



AUDIT COMMITTEE – 23RD APRIL 2019

SUBJECT: INTERNAL AUDIT REPORTS – “IN NEED OF IMPROVEMENT”

REPORT BY: CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE SERVICES

1. PURPOSE OF REPORT -

- 1.1 Following the October 2018 Audit Committee meeting and the ISA 260 report from External Auditors Grant Thornton in July 2018, it was agreed that additional information would be provided to Audit Committee in respect of the audit assignments undertaken. This is intended to better inform the Committee of the work being undertaken, risks identified, agreed actions and any associated impact on the Authority’s Annual Governance Statement Process.
- 1.2 This report aims to inform the Audit Committee in line with the agreed processes and to allow Members to seek clarification or explanation where there are areas of concern and to identify where further action is deemed necessary. Also this allows Members to assess whether the recommendations made by Internal Audit and agreed management responses are reasonable and support an improvement in internal control processes.
- 1.3 This will ensure that the Audit Committee discharges its responsibilities in respect of reviewing and forming an opinion on the overall control environment in place across the Council, which underpins the Annual Governance Statement process at the end of the financial year

2. SUMMARY

- 2.1 The October 2018 Audit Committee meeting received a report suggesting changes in the methodology of reporting opinions on audit assignments undertaken, and it was agreed that those classified as “In need of improvement” would be reported to Audit Committee and those classified as “effective with opportunity to improve” would be reported to Committee if progress was not made in implementing recommended improvements.
- 2.2 The new system has been in place since October 2018 and has been applied to audits completed and where reports have been agreed and issued to management between January 2019 and March 2019. In the period 6 reports were issued which were noted as being “in need of improvement” in line with the agreed criteria and one was recorded as being inadequate.
- 2.3 Of the above 7 reports 6 relate to schools and as this Audit Committee meeting is taking place in the school holiday these reports will be deferred to the June meeting. As a result only one of the reports requires presentation to this Committee meeting.

3. LINKS TO STRATEGY

- 3.1 The work of Internal Audit Services provides assurance on the robustness of internal

controls and the corporate governance arrangements operating within the Authority and identifies areas for improvement. Strong corporate governance arrangements are an essential element of ensuring that the Council's key priorities are effectively delivered and this in turn contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -

- A prosperous Wales.
- A resilient Wales.
- A healthier Wales.
- A more equal Wales.
- A Wales of cohesive communities.
- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

4. THE REPORT

- 4.1 The revised 4 tier methodology of assessing audit assignments has been in place since October 2018, and this now requires finalised and issued audit assignment reports falling into the criteria of "In Need of Improvement" or "Inadequate" to be reported to Audit Committee with Heads of Service/ Service Managers or Head Teachers/Chairs of Governors together with relevant Internal Audit staff attending to offer further clarification on the issues raised as required.
- 4.2 Furthermore, it was also agreed in the October 2018 Audit Committee meeting that any audit assignment reports where the overall opinion was "effective with opportunity to improve" would be monitored and the implementation of agreed recommendations reviewed. Any reports falling into this category where improvements have not been made within agreed timeframes will also be subsequently reported to the Audit Committee.
- 4.3 Members will appreciate that the audit process involves planning the assignment, fieldwork and testing, reporting on risks and weaknesses to Management, issuing recommended improvements and agreeing these within a formal report to management and evaluating an overall opinion in line with the revised 4 tier system and this takes some time.
- 4.4 In addition where report opinions fall into the "effective with opportunity to improve" criteria, adequate time will be needed to allow agreed recommendations to be implemented and evaluated. In addition where managers have given a future date to implement recommendations follow up evaluation can only take place once those dates have elapsed.
- 4.5 During the quarter no follow ups of any audits that fell into the "effective with opportunity to improve" have been carried out as insufficient time has elapsed.
- 4.6 For the purposes of this Committee 7 audits have been completed in the period since January 2019 and issued to managers which fall within the criteria of requiring to be reported to Audit Committee. However 6 of these related to schools and require to be deferred to the next meeting of the Audit Committee due to the school holiday period. This leaves one audit report to be reported to this Committee and the detail is as follows:-
- Treasury Management. **APPENDIX 1.** The conclusion of this report was that control processes were **in need of improvement** and compliance with controls **was effective with opportunity to improve.** Management accepted the recommendations and are working towards implementing the recommendations made.

5. WELL-BEING OF FUTURE GENERATIONS

- 5.1 This report contributes to the Well-being Goals as set out in Links to Strategy above. It is consistent with the five ways of working as defined within the sustainable development

principle in the Act in that consideration is being given to improving the clarity and transparency of the future reporting to Audit Committee and this will lead to long-term improvements in these processes.

6. EQUALITIES IMPLICATIONS

6.1 There are no equalities implications arising from this report.

7. FINANCIAL IMPLICATIONS

7.1 There are no direct financial implications arising from this report.

8. PERSONNEL IMPLICATIONS

8.1 There are no direct personnel implications arising from this report.

9. CONSULTATIONS

9.1 All responses from consultees have been incorporated into this report.

10. RECOMMENDATIONS

10.1 The Audit Committee is asked to note the content of the attached Internal Audit report and consider management comments in respect of issues noted and assess whether the recommendations made by Internal Audit will be effective in improving the systems of internal control.

11. REASONS FOR THE RECOMMENDATIONS

11.1 To ensure that the Audit Committee adheres to its terms of reference in relation to the Annual Governance Statement process in the Financial Accounts and associated reporting.

12. STATUTORY POWER

12.1 Local Government Act 2000

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Stephen Harris, Interim Head of Business Improvement Services

Appendices:

Appendix 1 Audit Report **Treasury Management**



Directorate of Education & Corporate Services

Cyfadran Gwasanaethau Corfforaethol ac Addysg

Internal Audit Services

Gwasanaethau Archwiliad Mewnol

APPENDIX 1

'Final' Internal Audit Report

Treasury Management 2018/19

Date issued: 15/01/2019

Lead Auditor(s): LB – Senior Audit Assistant

Review Manager: DG - Acting Audit Manager

Report Distribution: AS - Finance Manager (Corporate Finance)
NA – Group Accountant (Corporate Finance)

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Acknowledgements

Thanks are extended to all staff concerned for their co-operation and assistance during the course of the audit.

This audit and associated report was conducted in conformance with the requirements of the Public Sector Internal Audit Standards.

1. Executive Summary

An audit review of Treasury Management within Corporate Finance/ Education & Corporate Services was undertaken during November 2018.

The audit encompassed:

- The identification and review of the documentation and procedures in place in relation to all aspects of the Treasury Management process.
- The identification of controls via enquiry or completion of an ICQ.
- Sample testing of files and/or records relevant to any new or revised processes that were agreed from the previous audit report.
- An examination on a sample basis of relevant records with a view to assessing compliance with the prescribed procedures.

The objectives of the review are to provide assurance that:

- The systems and processes in place are achieving the Authority's objectives.
- The reliability and integrity of financial information is in accordance with both the Authority's Financial Regulations and any other appropriate policies.
- All operations, procedures and controls in place are effective.
- The Authority's assets are safeguarded.
- Internal procedures, policies and any statutory requirements are complied with.

2. Control Risk Areas

Specific System / Service area risks and controls in place under review are shown in the table below.

Control risk area	Internal Control Questionnaire (ICQ) findings	Control / Risk Outcomes (Compliance Testing)
Risks identified in previous audits have not been addressed or measures implemented have not achieved control objectives.	All controls in place	Control objective substantially met
Specific high level ICQ risk identified	Most controls in place	No additional testing was required following identification of results of high level ICQ
GDPR is non-compliant	Most controls in place	No additional testing was required for this control risk.
No of Audit points noted total ...6..... High risk ...1... Medium risk ...4..... Merits Attention ...1...		

NB: Any significant issues identified during the course of the audit which were not included in the original scope have been included in the report for completeness.

3 Conclusion


Overall, the conclusion from the work undertaken is that the control procedures in place are:-

In need of improvement (to be reported to Audit Committee) – this is based on the outcome of one key issue that is considered to be a high risk area as no mitigating controls have been put in place to ensure the issue has been risk assessed/reviewed and a balanced approach has been applied in order to achieve the maximum level of protection of the Council's fund at an acceptable cost.

Compliance with the controls are considered to be effective with opportunity to improve (to be reported to Audit Committee if no improvement seen on the follow up of recommendations made) based on the results of the audit work undertaken it is considered that compliance with the control framework in place is satisfactory with a number of expected controls in place, however a number of control weaknesses have been identified resulting in some system risk.

4. Direction of travel

The direction of travel in relation to improvement in relation to risks and controls under review during the audit when compared to the previous audit in 2015 where the opinion was (i) Good Control procedures and (ii) Good compliance with controls is considered to be in the following category:-

<p>Deteriorating</p> 	<p>This is due to one key issue concerning with the Council's fidelity insurance cover that is high risk (although measures are in now being put in place to rectify this). Other issues in the remainder of the report have a lower risk rate, i.e. medium risks and merits attention.</p>
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5. Audit Assurance Statement

Overall assurance is taken from an evaluation of the findings and audit opinion, taking into account the individual risk assessment of the system or process and its materiality or impact.

The level of assurance for the audit review of Treasury Management within Corporate Finance/Directorate of Education and Corporate Services is felt to be:-

Partial (For explanation - please refer to Systems Assurance Grid & Assurance explanations grid in Terms of Reference document issued at start of the audit)

6. Internal Control Questionnaire Evaluation

6.1 Risks identified in previous audits have not been addressed or measures implemented have not achieved control objectives.

There were no areas of concern identified, agreed recommendations were carried out to address the issue identified in the previous audit report.

6.2 High level ICQ was performed with the Group Accountant for identification of any high level risks

6.2.1 Point Noted	Implication	Recommendations	Rating
<p>Fidelity Insurance Cover</p> <p>The maximum, average and current value of any single investments that can be performed by Treasury Management is not currently taken into consideration as part of the annual review of the Council's fidelity insurance cover. This is an insurance cover taken out by CCBC against loss caused by the disloyalty, dishonesty or non performance/ mismanagement of employees. (It does not cover counterparty risk, i.e. recovering monies invested in a counterparty that has defaulted/ gone bankrupt). Audit has been advised from the Senior Insurance & Risk Officer that the value of cover is determined by the Authority's brokers/insurers based on the information provided by the Insurance and Risk Management Section. The CCBC insurance cover for financial year 2018/19 is £3m for any one loss but information received from the Group Accountant identified the following:-</p> <ul style="list-style-type: none"> • The highest individual counterparty limit at present is £6m and the maximum investment limit allowable under the Treasury Management Strategy for 2018/19 for an individual counterparty is set at £10m. • The maximum pooled fund limit of £20m set out in the Treasury Management Annual Strategy for 2018/19 (for counterparty limit with an AAA credit rating). <p>This information has already been passed to the Senior Insurance & Risk Officer who will liaise with the Group Accountant for further information in time for the review of Council's insurance cover for the forthcoming financial year.</p>	<p>i)-ii) Not all of the Council's high risk activities have been taken into account as part of the annual review of the Authority's insurance policy. The activities of Treasury Management are high risks due to the significant value/ materiality of investments/ transactions employees are entrusted with. If this information is not considered as part of the fidelity insurance review, the Council might not be aware that the sum covered is not enough to protect and compensate the full extent of losses that could occur as a result of employee actions in the undertaking of treasury management activities. As highlighted, the highest single investment at present is £3m above the level of fidelity cover and single investments higher than this can still be made for this financial year. Unless the Council has sufficient contingency fund to absorb any potential losses that is over the £3m limit, the delivery of Council's services and operations could be adversely affected.</p>	<p>i)-ii) As agreed during the audit, consideration of the Council's investment activities within Treasury Management should be taken into account as part of the annual renewal process of the insured sum to cover concerning with employee fidelity. This will enable the Council to be better informed of the level of high risks that could arise from employees and how they should be considered in terms of the Council's appetite to accept this risk, i.e. in terms of affordability and whether or not to increase cover at the expense of an increase in insurance premiums. A recurring timescale should be diarised each year to ensure the annual Treasury Management Strategy covering maximum limits of investments (following approval from the Policy & Resources Scrutiny Committee) is considered as part of review of the insurance policy. It is noted that both reviews, i.e. insurance policies and the Treasury Management Strategy are considered around the same time each year, January/February in readiness for the new financial year.</p>	<p>HR</p>

Management Comments (re: fidelity insurance)	Proposed Actions / Person responsible / Date	Action Plan review (to be completed by Internal Audit)
<p>Fidelity insurance policy to be reviewed annually with respect to treasury management. Discussions to take place in the first instance between the Treasury Manager; and the Insurance & Risk Manager (or his/her deputy); with further discussions (if required) with the Corporate Finance Manager. Ideally the conversation should coincide with the new budget setting process as well as the fidelity insurance renewal date. A written copy of conversation/ minutes to be retained on file for audit purposes.</p>	<p>NA – Group Accountant</p> <p>Action every November / December on an annual basis – meet Insurance & Risk Manager.</p>	<p>Achieved (Y/N)</p> <p>Action taken</p> <p>Further Action Required?</p>

7. GDPR / Data protection Questionnaire

7.1 GDPR is not compliant.

7.1.1 Point Noted	Implication	Recommendations	Rating
<p>Document retention policy & schedule Staff who are involved in the administration and management of document retention are unaware of the Council's policies and the approved Batchelor Local Government retention schedules on this subject matter.</p> <p>The actual filing and archiving processes in operation are however quite established, all archived and destruction records are listed on a shared Accountancy archive spreadsheet. Records are archived on an annual basis and the staff who undertakes this duty is aware of how long they should be retained. Audit was advised that all records due for disposal are reviewed and "CC" to NA (Group Accountant) in an email to Records Retrieval as part of the final checking process. The copy email is however, kept in the individual's email account so not accessible to other members of the TM Petty Cash team.</p>	<p>Staff may unknowingly breach the Council's record management scheme if they are not aware of the Council's policy and retention schedule on this matter. S.60 of the Local Government (Wales) Act 1994 places a statutory requirement on the Council to have a scheme in place for the proper management of records from planning and creation through to disposal. Any new or legislation changes resulting in an amended document retention period could be missed as a result.</p> <p>If emails which show the review of files/records before destruction are left in the individual account, the audit trail to demonstrate the review process could be lost when the post holder leaves. Section 21 of the Record Retention & Disposal Policy states that automatic records destruction when the end of the retention period is reached is not recommended.</p>	<p>All relevant staff should be fully conversant of the following record management documents that is available on the CCBC intranet under "Information Governance":-</p> <ul style="list-style-type: none"> • Record retention & disposal policy; • Batchelor L G Retention Schedule (UK); • Batchelor L G Retention Schedule (Wales). <p>For good practice, it is recommended that a check is carried out to the retention schedules when undertaking the annual archiving task and as part of the final review of records to be disposed. This will assist in identifying any revised changes affecting the document retention period.</p> <p>Also, when granting the final decision to dispose records (once the retention period has expired, the email which is "CC"/ copied to NA should also be retained in a shared folder that can be accessed by all of the TM Petty Cash Team. This record can then be easily retrieved if needed.</p>	MR
Management Comments	Proposed Actions / Person responsible / Date	Action Plan review (to be completed by Internal Audit)	
Staff to be reminded of retentions policy, as well as a file to be created to store email communications / instructions with respect to record retentions / disposals.	<p>NA – Group Accountant</p> <p>Action when Archives prompt for the next record review.</p>	<p>Achieved (Y/N)</p> <p>Action taken</p> <p>Further Action Required?</p>	

7.1.2 Point Noted	Implication	Recommendations	Rating
<p>Privacy Notice No specific privacy notice for Treasury Management was found published on the Council's website and the Group Accountant (NA) is not aware of any being drawn up to inform data subjects/ service users what happens with their personal data retained by the Treasury Management and how it is going to be used. There is only a limited amount of personal data held but subsequent enquiries with the Assistant Information Officer, (CE) indicated that a privacy notice may have to be created for a specific type of record and its use (concerning with the setting up of bank accounts) whilst a majority of the records held were either considered to be already covered under another service area's privacy notice or could be added to another department's notice. This was referred to the Group Accountant as further information was needed.</p>	<p>The absence of a privacy notice for the holding of personal data is contrary to one of the key changes of the recent GDPR that came into effect in 2018, i.e. the individual's rights to be informed of why their information is held, who this information is shared with and how long it will be retained.</p>	<p>The Group Accountant (Corporate Finance) and/ or the Finance Manager to continue to liaise with the Assistant Information Officer and progress as necessary in order to ensure compliance regarding privacy notices will be met.</p>	<p>MR</p>
Management Comments	Proposed Actions / Person responsible / Date	Action Plan review (to be completed by Internal Audit)	
<p>NA replied to CE – Assistant Information Officer on 02/01/2019 and Cc in LB. Awaiting response/ further comments from CE.</p>		<p>Achieved (Y/N)</p> <p>Action taken</p> <p>Further Action Required?</p>	

7.1.3 Point Noted	Implication	Recommendations	Rating
<p>Staff training on handling personal data/ data protection</p> <p>Enquiries with the Group Accountant (NA) identified the newest member of staff, RS who joined the team in August 18 has not received any training concerning with the handling of personal data/ data protection. Whilst NA and the other member of the team have completed the e-learning training module (Protecting Information), this has not been reviewed in the last 12 months to check the training is still up-to-date. The Group Accountant has checked that staff completes their training once prompted by the network systems' pop up message alert but did not realise that ongoing reviews should also be undertaken after this.</p> <p>The Group Manager was advised to arrange suitable training for RS following this feedback and a link to the e-training course was provided.</p>	<p>Without management review, any training that has expired and is subject to be refreshed as in the Protecting Information e-learning module (expires annually) may not be identified. This could impact on the Authority's ability to demonstrate mitigating circumstances in the event a security breach has occurred if the person(s) concerned have not fulfilled the necessary training requirements.</p> <p>Under the new General Data Protection Regulations, the Authority could face monetary penalties of £17m or 4% annual turnover plus compensation claims and other enforcement action. The ability to demonstrate adequate and regular staff training would form the basis of a defence against receiving a monetary penalty.</p>	<p>Results of all mandatory e-learning information security modules can be found on the iTrent system. A review of staff training records should be undertaken by Management via iTrent on a periodic basis taking into account of any staff absences/secondments etc. An iTrent self service demo on how to view this is available, under the following route within the HR Portal: iTrent Support/iTrent Self Service Demo/Manager/viewing your team's training records.</p> <p>For completeness of audit trail, Managers should also manually update the iTrent system for any staff that is a non-computer user who has completed the training through the manual version (booklet format).</p>	MR
Management Comments	Proposed Actions / Person responsible / Date	Action Plan review (to be completed by Internal Audit)	
NA to arrange training for RS	<p>NA – Group Accountant</p> <p>Immediately – NA to contact HR to arrange training for RS</p>	<p>Achieved (Y/N)</p> <p>Action taken</p> <p>Further Action Required?</p>	

8. Detailed Findings / Points noted

8.1 Risks identified in previous audits have not been addressed or measures implemented have not achieved control objectives.

8.1.1 Point Noted	Implication	Recommendations	Rating
<p>E-authorisation of CHAPS Requests</p> <p>i) Whilst all unsigned CHAPS request forms in the sample examined were either received by email from an officer with authority or copied/CC to an officer with authority:-</p> <p>a) The original email with the attached request form is not always printed off and retained with the CHAPS form to evidence the approval given. They are retained in the email account so they were verified by Audit upon request for the emails to be retrieved.</p> <p>b) No payee name or amount was entered on one of the emails sent to enable the email to clearly match the request to the attached CHAPS form. The absence of details could leave scope for the CHAPS form to be altered. This was in respect of an email with an attached CHAPS request sent by AT (SS Finance) on 1/7/18 requesting for the foreign CHAPS request to be processed.</p>	<p>i)</p> <p>a) Only the recipients of the email requests are able to confirm that proper authority has been given. It is difficult to independently establish compliance to the authorisation process where the original email is not printed off to support the CHAPS request form when they are either unsigned or signed with an e-signature.</p> <p>b) Any unauthorised amendments to the CHAPS form attached could go undetected if there isn't enough information on the original email to clearly link the email request to the attached form. CHAPS payments can be authorised by back up authorisers who are not set up to receive emails from the TM Petty Cash email account and hence, will not be able to view the original emails as part of their stand in authorisation process.</p>	<p>i)</p> <p>a) A copy of the original email should also be attached to the CHAPS request form to confirm the authority obtained.</p> <p>b) Where CHAPS request are sent via an email, it is recommended a minimum level of information such as the payee name and amount requested should be included in the content of the email so that it can be easily matched to the CHAPS request form. Both a copy of the original email and the CHAPS form should be passed to the Systems' payment authorisers for verification as part of the authorisation process.</p>	<p>MA</p> <p>MR</p>

Management Comments	Proposed Actions / Person responsible / Date	Action Plan review (to be completed by Internal Audit)
<p>Staff to be reminded:</p> <ol style="list-style-type: none"> 1) To ensure forms completed correctly 2) To ensure forms have been signed off by a relevant officer or an officer has been cc into email as a means of authorisation. Emails to be included with cashflow paperwork for audit trail. 3) The department requesting the CHAPS payment to verify within the body of the email that bank details have been verified. This should only occur in the absence of an invoice (invoices in general tend to have bank details stated in the main body of the document). 	<p>NA – Group Accountant</p> <p>Immediately - email TM Staff regarding reminding them of checks required.</p>	<p>Achieved (Y/N)</p> <p>Action taken</p> <p>Further Action Required?</p>