



Carlisle City Council

Report to Audit Committee

Report details

Meeting Date:	8 December 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Financial Services Governance Arrangements
Report of:	Corporate Director Finance & Resources
Report Number:	RD50/22

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2022/23 and considers the cyclical risk-based Internal Audit review of Financial Services Governance Arrangements.

Recommendations:

The Committee is requested to

- (i) receive the final audit report outlined in paragraph 1.1;

Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

1. Background

- 1.1. An audit of the Financial Services Governance Arrangements was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2022/23. The audit (Appendix A) provides reasonable assurances and includes 2 medium-graded recommendations.

2. Risks

- 2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. Consultation

- 3.1 Not applicable

4. Conclusion and reasons for recommendations

- 4.1 The Committee is requested to
i) receive the final audit report outlined in paragraph 1.1

5. Contribution to the Carlisle Plan Priorities

- 5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

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Appendices attached to report:

- **Internal Audit Report – Financial Services Governance Arrangements– Appendix A**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement

Property Services - None

Finance – Contained within report

Equality - None

Information Governance- None

Audit of Financial Services Governance Arrangements

Draft Report Issued: 8th November 2022
Director Draft Issued: 10th November 2022
Final Report Issued: 10th November 2022



Audit Report Distribution

Client Lead:	Head of Financial Services Accountancy Services Manager
Chief Officer:	Corporate Director of Finance and Resources Chief Executive
Others:	
Audit Committee:	The Audit Committee, which is due to be held on 8 th December 2022 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

- 1.1. This report summarises the findings from the audit of Financial Services Governance Arrangements. This was an internal audit review included in the 2022/23 risk-based audit plan agreed by the Audit Committee on 15th March 2022.
- 1.2. The Internal Audit plan includes a three-yearly cycle of Main Financial Systems audit reviews, the majority of which are managed by the Council's Financial Services Team.
- 1.3. Good financial services governance refers to how financial information is collected, managed, monitored and controlled by the Financial Services Team, in a transparent and accountable manner.

2.0 Audit Approach

Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.
- 2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

- 2.3 The Client Leads for this review was Head of Financial Services and Accountancy Services Manager. The agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:
 - Failure to achieve business objectives due to insufficient governance
 - Loss or breach of information/ fines and sanctions/ reputational damage due to failure to securely process, retain, share and dispose of records and information
- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

- 3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix C** for definitions).

- 3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Financial Services Governance arrangements provide **reasonable assurance**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

- 4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix D**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	1
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	1
3. Information - reliability and integrity of financial and operational information (see section 5.3)	-	-
4. Security - safeguarding of assets (N/A)	-	-
5. Value – effectiveness and efficiency of operations and programmes (see section 5.4)	-	-
Total Number of Recommendations	-	2

- 4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

4.3 Findings Summary (good practice / areas for improvement):

A good standard of governance arrangements was found in Financial Services. Some issues have been raised without recommendation where it was felt significant value would not be added prior to local government reorganisation. This has resulted in an overall grading of reasonable, rather than substantial.

It is recognised that Financial Services have successfully addressed issues raised in the previous audit, such as reassessing team priorities, implementing succession planning and action to re-enforce home-working confidentiality, resulting in new guidance being issued to all staff.

Some of the key findings in the report have arisen at least partially due to a reduction in corporate focus on controls around service planning, risk management and UK GDPR compliance, whilst the Council is under increased pressure to implement local government reorganisation.

A suitable Financial Services staff structure is in place, supported by job descriptions.

The latest unqualified accounts for 2021/22 were confirmed by Grant Thornton in November 2022.

Regular financial performance reports are provided to Senior Management and the Executive.

A high level of compliance with internal GDPR and Cyber-security training was found within Financial Services.

Staff succession planning can be demonstrated. Annual appraisals are undertaken for the Finance Team.

Verifying that all required documents have been disposed of in line with Financial Procedure Rules and Data Protection Legislation will further enhance the regular disposal processes already in place.

An operational risk register is in place which is complete, reviewed by the wider management team on a regular basis and a structured approach to risk identification has been evidenced. An opportunity exists to further improve narrative for mitigating actions.

A service plan has not been documented for 2022/23 although objectives are unlikely to have changed significantly since 2021/22.

Comment from Director of Finance and Resources:

Thanks to the Auditor for this useful audit review which highlights the good standard of governance arrangements found in Financial Services. Especial thanks to the Head of Financial Services and the Accountancy Services Manager, who both have operational responsibility for the Finance Team, and who both provide effective and sound management of the service.

The recommendations are accepted and will be implemented in accordance with the agreed timescales.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1** A suitable Financial Services staff structure is in place, supported by job descriptions which are mostly reviewed for accuracy within a five-year time scale. Three job descriptions were last reviewed in 2017 and one outlier (a supervisory role) in 2011. Under normal circumstances review of job descriptions within a five-year time scale is recommended. Full review is now unlikely to add significant value prior to local government reorganisation (LGR), although review of the supervisory job description is advised due to the length of time that has elapsed.
- 5.1.2** Vacancies are being effectively managed with recent recruitment filling two posts in the Finance Team.
- 5.1.3** A recent informal team structure review took place following internal staff appointments. The last formal review was undertaken in 2018 and the structure will not be further reviewed prior to LGR.
- 5.1.4** Individual service plans detail key objectives, business change projects and workforce plans. They demonstrate how the service contributes to successful outcomes of the wider Carlisle Plan. The last service plan available was for financial year 2021/22. Although objectives are unlikely to change significantly from year to year within Financial Services, annual, documented review of service objectives demonstrates informed management review and decision making. Review of service objectives for 2022/23 is not now considered to add significant value prior to LGR, although it is advised that management confirm the arrangements in place for 2023/24.
- 5.1.5** An operational risk register is in place for the service, which was found to be complete and reviewed by the wider management team on a regular basis. A structured approach to risk identification was evidenced.
- 5.1.6** The previous Financial Services Governance Arrangements audit in 2021/22 recommended review of mitigating actions. The current audit identified similar opportunities for improvement including:
- Making mitigating actions more specific
 - Ensuring there is demonstratable evidence that the risk mitigation has operated effectively
 - Removing unnecessary narrative
 - Not re-stating risks as mitigating actions

Recommendation 1 - Review narrative for operational risk mitigating actions

- 5.1.7** There are a significant number of risks in the operational register (19) and 11 are considered to have a 'marginal' or 'negligible' impact, should the risk escalate. To help ensure that operational risk management process remains proportionate whilst adding the most value to the service, consideration should be giving to streamlining the register with a focus on risks with a 'high' impact on achieving operational objectives.
- 5.1.8** All risks are currently assigned to the Head of Financial Services. Management may wish to consider further delegation of individual risk assignment to relevant managers with appropriate, specialist knowledge.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

- 5.2.1** The Information Commissioner's Office website details that it is a key requirement under UK GDPR to be open about how personal data is used. Financial Services comply with this requirement by publishing a Privacy Notice on the Carlisle City Council Website.
- 5.2.2** A high level of compliance with internal GDPR and Cyber-security training was found within Financial Services.
- 5.2.3** A records retention schedule and separate disposal log is in place for Financial Services. Audit were informed that the team follows the requirements detailed in the Council's Financial Procedure Rules. The Rules detail business records retention periods, along with a requirement to ensure that proper arrangements are maintained with regard to Data Protection Legislation. The records retention schedule was found to focus on business record retention, rather than data protection.
- 5.2.4** Evidence of regular records disposal is evidenced by named officers in the disposal log, although there isn't a single point of accountability to verify that all required documents have been disposed of in line with the Financial procedure rules and Data Protection Legislation.

Recommendation 2 – Verify that all required documents are disposed of in line with the Financial Procedure Rules and Data Protection Legislation

5.3 Information – reliability and integrity of financial and operational information

- 5.3.1** A recent audit review of the main accounting system found that the electronic staff financial guide which had been developed to direct staff on specific financial processes, would benefit from regular review and update. If a key member of the Financial Services team were to leave at short notice, the lack of current documented guidance would significantly increase the difficulty of business continuity. Under normal circumstances, robust document management arrangements would be recommended, demonstrating accountability for regular review and update. Further review and update of the electronic staff financial guide is not now considered to add significant value prior to LGR.

5.4 Value – effectiveness and efficiency of operations and programmes

- 5.4.1** Financial services have a small and experienced Accountancy Team that communicate with each other on a regular basis. The latest unqualified accounts for 2021/22 were confirmed by Grant Thornton in November 2022.
- 5.4.2** Succession planning can be demonstrated with several team members undertaking relevant supported study for professional qualifications.
- 5.4.3** Regular, informal Departmental Team meetings are held every four to six weeks. Informal team meetings are held on an ad hoc basis when required.
- 5.4.4** Annual appraisals have been undertaken within the Finance Team on a regular basis, in line with Corporate requirements. At the time of the audit, Organisational development had not been provided with details of appraisal completion for the Service Support Team. It is advised that confirmation of appraisal completion is sought.
- 5.4.5** The corporate performance report reviewed by the Executive on a quarterly basis, includes two financial indicators. The first is actual net spend year to date, as a percentage of annual net budget, which is on target. The profiling of budget is a significant factor in results of this indicator and without further narrative it may be difficult for the reader to make an informed decision on performance. Positive performance is indicated when actual year to date spend is below an annual budget target percentage, although significant underspend could also be problematic. For example, budget profiling indicated that 12.8% of the budget should have been spent by the end of Q1, although only 7.4% had actually been spent. It is advised that management may wish to consider adjusting the report trend indicator to demonstrate a positive outcome for actual spend within a predetermined range either above or below the target budget percentage.

- 5.4.6** The second performance indicator is the percentage of all invoices paid within 30 working days which was also found to be on target.
- 5.4.7** Financial Services budget monitoring is regularly reviewed. Net spend for the service at September 2022 indicated a significant favourable variance of £788k. This was largely due to Treasury Management savings of £650k on borrowing interest, savings on minimum revenue provision and savings on interest received on money market deposits.
- 5.4.8** Council financial performance is regularly reviewed by the Senior Management Team on a monthly basis, and by Executive on a quarterly basis.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Review narrative for operational risk mitigating actions	M	Risks escalate because mitigating actions are ineffective	Risks will be reviewed at the next update of the Operational Risk Register	Head of Financial Services	31/03/23
Verify that <u>all</u> required documents are disposed of in line with the Financial Procedure Rules <u>and</u> Data Protection Legislation	M	Service is not compliant with Financial Procedure Rules or Data Protection Legislation	Disposal log will be updated and guidance given to the team on ensuring documents are disposed of in line with the guidance	Head of Financial Services	31/03/23

Appendix B – Advisory Comments

Ref	Advisory Comment
5.1.1	Further review of Supervisor job description.
5.1.4	Confirm service plan arrangements in place for 2023/24.
5.4.4	Confirm Service Support Team appraisals have been completed in line with corporate requirements.
5.1.7	Streamline operational risk register with a focus on risks with a 'high' impact on achieving operational objectives.
5.1.8	Delegation of individual risks to relevant managers with appropriate, specialist knowledge.
5.4.5	Adjust the report trend indicator to indicate a positive outcome for actual spend within a limited range either above or below the target budget percentage.

Appendix C - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	<p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</p>
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p>

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).