

Carlisle City Council

Report to Audit Committee

Report details

Meeting Date:	23 March 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:	RD.83/21

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2021/22 and considers the 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 Financial Services Governance arrangements was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2021/22. The audit (Appendix A) provides reasonable assurances and includes 5 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

Contact details:

Contact Officer: Michael Roper

Ext: 7520

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: 07 January 2022
Director Draft Issued: 19 January 2022
Final Report Issued: 08 March 2022



Audit Report Distribution

Client Lead:	Head of Financial Services Accountancy Services Manager
Chief Officer:	Corporate Director Finance & Resources Chief Executive
Others:	N/A
Audit Committee:	The Audit Committee, which is due to be held on 23 March 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 governance arrangements for Financial Services. This was an internal audit review included in the 2021/22 risk-based audit plan agreed by the Audit Committee on 15th March 2021.
- 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 usually 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 and it is more efficient to test these once as part of a separate audit review.

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 Head of Financial Services and the Accountancy Services Manager 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 risks:
 - Risk 1 – Failure to achieve business objectives due to insufficient governance.
 - Risk 2 – 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 the governance arrangements for financial services 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 (5.1)	-	3
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (N/A)	-	-
3. Information - reliability and integrity of financial and operational information (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	-	5

- 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):

Financial Services has an established and embedded governance framework in place to oversee achievement of the service's objectives. The team achieves its objectives on a regular basis, including filing of unqualified accounts and maintaining strong financial management. However, during the audit there was an over-arching theme of pressures on the team due to ever-increasing demands, which has contributed to minor delays in following some established controls. An extended sickness absence or post vacation could significantly impact the team, particularly given current risks relating to difficulties recruiting to skilled posts such as accountants.

The team have an opportunity to attempt to address some of these pressures through utilising additional funding and this should be treated as a priority.

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 reviewed and updated on an ongoing basis. Improvements could be made to the risk identification process and mitigating controls need to more accurately reflect actual controls in place.

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 officers are aware of further measures required to ensure security of sensitive personal information.

Management have recognised the need to review the extent of records currently retained and work has begun to address this, although this is currently restricted as a result of the current pandemic and increasing workloads. To ensure delivery of this exercise, 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 highlights areas for improvement within Financial Services, all of which have been accepted by Management and will be implemented within the agreed timescales.

There are some wider corporate concerns contained within this report in terms of the Operational Risk Management Group which are outwith the scope of this audit.

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 team, which supports the needs of the service. There are two part-time vacant admin posts (0.66TE) in the structure that remain from the previous audit. There was and still is no intention to recruit to these posts. Previously there were plans to use apprenticeship funding alongside the slight savings from the vacant posts to create an apprentice post to support succession planning within the service, though further planning would be required to address ongoing costs in the future
- 5.1.2** The emergence of LGR (Local Government Reorganisation) and the additional support required for major projects being taken on by the Council has resulted in the need for the service to assess where to direct its resources.
- 5.1.3** There are plans to fund and to create extra resource within the team. However, progress on these plans has been limited due to the additional pressures on the team during the ongoing pandemic. There is a need to ensure these plans are now progressed to ensure relief on future pressures is maximised.

Recommendation 1 – Financial Services should prioritise progress of plans to utilise available funding and salary savings to support the increasing pressures on the service.

- 5.1.4** Appropriate measures have been put in place to ensure suitable succession following vacation of the Council's Insurance Officer role in December 2021, including appropriate consideration of options by Senior Management, an established handover period and arrangements to access experienced knowledge on an ad-hoc basis in the future if required.
- 5.1.5** Job descriptions were generally up to date and included relevant roles and responsibilities. However, it was noted that some job descriptions included out of date practices and systems. It is advised that a cursory review of all job descriptions takes place to ensure they are up to date. This will be required for LGR.
- 5.1.6** Procedures and policies are in place to support delivery of roles and responsibilities. Management are satisfied procedures are appropriate, which is supported by the positive output of the team, including preparation of unqualified annual accounts and good financial performance. The service acknowledges pressures on the final account process due to the limited number of qualified accountants¹ in post, but it is accepted this is inevitable in a small local authority and the team continue to meet relevant deadlines.

¹ Though it is noted all Finance Officers have either attained or are studying for the AAT qualification

- 5.1.7** 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.
- 5.1.8** 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.
- 5.1.9** Regular team meetings are established within the service to ensure staff are kept well informed and these have continued during the Covid-19 pandemic using Microsoft Teams. This is supported by regular correspondence from management as and when issues or actions arise. Representatives of Financial Services attend the Directorate's monthly management meetings.
- 5.1.10** Representatives of Financial Services also attend other Directorate management team meetings to maintain awareness of financial issues across the full range of Council services.
- 5.1.11** 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.
- 5.1.12** The Council has recently updated its appraisal process and requires appraisals to be completed by the end of January 2022. At the time of the audit several appraisals were outstanding due to the ongoing pressures, but the service is expected to complete all appraisals within the stated deadline. Completion of appraisals is monitored by Organisational Development and is subject to a separate annual corporate audit review.
- 5.1.13** A service plan is in place, setting out delivery of the key objectives for the service and recognising the pressures mentioned above. The service's core objectives are generally static (preparation of the accounts and financial monitoring). The plan also includes reference to the e-purchasing project, which needs to be considered in light of LGR. It is advised that a formal decision is made by Senior Management as to whether the project should be discontinued completely.
- 5.1.14** A risk register is in place for the service, which has been prepared and reviewed timely in line with the Council's risk management framework. There has not been significant change or update to the register, though this is considered to relate to the generally static nature of financial services.

5.1.15 There is currently no formal risk assessment documentation using techniques outlined in the Risk Management framework. Additionally, there is only limited evidence of other members of the team and other areas of expertise within the Council being involved in any risk identification process (as recommended in the ZM review – see below).

Recommendation 2 – A more formalised risk identification process should be put in place, supported by use of appropriate analysis techniques and involving other Council officers on a regular basis.

5.1.16 Mitigating actions are assigned against risks, which have been updated to reflect changes to the risk environment (Covid-19 / LGR). While actions appear broadly appropriate, the following improvements were identified:

- Some mitigating actions are just further description of risk exposure, rather than specifying how the Council intends to manage the risk (e.g. “LGR could reduce the available capacity to perform and assess projects adequately unless additional resources are sought”)
- Some mitigating actions are not updated to reflect specific issues such as recent issues with asset valuation in the accounts and an anticipated vacation of a key post.
- Some actions would benefit from enhanced descriptions that show the action is working (e.g. “Training continues to be provided to all staff dealing with capital on an ad-hoc basis” should specify when training was last delivered and whether attendance was appropriate).
- Some actions listed are not in place and could provide the wrong impression over the extent of mitigating controls in place (e.g. reference to the migration of data to cloud-servers, which has not progressed due to resource issues within ICT services).

5.1.17 Discussions with the responsible officer indicated a good understanding of risks faced by the service and highlighted controls being in place to manage the risks, so the issues raised are thought to be more of an administrative issue with the register not fully reflecting actual practice.

Recommendation 3 - Mitigating actions need reviewed to ensure they are concise, complete and represent actual risk management processes in place.

5.1.18 An internal Operational Risk Management Group (ORMG) is in place, comprising a number of officers experienced in risk and risk management. The group’s role includes reviewing and challenging risk registers. The group also facilitated a high level external review of the Council’s risk management processes, which resulted in a number of

actions identified to improve risk management processes

- 5.1.19** The Financial Services 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.
- 5.1.20** The group has not had a meeting since July 2021 and has not reviewed any registers since October 2020, when the last register (Financial Services) was reviewed. This completed the full review, commenced in August 2017, of all 19 operational risk registers in place within the Council. While outside the control of Accountancy Services, the cessation of meetings has reduced the Council's ability to drive forward further continual improvements to Risk Management processes. This has been raised separately by Internal Audit with Senior Management.
- 5.1.21** 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.
- 5.1.22** The service also has two performance indicators within the Council's Performance Management framework. Both indicators were found to be reported on a timely basis and on target. A third indicator relating to debt recovery was removed due to the Council's temporary removal of standard debt recovery processes because of the pandemic. It is advised this indicator is re-instated from 2022/23.
- 5.1.23** 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 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 separate corporate review of mandatory training within the Council's e-learning module has been undertaken. Several officers within Financial Services are yet to undertake the courses. Managers have issued several reminders. The new appraisal form includes opportunity to review completion of mandatory training. It is advised that further reminders are issued as part of this process.

5.2.3 Both paper and electronic records are held securely, protected by fob access and password/network controls respectively. Lockable filing cabinets are available to further protect sensitive information. It is noted that further security precautions, such as operating a clear desk policy and locking unattended workstations and filing cabinets would improve security of information. A recent security incident within the Civic Centre highlighted the additional risk exposure the Council faces of a data breach if sensitive information is easily accessible by intruders.

5.2.4 Additionally, given the extended working from home arrangements, officers would benefit from further guidance on how to keep information secure at home (including ensuring confidentiality is maintained in virtual meetings). An outstanding recommendation is in place to ensure this is provided for all officers.

Recommendation 4 – Staff should be reminded of good practice in relation to protecting sensitive information.

5.2.5 A retention and disposal schedule is maintained by the service, specifying appropriate retention periods for records maintained. The service had undertaken a significant exercise to review and destroy paper records, which have been appropriately recorded on the disposal schedule. However, recent progress has been limited as officers are working from home during the pandemic.

5.2.6 Management have also recognised the requirement to review the extent of electronic records held by the service, however 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. In the interim significant work has been undertaken to identify and remove outdated information from the Council's ledgers.

5.2.7 It was previously recommended a more formalised plan of action would add value to the management of this risk and while some progress has been made reviewing and destroying records, no formal plan is yet in place.

Recommendation 5 – 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 – Financial Services should prioritise progress of plans to utilise available funding and salary savings to support the increasing pressures on the service.	M	Additional workload pressures impact service delivery through limited capacity.	Funding is available through the PMO for increasing resources in finance. Plans will be made as to how best to utilise this funding.	Head of Financial Services	30/06/22
Recommendation 2 – A more formalised risk identification process should be put in place, supported by use of appropriate analysis techniques and involving other Council officers on a regular basis.	M	New risks are not formally identified and mitigated.	The process for risk identification will be examined to ensure all risks are appropriately considered	Head of Financial Services	30/06/22
Recommendation 3 - Mitigating actions need reviewed to ensure they are concise, complete and represent actual risk management processes in place	M	Risk register provides false assurances in relation to controls in place to mitigate risk.	The Risk Register is reviewed quarterly and the next review will ensure mitigating actions are appropriately recorded	Head of Financial Services	30/06/22

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 4 – Staff should be reminded of good practice in relation to protecting sensitive information.	M	Fines and reputational damage incurred as a result of a data breach	A reminder has been issued to all staff on 14/01/22	Head of Financial Services	14/01/22
Recommendation 5 – Management should prepare an action plan assigning responsibility and timescales for a review of paper and electronic records held by the service.	M	Fines and reputational damage incurred as a result of a data breach	Consideration will be given to the appropriate methods of ensuring all records are reviewed	Head of Financial Services	30/12/22

Appendix B – Advisory Comments

Ref	Advisory Comment
5.1.5	It is advised that a cursory review of all job descriptions takes place to ensure they are up to date.
5.1.13	It is advised that a formal decision is made by Senior Management as to whether the e-purchasing project should be discontinued completely
5.1.22	It is advised the performance indicator relating to debt recovery is re-instated from 2022/23
5.2.2	It is advised that further reminders are issued in relation to outstanding e-learning within the service as part of the current appraisal process.

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).