

Report to Audit Committee

Agenda
Item:

A.8

Meeting Date: 15 March 2021
Portfolio: Finance, Governance and Resources
Key Decision: Not applicable
Within Policy and Budget Framework YES
Public / Private Public

Title: INTERNAL AUDIT REPORT FINANCIAL SERVICES
GOVERNANCE ARRANGEMENTS

Report of: CORPORATE DIRECTOR FINANCE & RESOURCES

Report Number: RD69/20

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress and considers the review of Safe Recruitment

Recommendations:

The Committee is requested to

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

Tracking

Audit Committee:	15 March 2021
Scrutiny Panel:	Not applicable
Council:	Not applicable

1. BACKGROUND INFORMATION

- 1.1 An audit of Financial Services Governance Arrangements was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2020/21. The report, appended as Appendix A of this report was found to provide substantial assurances and contains 3 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

The Committee is asked to

- i) receive the final audit report as 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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Appendixes

**APPENDIX A - INTERNAL AUDIT
FINANCIAL SERVICES
GOVERNANCE ARRANGEMENTS**

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS/RISKS:

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.

Finance – Contained within the report

Equality – None

Information Governance – None

Audit of Financial Services Governance Arrangements

Draft Report Issued: 18 January 2021
Director Draft Issued: 03 February 2021
Final Report Issued: 18 February 2021



Audit Report Distribution

Client Lead:	Financial Services Manager Principal Accountant
Chief Officer:	Corporate Director Finance & Resources Chief Executive
Others:	Information Governance Manager
Audit Committee:	The Audit Committee, which is due to be held on 15 March 2021 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 a Main Financial Systems internal audit review included in the 2020/21 risk-based audit plan agreed by the Audit Committee on 30th July 2020.
- 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 Audit testing in relation to governance systems and records management are delivered routinely as part of all audit reviews. While certain testing relates to the specific area under review other elements focus on wider management arrangements.
- 1.4 Repeating this testing over various reviews in similar time periods was found to be repetitious, reducing the value added. It was agreed from 2020/21 that testing of higher-level governance and records management arrangements should be delivered as part of a separate review of the Financial Services team.

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 were the Financial Services Manager and Principal Accountant and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following scope areas:
 - 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 B** 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 **substantial 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 C**. 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 (N/A)	-	-
3. Information - reliability and integrity of financial and operational information (see section 5.2)		2
4. Security - safeguarding of assets (N/A)	-	-
5. Value – effectiveness and efficiency of operations and programmes (N/A)	-	-
Total Number of Recommendations	-	3

- 4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.

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

Financial Services has an established and embedded governance framework in place to oversee achievement of the service's objectives. While three recommendations have been made in the report these all relate to minor improvements to existing processes, supporting the substantial assurance conclusion.

An appropriate structure is in place for the team, supported by job descriptions and a series of team meetings, supervision, procedure notes and other communication to ensure staff are aware of their roles and responsibilities.

An established reporting framework is in place to ensure Senior Management and Members are kept aware of the Council's financial performance, which is supported by suitable, accurate and timely performance information.

A risk register is established, maintained in line with the Council's Risk Management Framework and there is evidence the register is developed, reviewed and updated on an ongoing basis. Improvements to the format and content of the register have been identified by assurance providers both internally and externally and there is a need to address these suggestions to enhance the risk management process.

The service has embedded relevant controls to maintain the security and confidentiality of the records it maintains in line with relevant legislation. However, there is a need to ensure all officers complete mandatory training in relation to data protection and cyber security.

Management have recognised the need to review the extent of records currently retained and work has begun to address this, although this is currently on hold as a result of the current pandemic. To ensure delivery of this exercise is completed in full there is a need to formalise an action plan assigning responsibility and timelines to finalise the review of all paper and electronic records maintained.

Comment from the Corporate Director Finance & Resources

A useful audit review which provides assurances on the control environment in place within Financial Services. The recommendations have been accepted and will be implemented within the agreed timescales which will further improve the existing good governance arrangement already embedded in the service.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1** A formal structure is in place for the Financial Services team, which supports the needs of the service. There are two vacant posts on the structure and plans are in place to review the whole structure and review what is needed to support future requirements and to support succession planning for the service. Management have plans in place to review roles and responsibilities within the team in order to enable improved cover in the event of any future long-term absences.
- 5.1.2** Job descriptions were generally up to date and included relevant roles and responsibilities. However, it was noted that some job titles did not fully reflect changes in line management responsibilities and others contained out of date job titles. It is advised that a review of all job descriptions takes place to ensure they are fully up to date.
- 5.1.3** To ensure job descriptions receive a regular review there is a need for the Council to include a review date on all job descriptions to ensure they receive a regular update. Internal Audit advise that job descriptions should be reviewed at least every five years.
- 5.1.4** A suite of procedures and policies are in place to support delivery of roles and responsibilities. Management are satisfied that procedures are appropriate, which is supported by the positive output of the team, including preparation of unqualified annual accounts.
- 5.1.5** The Council's S151 officer is the Corporate Director of Finance & Resources, who is responsible for the delivery of Financial Services objectives. There is clear evidence they are kept informed of all progress and are involved in the management and decision-making process.
- 5.1.6** A clear and detailed reporting framework is in place to ensure the Senior Management Team and the Executive receive regular reports of the team's objectives, particularly relating to the Council's financial performance and preparation of annual accounts.
- 5.1.7** Regular team meetings are established within the service to ensure staff are kept well informed and these have continued during the Covid-19 pandemic through the use of Microsoft Teams. This is supported by regular correspondence from management as and when issues or actions arise.
- 5.1.8** Representatives of Financial Services attend the Directorate's monthly management meetings. These were suspended at the start of the pandemic but have recently recommenced (following a restructure within the Directorate).

- 5.1.9** Representatives of Financial Services also attend other Directorate management team meetings to maintain awareness of financial issues across the full range of Council services.
- 5.1.10** Team meetings are not minuted; however, management follow up meetings with e-mails to all relevant officers listing any specific responsibilities and actions that need to be addressed.
- 5.1.11** Appraisals have not taken place during 2020/21 as a result of the pandemic. This has been acknowledged by management and plans are in place to ensure the appraisal process is re-established during 2021/22 in line with the revisions made to the appraisal process corporately.
- 5.1.12** The service usually creates an annual service plan, but like most Council services this was not prepared for 2020/21. However, the service's core objectives are generally static (preparation of the accounts and financial monitoring), so there is no significant risk exposure in this area. Again, the Service Planning process will follow the revised corporate approach.
- 5.1.13** A risk register is in place for the service, which has been prepared and reviewed in line with the Council's risk management framework. Evidence is in place that new risks are added to the register when identified, with five risks added during 2020. Mitigating actions appear to be suitable and evidence is available to demonstrate these are being actioned. Some minor improvements have been suggested to improve information included in the register for some risks
- 5.1.14** The risk register was presented to the Council's Operational Risk Management group in October 2020, where suggested improvements were made and have now been updated.
- 5.1.15** The risk register will need to be amended to address recommendations made during a recent review (currently draft) of Risk Management by Zurich Municipal, including ensuring risks are supported by appropriate assessments and a need to separate embedded controls and intended further actions.

Recommendation 1 – The risk register should be reviewed to include comments provided by Internal Audit and Zurich Municipal. (Medium)

- 5.1.16** The services main output relates to the financial monitoring of Council services and preparation of the annual accounts, which, as stated above are reported regularly and comprehensively to both Senior Management and the Board.

5.1.17 The service also has three performance indicators within the Council's Performance Management framework. All indicators were found to be accurately reported (supported by an appropriate audit trail), on target and reported on a timely basis.

5.1.18 The service is subject to appropriate financial monitoring, with regular minuted meetings with Senior Management. No concerns have been identified in relation to financial performance of the service.

5.2 Information – reliability and integrity of financial and operational information

5.2.1 There is a comprehensive privacy statement in place for the service specifying the information that it receives, creates and processes, including details of who data may be shared with. The statement has been reviewed by the Council's Information Governance Manager.

5.2.2 A review of mandatory training within the Council's e-learning module identified relatively low levels of completion within Financial Services, with 60% staff completing data protection training and only 18% completing the new mandatory training in relation to cyber-security released in October 2020. However, it is noted that 94% of staff have completed the previous mandatory training in relation to cyber-security.

Recommendation 2 – Management should ensure all staff complete mandatory training in relation to data protection and cyber security.

5.2.3 Both paper and electronic records are held securely, protected by fob access and password and network controls respectively. Lockable filing cabinets are available to further protect sensitive information. It is noted that further developments would add value in this area, including working towards a clear desk policy. This should be considered in the proposed action plan at Recommendation 3.

5.2.4 A retention and disposal schedule is maintained by the service, specifying appropriate retention periods for records maintained. As at February 2020 the service had undertaken a significant exercise to review and destroy paper records, which have been appropriately recorded on the disposal schedule. This exercise is currently on hold as officers are working from home during the pandemic.

5.2.5 Management have also recognised the requirement to review the extent of electronic records held by the service, though this exercise was put on hold pending instructions from IT on how this was to be dealt with corporately and a proposed migration of electronic data to cloud servers.

5.2.6 While it is not currently feasible to perform an enhanced review of records retained within the service, it should be recognised that this is a risk area that requires addressing. A more formalised plan of action would add value to the management of this risk

Recommendation 3 – Management should prepare an action plan assigning responsibility and timescales for a review of paper and electronic records held by the service.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1 – The risk register should be reviewed to include comments provided by the Operational Risk Management Sub-Group, Internal Audit and Zurich Municipal.	Medium	Risk management does not identify and adequately control risks to the achievement of service objectives.	The risk register will be updated with necessary amendments from the review undertaken by Internal Audit and Zurich Municipal	Financial Services Manager	30/09/21
Recommendation 2 – Management should ensure all staff complete mandatory training in relation to data protection and cyber security.	Medium	Staff unaware of the roles and obligations in relation to information and cyber security.	A reminder and instructions have been given to all members of staff in the team to ensure they complete all mandatory training sessions	Financial Services Manager	30/06/21
Recommendation 3 – Management should prepare an action plan assigning responsibility and timescales for a review of paper and electronic records held by the service.	Medium	Retention of unrequired records, resulting in potential breaches of data protection legislation, increased risk of unauthorised access to Council data and inefficient storage of archived records.	A plan will be drawn together on how best the services electronic records can be reviewed to ensure they are held appropriately. This will take a significant amount of time due to the number of records held and the number of network drives the service uses. This will also need assistance from IT	Financial Services Manager	31/03/22

Appendix B - 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 C

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).