work we have undertaken, our opinion below details the adequacy and effectiveness of your organisation's risk management, internal control and governance arrangements. We also show below the direction of travel of our opinions.



Further detail supporting our opinion can be found over the page.

2.1 Topics or issues judged relevant to the preparation of the annual governance statement (AGS)

We would expect the Council to consider in the formulation of the 2014/15 AGS, the internal control weaknesses identified along with the improvements undertaken in the year in relation to our contract management audits that have been undertaken during the year, together with the on-going weaknesses identified in the internal control environment within a number of schools.

2.2 The basis of our opinion

Governance

Our Governance opinion was informed by an audit of Governance - Framework for reporting against the 5 Year Plan. The objective of the audit was to provide assurance that the Council structure in place was appropriate to allow effective and timely reporting against the Outcomes identified within the Council's Five Year Plan.

We provided an overall reasonable assurance (amber green) opinion and made two medium priority recommendations

Risk Management

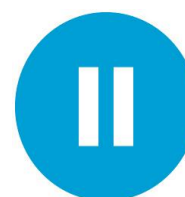
We have undertaken an audit of the risk management arrangements in place at the Council provided some assurance (amber red) in this area. Enhancements have been made within the year to the Risk Management Group which is one of the key forums, along with CMT, where key risks are discussed and reviewed. The Corporate Risk Register describes and rates each risk in terms of likelihood and consequence. It also lists controls mechanisms in place to manage those risks stated and actions to be undertaken to reduce the risks. This process has continued into 2014/15.

We have made six medium and three low priority recommendations to further enhance the risk management arrangements and ensure these are fully embedded across the Council.

Internal Control

The Internal Audit plan was driven by the Council's key risks as documented on the Corporate Risk Register, concerns raised by management and the Audit and Risk Committee. It was also driven to provide adequate coverage of the key financial systems to ensure that External Audit can utilise our work to inform their planning. Discussions were also held with management during the year to ensure that any key emerging risks for the Council were subject to review and included in the plan where appropriate.

We have undertaken 33 audits where a formal assurance opinion has been provided together with 13 advisory reviews. From the above opinions, a substantial assurance (green) opinion was provided for six audits, reasonable assurance (amber green) provided for 11, and ten provided with some (amber red) assurance.



However, during the year a total of six negative (red) opinions were issued where opinion was that the Council could not take assurance over the effectiveness of controls in place. These audits related to:

Data Quality – Key Performance Indicators within contracts: Our audit identified significant weaknesses in the processes in place for ensuring that value for money was being obtained through the delivery of performance targets for the following contracts; First Beeline Buses, Slough Library Services, Mott McDonald and Nottingham Rehab. Our testing identified that not only were KPIs not effectively defined and performance information validated, but that there were no effective mechanisms in place to ensure that the Council was receiving value for money from these providers.

Educational Services Contract Management arrangements: Our audit of the effectiveness of contract management arrangements between the Council and Mott McDonald identified that, in addition to a lack of KPIs in place between both parties, there was no validation being undertaken of performance against those indicators which had been agreed. As such, the Council could not assure itself that it was receiving value for money from the service provider or that key targets were being achieved.

arvato Performance Management: Our audit of the effectiveness of the performance management arrangements in place between the Council and arvato identified that the system was inconsistent and that some areas of performance measurement required significant improvement, particularly in respect of those services transferred over as part of phase 2 of the contract. In addition, as with the above reviews it was identified that there was not an effective process in place for validating performance against KPIs to ensure that value for money was being obtained from the provider.

Schools audits (Chalvey Early Years Centre, Holy Family Catholic Primary School and Khalsa Primary School): negative assurance opinions were issued for the above schools audits, primarily due to weaknesses identified in the processes in place to ensure that goods and services were being procured effectively. As such we were unable to provide assurance that value for money was being obtained by each of these schools.

In addition to the above red rated reports we have undertaken a number of advisory reviews where significant weaknesses in control were identified which also impact the opinion. These related to the audits on Contract Management – Slough Community Leisure and arvato Phase II Contract Management Review. It should be noted that whilst the numbers of recommendations made within these reports have not been included within Appendix A, they have been provided to management for action plans to be developed and implemented.

A summary of internal audit work undertaken, and the resulting opinions, is provided at appendix A.

2.3 Acceptance of 2014/2015 Internal Audit recommendations

All of the recommendations made during the year were accepted by management. Whilst 10 reports remain at the draft report stage we have been provided with assurance by management as part of the debrief meeting process that the recommendations made will be implemented.

2.4 Implementation of internal audit recommendations

Our follow up of the recommendations from previous years and current audit assignments, showed that the organisation had made little progress in implementing the agreed actions.

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

From our testing undertaken as part of the follow up, which covered audits for 2014/15 where the implementation date given for the recommendation had passed, we identified 3 reports where 2 or more of the recommendations made had not been implemented, and as a result restated these recommendations:

- Mobile Data Security
- Lone Working Procedures
- Data Quality – Performance Indicators within contracts

The audit did not follow up on schools recommendations as these will be subject to review as part of the 2015/16 audit plan related to schools.

In addition, we followed up on recommendations made as part of our initial 2013/14 review of the Council's VAT arrangements and while we found that progress had been made, there were still areas to be developed, such as compliance checking to ensure VAT is being calculated appropriately. As part of the 2014/15 plan, we also undertook follow up reviews of the following 2013/14 audits where red opinions were given:

- Contract Management Arrangements – Atkins
- Contract Management Arrangements – AMEY

For both of these reviews, our 2014/15 follow ups demonstrated that progress had been made by the Council to implement the recommendations made and improve the control framework in relation to these areas.

2.5 Reliance placed upon work of other assurance providers

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

3 Our performance

3.1 Wider value-adding delivery

As part of our client service commitment, during 2014/15 we issued 11 news bulletins to our local authority clients which provided a summary of Local Government issues identified within the sector across our wider client base and shared a number of these with the Council.

We have attended meetings of the Risk Management Group to provide continued assistance in the development of the Council's risk management processes, and have worked with the Risk and Insurance Officer to improve the format and description of risks documented with the Corporate Risk Register.

A number of audits during the year were undertaken on an advisory basis utilising specialist input to add value to these reviews. These audits included;

- Contract Management – Slough Community Leisure;
- arvato Phase 2 – contract management arrangements
- VAT
- Counter Fraud Services
- Carbon Reduction Commitment

We have undertaken regular audits of the Troubled Families programme to provide assurance over the validity of claims made by the Council's Troubled Families Team to ensure that the claims were in line with the criteria set by DCLG in line with their Financial Framework for Phase 1.

We have also undertaken reviews to provide assurance on a sample basis that Grants provided to the Council have been spent in line with the conditions set by Government.

The Head of Internal Audit has continued to meet with the Assistant Director, Finance and Audit regularly throughout the year, and the Chief Executive on a quarterly basis to ensure that they are kept apprised of the key issues emerging from our audits, together with progress in the delivery of the audit plan.

We have continued to attend Directorate SMT meetings on quarterly basis to ensure that they are kept apprised of current Internal Audit findings, together with planned reviews in the future. Together with the Risk and Insurance Officer for the Council, a summary of outstanding recommendations from previous audits are also reviewed at each of these meetings, along with the relevant Directorate Risk Register.

We have attended each meeting of the Berkshire Audit Group to ensure that we are kept informed of local issues within other Councils that may impact on our audit plan.

3.2 Conflicts of interest

We Baker Tilly have not undertaken any work or activity during 2014/15 that would lead us to declare any conflict of interests.

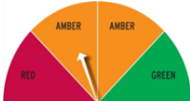
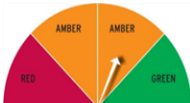

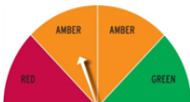
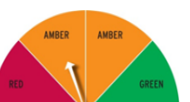
3.3 Conformance with internal auditing standards

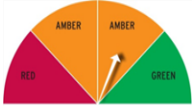

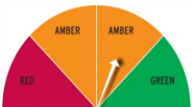
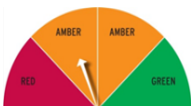

Baker Tilly affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our Risk Advisory service line commissioned an external independent review of our internal audit services in 2011 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA) on which PSIAS is based.

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”.


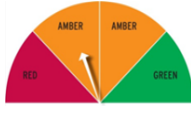
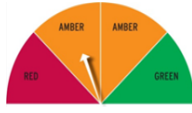



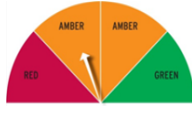
Appendix A: Internal Audit Opinion and Recommendations 2014/2015

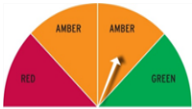
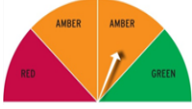
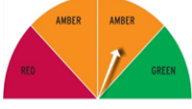

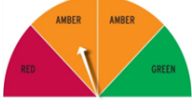



Assignment	Executive lead	Opinion	Actions agreed		
			H	M	L
CUSTOMER AND COMMUNITY SERVICES					
Mobile Data Security	Strategic Director, Customer and Community Services		0	5	0
Housing Benefit	Assistant Director, Finance and Audit		0	2	2
Rent Accounts	Assistant Director, Finance and Audit		0	2	2
Carbon Reduction Commitment 2013/14 Annual Report and Evidence Pack Audit	Strategic Director, Customer and Community Services	Advisory			
Slough Community Leisure - Contract review report	Strategic Director, Customer and Community Services	Advisory			
Procurement Cards (Purchase Cards)	Assistant Director, Finance and Audit		1	4	2
arvato Phase II Contract Management Review (draft)	Strategic Director, Customer and Community Services	Advisory			
Procurement (draft)	Strategic Director, Customer and Community Services		3	3	1

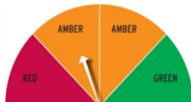

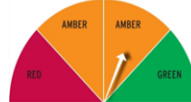



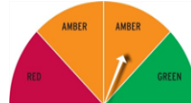
Assignment	Executive lead	Opinion	Actions agreed		
			H	M	L
Council Tax	Assistant Director, Finance and Audit		0	1	4
Business Rates (draft)	Assistant Director, Finance and Audit		0	0	1
Payroll (draft)	Assistant Director, Finance and Audit		0	3	0
Direct Payments (incorporating the Adult Social Care Operating Model)	Acting Director Adult Social Care		1	4	3
arvato Performance Management (draft)	Strategic Director, Customer and Community Services		6	5	1

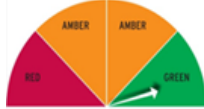
WELLBEING

Troubled Families Programme: May 2014 Submission	Strategic Director, Wellbeing	Advisory
Troubled Families Programme: August 2014 Submission	Strategic Director, Wellbeing	Advisory
Troubled Families Programme: October 2014 Submission	Strategic Director, Wellbeing	Advisory
Troubled Families Programme: February 2015 Submission	Strategic Director, Wellbeing	Advisory

Assignment	Executive lead	Opinion	Actions agreed		
			H	M	L
Educational Services - Contract Management Arrangements (draft)	Strategic Director, Wellbeing		2	6	2
Data Protection Act - Children's Services (Subject access request) (draft)	Interim Director, Children, Young People and Families		1	5	1
CHIEF EXECUTIVE					
Lone Working Procedures	Assistant Director, Professional Services		1	4	3
Governance (draft)	Assistant Director, Professional Services		0	2	0
RESOURCING, HOUSING AND REGENERATION					
Data Quality: Performance Indicators with Contracts	Assistant Director, Finance and Audit		3	5	1
Budget Setting	Assistant Director, Finance and Audit		0	0	2
Schools Financial Value Standard (SFVS) Review	Strategic Director, Wellbeing	Advisory			
Atkins Limited-Contract Management	Assistant Director - Assets, Infrastructure and Regeneration		1	5	0

Assignment	Executive lead	Opinion	Actions agreed		
			H	M	L
VAT Follow Up	Assistant Director, Finance and Audit	Poor Progress	1	12	0
Income & Debt Management	Assistant Director, Finance and Audit		0	1	3
Capital Expenditure	Assistant Director, Finance and Audit		0	4	4
General Ledger	Assistant Director, Finance and Audit		0	3	1
Contract Management Arrangements – AMEY Follow Up of Previous Internal Audit Recommendations	Strategic Director, Customer and Community Services	Reasonable Progress	0	3	3
Cash Collection and Management	Assistant Director, Finance and Audit		0	0	2
Creditors	Assistant Director, Finance and Audit		2	2	2
Budgetary Control including Savings Plan Monitoring (draft)	Assistant Director, Finance and Audit		0	3	5
Treasury Management	Assistant Director, Finance and Audit		0	1	3
Risk Management	Assistant Director, Finance and Audit		0	6	3

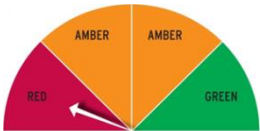
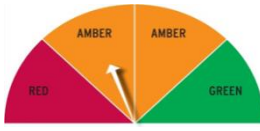
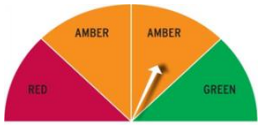
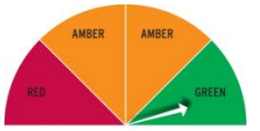
Assignment	Executive lead	Opinion	Actions agreed		
			H	M	L
Assets (draft)	Assistant Director, Finance and Audit		2	1	2
Counter Fraud Arrangements (draft)	Assistant Director, Finance and Audit	Advisory			
VAT Follow Up – Part 2 (draft)	Assistant Director, Finance and Audit	Little progress	1	6	0
SCHOOLS					
Khalsa Primary School	Strategic Director, Wellbeing		2	6	6
St Mary's CE Primary School	Strategic Director, Wellbeing		0	2	2
Chalvey Early Years Centre	Strategic Director, Wellbeing		2	3	6
Holy Family Catholic Primary School	Strategic Director, Wellbeing		2	5	2
Wexham Court Primary School	Strategic Director, Wellbeing		0	0	1
Our Lady of Peace RC Infant School	Strategic Director, Wellbeing		0	2	4

Assignment	Executive lead	Opinion	Actions agreed		
			H	M	L
St Anthony's Catholic Primary School	Strategic Director, Wellbeing		0	0	4

OTHER INTERNAL AUDIT ACTIVITY

Follow Up (draft)	Assistant Director, Finance and Audit	Little	6	17	5
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We use the following levels of opinion classification within our internal audit reports

			
<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. 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. 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>

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