



Audit and Governance Committee

6.30pm on Tuesday, 21st June 2016
in the Staincliffe Suite, Belle Vue Offices, Skipton

The Chairman (Councillor Harbron) and Councillors Barrett, Brockbank, Hull, Lis, Morrell, Place, Rose and Whitaker. Independent Person Mr G Robinson.

AGENDA

Exclusion of the Public: In accordance with the Council's Access to Information Procedure Rules, Members are recommended to exclude the public from the meeting during consideration of Item 10 on the grounds that it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in Paragraph 3 (relates to the financial or business affairs of any person including the Authority holding that information) of those Rules and Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

1. **Apologies for absence**
2. **Confirmation of Minutes** of meeting held on 5th April 2016. Note : A copy of the action check sheet for this meeting is also attached.
3. **Public Participation** – In the event that any questions/statements are received or members of the public attend, the public participation session will proceed for a period of up to fifteen minutes.
4. **Declarations of Interest** – All Members are invited to declare at this point any interests they have in items appearing on this agenda, including the nature of those interests and whether they wish to apply the exception below.

(Note: Declarations should be in the form of:
a "disclosable pecuniary interest" under Appendix A to the (new) Code of Conduct, and
"other interests" under Appendix B or under Paragraph 14 where a matter arises at the meeting which relates to a financial interest of a friend, relative or close associate, in which case the Member must leave the meeting room.

[Exception: Where a member of the public has a right to speak at a meeting, a Member of Council who has a disclosable pecuniary interest has the same rights and may make representations, answer questions or give evidence, but at the conclusion of that, must then leave the room and not take part in the discussion or vote.)

Note of Agenda Item No. and type of Interest to be Declared at this Meeting:

5. **Internal Audit (a) Internal Audit Reports** – Reports of the Audit Services Manager. Attached.

- i. On-line Payments
- ii. Creditors

Purpose of Item – To present internal audit reports, including any which have been assigned either partial, or no assurance level status.

(b) Implementation of Priority One Recommendations – Report of the Strategic Manager Financial Services and Section 151 Officer. Attached.

Purpose of Report – To update the Committee on implementation of internal audit recommendations.

(c) Annual Internal Audit Report 2015-16 – Report of the Audit Services Manager. Attached.

Purpose of Item – To consider the key findings and conclusions from audit work undertaken in 2015/16 and to give an opinion on the overall adequacy and effectiveness of the Council's arrangements for risk management and governance, and on its internal controls.

6. **Draft Annual Governance Statement 2015-16** – Report of the Strategic Manager Financial Services and Section 151 Officer. Attached.

Purpose of Item – To present the draft Annual Governance Statement for 2015/16 for approval prior to it being signed off by the Chairman of this Committee and the Chief Executive.

7. **Appointment of External Auditor : Sector Led Body** – Report of the Strategic Manager Financial Services and Section 151 Officer. Attached.

Purpose of Item – To update the Committee on the Local Government Association's proposal that Public Sector Audit Appointments Ltd is appointed as the sector-led body to procure future external audit contracts for local government.

8. **Contract Procedure Rules : Exemptions** – Report of the Strategic Manager Financial Services and Section 151 Officer. Attached.

Purpose of Item – To report on the exemptions granted from the Council's Contract Procedure Rules in the period January 2016 to June 2016.

9. **Regulation of Investigatory Powers : Annual Report** – Report of the Solicitor to the Council. Attached.

Purpose of Report – To inform the Committee on the Council's use of covert surveillance under the Regulation of Investigatory Powers Act 2000 since November 2015.

\$10. **Corporate Risk Register : Update** – Report of the Strategic Manager Financial Services and Section 151 Officer. Attached.

Purpose of Item – To update the Committee on corporate risk register action plan progress and changes

11. **Meetings : Start Time** – The Committee is asked to agree the normal start time for its meetings for the remainder of the current municipal year.

- 12. Any other items** which the Chairman decides are urgent in accordance with Section 100B(4) of the Local Government Act, 1972.

Agenda Contact Officer: Chris Waterhouse,
Tel. 01756 706235
e-mail : cwaterhouse@cravendc.gov.uk
13 June 2016.

Emergency Evacuation Procedure

In case of an emergency or if the alarm sounds, leave the meeting room and leave the building using the nearest available door. The assembly point is in the main square at the front entrance. An officer will take a roll call at that point.

Members of the Council : Please do not leave without telling the Chairman or the Democratic Services Section's representative.

Recording at Council Meetings

Recording is allowed at Council, committee and sub-committee meetings which are open to the public, subject to

- (i) the recording being conducted with the full knowledge of the Chairman of the meeting; and
- (ii) compliance with the Council's protocol on audio/visual recording and photography at meetings, a copy of which is available on request. Anyone wishing to record must contact the Agenda Contact Officer (details above) prior to the start of the meeting. Any recording must be conducted openly and not disrupt proceedings.

Committee Terms of Reference

(a) In relation to internal and external audit activities, to:

- draw together the key components of corporate governance in relation to audit; promoting internal control, focusing audit resources and monitoring the management and performance of the providers of Internal Audit Services;
- consider the Annual Report and Opinion from Internal Audit, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements;
- consider summaries of specific internal audit reports focusing on those areas that receive 'limited assurance';
- consider a report from Internal Audit on the implementation status of agreed recommendations;
- consider the External Auditor's Annual Letter, relevant reports, plans, and report to those charged with governance;
- consider specific reports as agreed with the External Auditor;
- comment on the scope and depth of External Audit work and to ensure it gives value for money;
- liaise with the Audit Commission over the appointment of the Council's External Auditor; and
- approve the annual work programmes for Internal and External Audit and, in exceptional cases, to have the ability to commission work directly from audit providers.

(b) In relation to the Council's regulatory framework, to:

- ensure the effective development and operation of corporate governance within the Council and to maintain the Council's Constitution : the Standards Committee to be consulted on the review of any codes and protocols that relate to the ethical framework;
- review issues referred to it by the Chief Executive, Director, Corporate Head or any Council body;
- approve the corporate risk management framework in accordance with the Risk Management Strategy and Policy Statement; and monitor the effective development and operation of the risk management process: make any necessary changes to the process, including any recommendations for changes to the Strategy and Policy Statement;
- monitor Council policies on 'Whistle-blowing' and the Anti-fraud and Anti-corruption strategy;
- monitor progress on implementation of Internal Audit recommendations;
- oversee the production of the authority's Statement on Internal Control and to recommend its adoption to the Policy Committee / Council;
- consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice; and
- consider the Council's compliance with its own and other published standards and controls.
- Monitor the use of the Regulation of Investigatory Powers Act 2000.

(c) In relation to the Council's Financial Statements / Accounts, to:

- review and approve the annual Statement of Accounts, including whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Policy Committee / Council
- consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

(d) Under Part 4 (Parishes), Chapter 3 (Reorganisation) of the Local Government and Public Health Act 2007 (and any amending legislation):

- to be responsible for conducting community governance reviews within the District.

AUDIT AND GOVERNANCE COMMITTEE

5th April 2016

Present – The Chairman (Councillor Harbron) and Councillors Barrett, Baxandall, Brockbank, Dawson, Hull, Lis, Madeley and Place. Independent Person : Greg Robinson.

Officers – Chief Executive, Strategic Manager for Financial Services, Solicitor to the Council, Audit Services Manager, ICT and Transformation Manager, Information Governance Officer and Committee Officer. Cameron Waddell, Partner and Engagement Lead, Mazars LLP and Nicola Hallas, Assistant Manager / Engagement Manager, Mazars LLP also attended for the Committee's consideration of the Audit Strategy Memorandum at Minute AC.252 below.

Start: 6.30pm

Finish: 8.46pm

The minutes of the Committee's meeting held on 11th January 2016 were confirmed and signed by the Chairman subject to the date of the meeting being corrected to read 2016 not 2015.

EXCLUSION OF THE PUBLIC

Resolved – That, in accordance with the Council's Access to Information Procedure Rules, the public is excluded from the meeting during consideration of Minutes AC.254(d), 255 and 256 (marked \$) below on the grounds that it is not in the public interest to disclose the Category 3 exempt information (financial or business affairs of any particular person including the Council).

Minutes for Report

AC.252

EXTERNAL AUDIT – AUDIT STRATEGY MEMORANDUM

Cameron Waddell, Partner and Engagement Lead with the Council's external auditors, Mazars, submitted a copy of the Audit Strategy Memorandum for the year ending 31 March 2016 which summarised the approach Mazars, as the Council's external auditors, would be taking in auditing the Council's 2015/16 financial statements. In planning the audit the following significant audit risks had been identified

- Management override of controls;
- Revenue and expenditure recognition;
- Valuation of property, plant and equipment;
- Pension entries in respect of employee retirement benefits.

As in previous years the audit would also reach a conclusion on the Council's arrangements for securing value for money. The fee for the audit would be £52,879, including £7,060 for the housing benefit subsidy certification work, a reduction of £20,883 when compared to the total final fee for 2014/15.

Mr Waddell also reminded the Committee that for the 2017/18 financial year the deadline for local authorities to produce their statements of account had been brought forward to 31st May from the 2017/18 financial year. The deadline for completion of the audit would be brought forward to 31st July.

Resolved – That the Audit Strategy Memorandum is received.

AC.253

**APPOINTMENT OF EXTERNAL AUDITORS – SECTOR LED
BODY**

The Strategic Manager for Financial Services submitted a report drawing the Committee's attention to a request from the Local Government Association for expressions of interest in opting in to a sector-led body, Public Sector Audit Appointments Ltd (PSAA), to procure future external audit contracts for local government.

Members were reminded that closure of the Audit Commission on 31st March 2015 had heralded the start of a process for devolving the responsibility for making external audit appointments to all local public bodies including all classes of local authorities. Transitional arrangements for the period to 31 March 2017 had resulted in the creation by the Local Government Association of Public Sector Audit Appointments Limited as an independent company established to manage the existing appointments.

In summary the options available to the Council in seeking to appoint its external auditors were:-

- a. Set up an independent Auditor Panel;
- b. Join with other councils to set up a joint independent Auditor Panel; or
- c. Opt-in to a sector led body that would negotiate contracts and make the appointment on behalf of councils, removing the need to set up an independent Auditor Panel

Bearing mind difficulties which may be experienced in establishing an independent panel, the Local Government Association's proposed use of PSAA was aimed at delivering economic and efficient external arrangements across all authorities. Any expression of interest at this point would not be binding upon the Council at this stage.

A further report would be presented to the Committee in due course. The Strategic Manager recommended and, it was

Resolved – That the Strategic Manager for Financial Services is authorised to express an interest to the Local Government Association on behalf of the Council in opting-in to the sector-led body approach for the appointment of external auditors

AC.254

INTERNAL AUDIT

a. Recommendations : Implementation Monitoring

Further to Minute AC.248(b)/15-16, the Strategic Manager for Financial Services submitted a report updating the Committee on the position reached with implementation of Priority One internal audit recommendations, and the number of Priority Two and Three recommendations currently outstanding. Significant progress had been made, and in commenting on recommendations in respect of Information Services, the ICT and Transformation Manager indicated that a number of outstanding actions had been built into the draft Information Management and Governance Strategy

Resolved – That the position in respect of implementation of internal audit recommendations is noted, and that action taken in completing Priority One audit recommendations in the monitoring period is approved..

(b) Internal Audit Plan 2015-16 : Progress Report

Further to Minute AC.244(c)/14-15, the Audit Services Manager submitted a report updating the Committee on progress made against the 2015/16 Internal Audit Plan in the period 1st April 2015 to 29th February 2016. At the time of publication of the report, of the 15 audits within the plan, 10 had

been completed and final reports issued, four were currently in progress and one draft report had been issued. All audits had actually been completed to draft report stage within the Plan period.

Resolved – That the content of the Audit Services Manager’s progress report is noted.

c. Draft Internal Audit Plan 2016/17

The Audit Services Manager submitted a report presenting the draft Internal Audit Plan which set out the areas, functions or activities to be audited in the 2016/17 financial year, together with an estimate as to the number of days for each audit. As in the last financial year, the 2016/17 Plan provided for 240 audit days, plus an additional 10 days, if required, for any ad hoc or unforeseen work, or for the provision of consultancy advice.

In presenting the draft plan the Audit Manager explained that as previously reported the focus would be on risk based auditing looking at service audits and reviews, combined with a rolling programme of annual financial system audits. The majority of audits involved service areas or issues which had either not been audited previously or not been audited for some time. The Strategic Manager for Financial Services pointed out that the audit plan would complement existing work on risk management, and potentially identify emerging risks and threats to the authority.

Resolved – That the proposed 2016/17 Internal Audit Plan is approved.

\$d. Internal Audit Reports

The Internal Audit Services Manager presented copies of the audit reports listed below, which had been commissioned as part of the 2015/16 Internal Audit Plan.

- Physical Security of ICT Equipment and Data : Level of Assurance : Partial
- Payment Card Industry - Data Security Standard : Level of Assurance : Good

The ICT and Transformation Manager stated that action had already been taken in respect of a number of recommendations within the physical security audit, and that all recommendations relating to the Data Security Standard had been addressed.

Resolved – That the reports of the Internal Auditor now presented are received and that implementation of recommendations within those reports are monitored through the arrangements approved at Minute AC.244(b)(i)/15-16.

\$AC.255

CONTRACT PROCEDURE RULES – EXEMPTION

The Communications and Partnerships Manager submitted a report seeking the Committee’s approval to an exemption from contract procedure rules so as to allow the Council to enter into a contract with an event management company for the delivery of Skipton Cycle Races 2016, the company being the same event management company, Velo 29, used in delivery of the 2015 Skipton Cycle Races. Details of the likely cost of the contract were reported.

Resolved – That an exemption under Clause 6.4 of the Council’s Contract Procedure Rules is approved to enable the Council to enter into a contract with Velo 29 for the delivery of the Skipton Cycle Races event for 2016 only.

\$AC.256

RISK MANAGEMENT

Further to Minute AC.250/15-16, the Strategic Manager for Financial Services submitted a report updating the Committee on changes to the Council’s corporate risk register and progress against actions intended to mitigate the risks thereon.

Comprised of 121 risks, no changes had been made to the Council's risk profile since the Committee's last meeting on 11th January 2016, however the following risks had been removed from the Corporate Risk Register:-

- Failure to meet data handling obligations.
- Loss of power to Belle Vue Square Offices.
- Failure to comply with the Public Services Network Code of Connection.

The Committee was asked to agree the proposed change to the risk register and note progress against the action plans.

Resolved – That the updated corporate risk register is approved as now submitted, and progress against actions to mitigate risks therein noted.

Minutes for Decision

AC.257

INFORMATION MANAGEMENT AND GOVERNANCE STRATEGY

The ICT and Transformation Manager submitted a report presenting and seeking approval of an information management and governance strategy, and associated delivery plan for the period 2016-2018.

The ICT and Transformation Manager pointed out that information management and governance was relevant to all employees and elected Members, and it was essential that all were aware of their responsibilities. Information governance and data security should be embedded in the Council's culture, and the proposed strategy and associated delivery plan was designed to achieve this aim. Disruption arising from a loss of data could be considerable, and a significant part of the strategy and delivery plan had been designed to ensure the Council met its statutory obligations.

The Committee would receive updates on significant issues and an annual report on progress with implementation of the delivery plan.

Resolved – (1) That the Committee expresses its sincere appreciation to employees within the ICT Department for their work on matters of information management and governance.

(2) That subject to adoption of the proposed Information Management and Governance Strategy and an amendment to indicate that the Audit and Governance Committee will receive regular reports on significant issues, as opposed to periodic, the proposed delivery plan is approved.

RECOMMENDED – (3) That the Information Management and Governance Strategy including the aims and standards defined therein is adopted.

(Bearing in mind a potential conflict arising from his role as Lead Member for Internal Services, Councillor Lis took no part in the voting on the above matter.)

AC.258

SCHEME OF DELEGATION TO OFFICERS

Further to Minutes CL.794/14-15 and AC.239/15-16, the Solicitor to the Council and Strategic Manager for Financial Services submitted a joint report presenting the outcome of the Financial Delegation to Officers Working Group review of the levels of financial delegation to officers.

Members were reminded that the review had been instigated at an Extraordinary Meeting of Council held in September 2014.

The Working Group had concluded that in order to address concerns raised and to ensure clarity for both Officers and Members, the current Scheme of Delegation to Officers should be amended to include the following paragraph under the 'General Conditions Applying to the Exercise of Powers under the Scheme':

"No officer shall incur, nor commit the Council to, any expenditure for which there is no budget provision, or for which specific approval is required and has not been received, except in an emergency. In such circumstances, the agreement of the Leader of the Council, the Chief Executive and the Strategic Manager Financial Services (s151 Officer) will first be obtained, and the circumstances subsequently reported to Policy Committee and/or Council."

RECOMMENDED – That the Scheme of Delegation to Officers is amended as recommended by the Financial Delegation to Officers Working Group and re-produced above.

Chairman.

Appendix A- Percentage of online payments per CIVICA CRS fund

Period: 1/1 - 31/12/15

Fund type	Fund	All payments received		Payments made online via the CDC website (User ref WPP & GOS for Garden Waste & Parking Permits)		Proportion of online payments per service	
		Number	Value	Number	Value	Number	Value
Parking Permits	48, 49 & 50	1,298	£88,331.10	365	£24,455.50	28%	28%
Debtor Invoices	9	4,803	£2,840,103.51	169	£34,666.78	4%	1%
Planning Fees	32	910	£537,211.92	82	£14,783.11	9%	3%
Land Charges	26	682	£133,482.10	68	£4,324.80	10%	3%
Council Tax	1	64,297	£7,607,609.67	7,444	£1,055,085.70	12%	14%
Business Rates	2	5,536	£7,450,207.79	102	£42,400.88	2%	1%
Housing Benefit Overpayments	24	2,412	£130,028.46	123	£11,048.42	5%	8%
Building Control	39	438	£74,036.33	142	£31,455.27	32%	42%
Garden Waste	62	8,833	£217,824.94	4,543	£112,896.00	51%	52%
TOTALS		89,209	£19,078,835.82	13,038	£1,331,116.46	15%	7%

Appendix B- Analysis of cheque payments compared to online payments

Period: 1/1 - 31/12/15

Fund type	All payments received	Payments made online via the CDC website (User ref WPP & GOS for Garden Waste & Parking Permits)	Proportion of online payments per service	Payments made by cheque (method of payment 01)	Proportion of cheque payments per service
	Number	Number	Number	Number	Number
Parking Permits	1,298	365	28%	435	34%
Debtor Invoices	4,803	169	4%	1,590	33%
Planning Fees	910	82	9%	578	64%
Land Charges	682	68	10%	200	29%
Council Tax					
Quarter 1	12,976	1,389	11%	1,440	11%
Quarter 2	17,794	2,094	12%	2,328	13%
Quarter 3	17,291	2,008	12%	1,976	11%
Quarter 4	16,236	1,953	12%	1,926	12%
Business Rates	5,536	102	2%	1,039	19%
Housing Benefit Overpayments	2,412	123	5%	90	4%
Building Control	438	142	32%	171	39%
Garden Waste	8,833	4,543	51%	2,543	29%
TOTALS	89,209	13,038	15%	14,316	16%

Appendix C- List of 10 CIVICA CRS funds for which payment could be accepted online in the future subject to a valid business case and resource capacity:

Fund number	Description
20	Food & workplace safety licenses
21	Hackney carriage licenses
22	Hackney carriage plates
23	Other licenses
59	Liquor licenses
61	Green domestic waste bin
63	Blue triple recycling bin
65	Green trade bags
68	Litter fixed penalty
70	Bulky waste collection

Appendix D- CIVICA CRS fund types and departmental end systems

Fund type	Fund number/s	End system	Interface / Manual input
Parking Permits	49 & 50	Access database	Manual input
Debtor Invoices	9	Agresso Debtors	Interface
Planning Fees	32	Fast Planning	Manual input
Land Charges	26	Excel spreadsheet	Manual input
Council Tax	01	Northgate SX3	Interface
Business Rates	02	Northgate SX3	Interface
Housing Benefit Overpayments	24	Northgate SX3	Interface
Building Control	39	Fast Control	Manual input
Garden Waste	62	GOSS database	Interface

Appendix E- Online Payment Process Flowchart: Parking Permits





Internal Audit Report

Craven District Council Online Payments

Report ref: C6/5

Report Issued

Draft: 26/5/16

Final: 9/6/16



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Auditor: Laura Daffern

Distribution:

Name	Job Title
Nicola Chick	Strategic Manager - Financial Services (s151 Officer)
Claire Hudson	VFM & Improvement Manager
Paul Ellis	Director of Services
Samia Hussain	Corporate Head (Business Support)
Service Managers responsible for funds for which recommendations have been made	
Paul Shevlin (Final only)	Chief Executive

1 Background

1.1 This audit was undertaken by the Internal Audit section as part of the Craven District Council (CDC) annual audit plan for 2015/16. The audit has established the controls, processes and procedures in place for the online payment facility on the Council website, and provided an opinion on their efficiency and effectiveness. This included a review of service and customer satisfaction with the system and business continuity.

1.2 The value of payments received via the Council's website processed through the CIVICA Cash Receipting System (CRS) during 2015 (1/1/15 – 31/12/15) was £1.3 million and the number of transactions was 13,038. Of this total number of transactions; the proportion by service is as follows (largest to smallest):

Council tax	57.1%
Garden Waste	34.8%
Parking permits	2.8%
Debtor invoices	1.3%
Building control fees	1.1%
Housing benefit overpayments	1.0%
Business rates	0.8%
Planning fees	0.6%
Local land charges	0.5%

Income was also received from online customer payments through the Pool Legend system, for swimming lessons and gym membership. During November 2015 (1/11/15 – 30/11/15) the value of transactions was £10.2k and the number was 417. There is no direct interface between Legend and the CRS and therefore customers access the system via a link from the Pool webpage, rather than via the Council home page 'Pay online' drop down menu.

1.3 The Key Control Objectives (KCO's) are as follows:

- KCO1: The system for processing online payments should be adequate and fit for purpose
- KCO2: Services are satisfied with the capability of the online payment system
- KCO3: The payment process is customer friendly and the function easily located on the Council website
- KCO4: An adequate disaster recovery plan is in place should the online payment facility become unavailable

1.4 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

2 Audit Scope

2.1 The following testing was undertaken:

KCO	Test	Sample size
KCO1: The system for processing online payments should be adequate and fit for purpose	Identify how the system operates and what controls are in place. Ascertain the providers of the website and online payment system. Review procedures undertaken by Finance and the service to process the payments received	<ul style="list-style-type: none"> • Consultation with key Finance staff and departmental officers • Review of central CRS reconciliation processes undertaken by Finance
	Test the controls to ensure that the system is operating as it should be and that it is secure. Walkthrough test of payments made via the website through to the system used by the service	<ul style="list-style-type: none"> • 20 payments selected in line with proportional split of all CRS payments received in 2015 • Sample period September to November 2015
	Test the additional charge of 1.4% on credit card transactions and trace to the Agresso general ledger account code	<ul style="list-style-type: none"> • 1 credit card transaction from November 2015 • Review of credit card surcharges attributed to fund CC in November 2015
	Review the current back office processes / procedures / reconciliations in place within Finance for the processing of online payments and report on any inefficiencies or cumbersome working practices	<ul style="list-style-type: none"> • Consultation with key Finance staff and departmental officers
	Verification of Northgate monthly Finance reconciliations to Agresso general ledger	<ul style="list-style-type: none"> • Council Tax & Business Rate reconciliations from November 2015
	Determine Finance staff access on the systems used to process the online payments received. Also consider control of system access levels and adequate segregation of duties	<ul style="list-style-type: none"> • Consultation with CRS system administrator and system review
	Ascertain security of customer personal data; types of data held, who can see it and whether it is appropriate to be held	<ul style="list-style-type: none"> • Consultation with ICT & Transformation Manager

KCO	Test	Sample size
KCO2: Services are satisfied with the capability of the online payment system	Review the website to determine the services for which a payment can be made online and the specific links in place to guide the customer	<ul style="list-style-type: none"> • CDC website: home page and 'Pay online' page • Walk through testing of payment links to CRS • Customer navigation to Pool Legend web based system
	Determine the proportion of online payments received per service and compare to the number of payments made by cheque	<ul style="list-style-type: none"> • Analysis of all online & cheque payments made during 2015 (1/1/15 – 31/12/15) per service • Analysis of all online payments made through the Pool Legend system during November 2015 (1 – 30/11/15)
	Determine which services do not allow online payments	<ul style="list-style-type: none"> • Review of full CRS fund list
	Determine how payments received via the website are processed from the website through to departmental end systems, including: referencing, officers involved, timescales, and departmental processes.	<ul style="list-style-type: none"> • Consultation with key Finance staff and departmental officers
KCO3: The payment process is customer friendly and the function easily located on the Council website	Review of website format to determine whether the area for online payments can be easily located by the customer	<ul style="list-style-type: none"> • Review of CDC website format and testing of links
	Ascertain whether the website provides a customer friendly experience	<ul style="list-style-type: none"> • Findings from walkthrough testing undertaken and service consultation
	Obtain feedback from the Customer Service Team on complaints/compliments received regarding the online payments facility	<ul style="list-style-type: none"> • Consultation with Business Support Services Manager & Customer Services Officer • Review of customer feedback records for 2015 (1/1/15 – 31/12/15)
KCO4: An adequate disaster recovery plan is in place should the online payment facility become unavailable	Discussion with ICT to establish any operation or performance issues encountered with the online payment provision	<ul style="list-style-type: none"> • Consultation with ICT & Transformation Manager
	Determine whether there is a contingency plan / back up procedure in place in case the online payment facility becomes unavailable	<ul style="list-style-type: none"> • Consultation with ICT & Transformation Manager
	Review of adequacy of all established disaster recovery plans and documentation	<ul style="list-style-type: none"> • Hosted service arrangements record for the CRS and CDC website

3 Audit Opinion

3.1 A summary of Internal Audit’s opinion levels and their definitions is provided below:

Level	Definition
Significant Level of Assurance	The system of internal control is designed to support the Council’s corporate and service objectives and controls are consistently applied in all the areas reviewed.
Good Level of Assurance	There is generally a sound system of control designed to support the Council’s corporate and service objectives. However, some improvements to the design or application of controls is required.
Partial Level of Assurance	Weaknesses are identified in the design or inconsistent application of controls which put the achievement of some of the Council’s corporate and service objectives at risk in the areas reviewed.
No Level of Assurance	There are weaknesses in control, or consistent non-compliance which places corporate and service objectives at risk in the areas reviewed.

3.2 This audit has been given a **Good** Level of Assurance. Based on the audit testing, assurance can be given that all payments received via the website are processed correctly; via the CRS and interfaced or manually input onto departmental end systems. In addition good controls are also in place for:

- Finance system reconciliations
- Calculation and allocation of credit card surcharge
- CRS Finance user access
- Security of customer payment data
- Customer workflow processes for Garden Waste & Parking Permits
- CDC website format and customer friendliness
- Functionality of Legend Pool system
- Customer satisfaction with online payment facility
- CIVICA & GOSS website disaster recovery procedures

3.3 Based on the above positive findings, assurance can be given that the core function of online payments is operating accurately, timely and effectively and controls in place centrally are working well. KCOs 1, 3 and 4 were found to be fully met and KCO 2 was partly met. However there are improvements required to be made in departments to increase efficiency, and to address significant risks arising from a consistent lack of segregation of duties. A total of 9 recommendations (6 Priority 2, 3 Priority 3) have been made to address the following issues:

- Reinstating a Council Tax and Business Rates reconciliation between the CRS and Northgate
- Increasing take up within existing services to achieve greater efficiency in receiving customer payments
- Introducing new services to receive payments online, subject to a valid business case and Finance and ICT capacity to develop workflows
- Protecting services against the risk of services being provided without payment being received. Procedures currently allow the same member of staff to manually input CRS payments received on the departmental end system before directly providing the service to the customer. Introducing a check by an independent member of staff that payment has been received for all services provided will effectively mitigate the risk of fraud in departments.

4 Detailed Findings & Action Plan

The audit findings are detailed in this section on an exception basis only for the attention of management, therefore KCO's with adequate controls based on the samples examined are not included.

Recommendations are prioritised as follows;

Priority 1- relating to significant gaps in the Internal Control Framework

Priority 2- relating to minor gaps in the Internal Control Framework or significant issues of non-compliance with key controls

Priority 3- relating to minor issues of non-compliance with controls.

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
KCO1: The system for processing online payments should be adequate and fit for purpose				
1	<p>A daily cash income reconciliation between the CRS and Northgate for Council Tax & Business Rates was undertaken by a previous member of the Council Tax team until the end of 2015 but has since ceased.</p> <p>There is a direct interface between the CRS and Northgate to allocate all payments received to customer accounts on the Northgate system; however the service should undertake a regular independent reconciliation between the two.</p> <p>This will complement the Finance reconciliations undertaken between the CRS and Northgate to the Agresso general ledger.</p>	<ul style="list-style-type: none"> Service does not identify variances in customer payments on a timely basis 	<p>Priority 3</p> <p>The reconciliation between the CIVICA cash receipting system and the Northgate SX3 system for Council Tax and Business Rate payments should be undertaken by the service on a least a weekly basis, to ensure that they are responsible for accounting for their own income.</p> <p>Revenues, Benefits & Customer Services Manager 26/5/16: Recommendation agreed.</p>	<p>Revenues, Benefits & Customer Services Manager</p> <p>July 2016</p>

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
KCO2: Services are satisfied with the capability of the online payment system				
2	<p>Payment reports were produced from the CRS for 2015 on all payments received for those funds accepting online payments. The data was analysed using the fund numbers, user reference codes and method of payment numbers. The main findings were (in terms of number of transactions):</p> <ul style="list-style-type: none"> • Online payments accounted for on average 15% of all payments received • Garden waste had the highest proportion at 51% • Business rates had the lowest proportion at 2% <p>The full analysis of online payments per CRS fund is attached at Appendix A and demonstrates the scope for improvement.</p> <p>For the Legend Pool system, only a small proportion of 5% of payments were received online for November 2015. However this is due to the majority of transactions relating to admission fees on site and direct debits being in place for swimming lessons and memberships.</p> <p>Overall, there is significant scope to reduce officer processing time by increasing the proportion of online payments. More payments were received by cheque in 2015 than online via the website. Accepting cheques requires manual officer input- either face to face at point of sale, or by inputting cheques received through the post onto the CRS. An analysis of cheque payments against online payments is attached at Appendix B.</p>	<ul style="list-style-type: none"> • Efficiencies in processes not realised • Value for money not achieved after significant resource into workflow development 	<p>Priority 3</p> <p>Management should promote electronic payment to their customers in order to drive further efficiency in officer time and processes.</p> <p>Strategic Manager- Financial Services (s151 Officer) 23/3/16: Recommendation agreed. For some services, such as Council Tax and Business Rates, it may be more appropriate to promote direct debit rather than online payments.</p> <p>Revenues, Benefits & Customer Services Manager / Business Services Manager / Senior Building Control Surveyor / Development Control Manager: Recommendation agreed.</p>	<p>Service Managers for all funds:</p> <p>Council tax Garden waste Parking permits Debtor invoices Building control fees Housing benefit overpayments Business rates Planning fees Local land charges</p> <p>December 2016</p>

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
KCO2: Services are satisfied with the capability of the online payment system				
3	<p>The Auditor reviewed the CRS fund list and found that 21 funds represent a service which could in our opinion be paid for online by the customer. 11 of these funds currently offer an online payment facility (52%); but a further 10 services were identified with the potential to also accept online payments.</p> <p>The list of these 10 services is attached at Appendix C.</p>	<ul style="list-style-type: none"> • Missed opportunity to improve customer experience • Efficiencies in processes not realised 	<p>Priority 3</p> <p>The scope and benefits of expanding the online payment facility should be investigated by Service Managers. Management should respond as to whether they consider it a feasible business decision for their service and if not their reasons.</p> <p>Strategic Manager- Financial Services (s151 Officer) 23/3/16: Recommendation agreed.</p> <p>Licensing Officer / Environmental Services & Housing Manager: Recommendation agreed.</p>	<p>Service Managers for funds identified in Appendix C:</p> <p>Food & workplace safety licenses Hackney carriage licenses Hackney carriage plates Other licenses Liquor licenses Green domestic waste bin Blue triple recycling bin Green trade bags Litter fixed penalty Bulky waste collection</p> <p>April 2017</p>

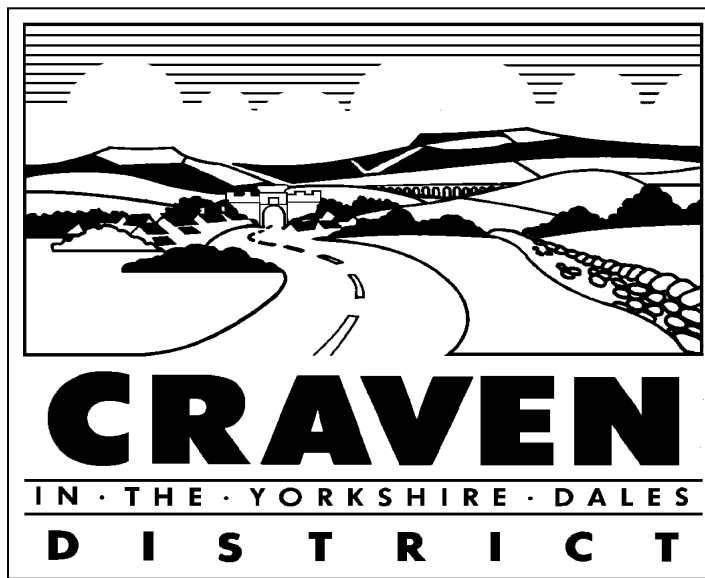
Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
KCO2: Services are satisfied with the capability of the online payment system				
<p>The table at Appendix D clearly shows the CIVICA funds for which services manually input CRS payments onto their departmental end systems.</p> <p>This manual payment input, combined with a lack of segregation of duties, presents an opportunity for fraud and error within service areas. Currently there are no adequate independent checks in place to verify that payment has been made for all services provided for Parking permits, Planning fees, Building control, Land charges and Garden waste.</p> <p>The following recommendations have been made per service area to mitigate this risk of fraud and undetected error. An online payment process flowchart is attached per service area at Appendix E.</p>				
4	<p><u>Parking Permits</u> The payment process works well from customer payment through to the issuing of the permit. However there is no independent reconciliation from permits issued to payments made. The access database provides control in terms of access levels and basic audit trail, however there are 3 users who can change data and standard permit prices. This means that any of these 3 members of staff could do the following undetected:</p> <ul style="list-style-type: none"> • issue a permit without payment • issue, print and delete a permit reference. 	<ul style="list-style-type: none"> • Risk of fraud as service could be provided without payment being made • No independent verification to source payment data • Loss of income • Undetected human error in manual input onto departmental end system 	<p>Priority 2</p> <p>A regular reconciliation should be performed by an independent person between all parking permits issued and all payments made.</p> <p>A system or procedural control should be introduced to not allow the deletion of a generated parking permit number.</p> <p>Business Support Services Manager & Business Services Manager 26/5/16: Recommendations agreed. Work has commenced to establish a reconciliation procedure to cover the risk identified. ICT has been consulted on system access levels and a trial took place however did not work in practice due to system limitations. A procedure has since been implemented to not cancel parking permits on the access system without prior management approval.</p>	<p>Business Support Services Manager Business Services Manager July 2016</p>

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
5	<p><u>Planning & Building Control</u> A control is in place at the end of the application to check that all payments have been made. The check is evidenced on an application worksheet, and is undertaken by an independent member of staff. However this check is only to the payment data manually input onto the departmental system (Fast Planning / Fast Control) and not to the source CRS payment report sent to the service by Finance. It is currently possible for a member of staff to input an incorrect payment against a customer account- either fraudulently or in error and it would not be detected. This is because there is no independent check of payments recorded against customer accounts in the departmental system to the original CRS customer payment.</p> <p>An example of this occurring was found in the audit testing on the Fast Control system. £89.86 had been input however the customer had actually paid £39.86 (2/11/15 ref 32/B/2015/7606/BN). Review of the physical file confirmed that the correct payment had been made to complete the application.</p>	<ul style="list-style-type: none"> • Risk of fraud as service could be provided without payment being made • No verification to source payment data • Undetected human error in manual input onto departmental system which could affect the customer balance due 	<p>Priority 2</p> <p>Management should assess the level of accuracy between completed applications on the Fast Planning / Control systems and payments received on the CRS daily transaction reports by performing a test of all transactions for a sample period.</p> <p>This data should then be used to determine an appropriate level of proportional sample testing on an ongoing basis (e.g. 10% of all completed applications on a monthly basis), to be performed by management.</p> <p>Strategic Manager (Planning & Regeneration) / Development Control Manager / Senior Building Control Surveyor 26/5/16: Recommendation agreed as a more efficient approach than introducing a check of all applications on an ongoing basis. Agreed to use the monthly sampling data to monitor trends in performance and adjust the percentage figure reactively as appropriate.</p>	<p>Planning: Development Control Manager / Strategic Manager (Planning & Regeneration)</p> <p>Building Control: Senior Building Control Surveyor / Strategic Manager (Planning & Regeneration)</p> <p>December 2016</p>

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
6	<p><u>Land Charges</u> The administration of Land Charges is the responsibility of one person in the section only. There is no independent check that payments have been received for all services provided.</p> <p>An excel spreadsheet is used to administer land charges searches. The spreadsheet does not have a field to record the CIVICA transaction reference therefore it was not possible to easily trace all payments received in the reconciliation testing in the period 2 - 6/11/15. The current format of the spreadsheet does not allow straightforward reconciliation of payments received to services provided.</p>	<ul style="list-style-type: none"> • Risk of fraud as service could be provided without payment being made • No verification to source payment data • Undetected human error 	<p>Priority 2</p> <p>A reconciliation should be performed by an independent person between all Land Charges searches completed and all payments made for a sample period. The requirement for ongoing reconciliation should be based on the findings and accuracy of this data, and the level of risk this represents.</p> <p>The CIVICA transaction reference should be input onto the Land Charges excel database to aid this independent reconciliation.</p> <p>Strategic Manager (Planning & Regeneration) / Development Control Manager / Senior Building Control Surveyor 26/5/16: Recommendation agreed as an initial approach to assess the accuracy of the excel database. The fact that the system is paper based presents an inherent risk that searches could be provided without having to record the search request on the excel database. Therefore the reconciliation may primarily identify human error rather than fraudulent activity.</p> <p>Internal Audit Comment: Further measures were not recommended to cover this risk as the responsibility for the Land Charges service is being transferred to the Land Registry in 2 years, and as such significant investment into improvement of controls is not appropriate in the short term.</p>	<p>Development Control Manager / Strategic Manager (Planning & Regeneration)</p> <p>December 2016</p>

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
7	<p><u>Garden waste</u> A weekly reconciliation is performed between payments on the GOSS database and the CIVICA CRS by the Technical Assistant in the department. This is good practice however it is the same member of staff who exports the licenses to the supplier for printing.</p> <p>Once this weekly reconciliation has completed, the current system permits the Technical Assistant to add additional licenses for printing without holding any corresponding payment details.</p> <p>An additional reconciliation is undertaken by the same officer to check the list of licenses printed by the supplier to the GOSS database. This provides assurance that all licenses printed have been paid for and vice versa, however because of the lack of segregation of duties it does not protect against the risk of fraud.</p>	<ul style="list-style-type: none"> • Risk of fraud as service could be provided without payment being made • No independent verification to source payment data • Undetected human error 	<p>Priority 2</p> <p>There should be a regular reconciliation undertaken by an independent person between the garden waste licenses printed and all payments made.</p> <p>Environmental Services & Housing Manager 26/5/16: Recommendation agreed. The reconciliation procedure will be agreed once the recently recruited Commercial Waste Officer is established in post.</p>	<p>Environmental Services & Housing Manager</p> <p>October 2016</p>

The agreed actions will be subject to a follow up review to establish whether they have been implemented. Any queries or requests for further information regarding this report should be directed to Internal Audit on 01423 500600 extension 58588. Internal Audit would like to thank the officers involved for their assistance during this audit.



Internal Audit Report

Creditors

Report ref: C6 / 11

Report Issued

Draft: 18/04/2016
Final: 26/05/2016



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Audit Opinion	page 5
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Auditor:

Tom McIntosh

Distribution:

Name	Job Title
Paul Shevlin	Chief Executive
Nicola Chick	Strategic Manager – Financial Services (s151 officer)
Carol Lee	Risk, Insurance and Procurement Manager
Claire Hudson	VFM and Improvement Manager

1 Background

- 1.1 This audit is being undertaken as part of the 2015/16 audit plan. The creditors system is one of the authority's major financial systems and as such is audited annually.

The creditors system was last audited in March 2015. This was an interim audit, which focused on control weaknesses identified in the 2013/14 audit, to confirm that the recommendations had been addressed to improve system controls.

The Creditors function is responsible for the distribution and the payment of invoices for the Authority. Other duties include monitoring of invoice authorisation statuses to ensure that invoices are correctly authorised and that invoices are paid within local targets. The Creditors section is also responsible for the creation and amendment of supplier details.

This audit covered the period April 2015 to January 2016. Below is a summary of payment information from the information obtained from Agresso:

- Value of payments £14,283,713
- Number of transactions 6,249
- Number of different suppliers paid 1,026
- Number and value of Direct Debit payments – 245 / £256,850
- Number and value of Cheque payments – 1366 / £5,755,502
- Number and value of BACS payments – 4,638 / £8,271,360

- 1.2 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes
- 1.3 As part of this review Internal Audit undertook a walkthrough of the system which has identified the following Key Control Objectives (KCO's):
- To determine that the administration arrangements enable an adequate separation of duties and roles and responsibilities have been clearly defined.
 - To confirm that creditor payments are approved, accurate and secure.
 - To perform a check on system data through the IDEA software to provide assurance that data quality and information is in the correct format; and to identify potential duplicate records and unusual trends in creditors data.

2 Audit Scope

2.1 The following testing was undertaken:

KCO	Test	Sample size
To determine that the administration arrangements enable an adequate separation of duties and roles and responsibilities have been clearly defined.	<ul style="list-style-type: none"> Confirm the progress made against the recommendations made in the 2014/15 creditors audit Confirm that adequate procedure notes are in place, detailing the roles and responsibilities for the creditor system. Using IDEA, confirm if any users have raised and approved their own requisitions. Confirm that the officers and approval limits on the Authorised Signatory list, agrees to the relevant users approval limit on Agresso. 	<ul style="list-style-type: none"> Follow up of the 2014/15 audit recommendations Current procedure document All requisitions raised and approved (April 2015 to January 2016) All users that are able to approve on Agresso Creditors.
To confirm that creditor payments are approved, accurate and secure.	<ul style="list-style-type: none"> Walkthrough one pay run to ensure that the creation, approval and confirmation are completed by approved officers. Creditor set up and amendments to supplier details are checked by another officer following input for accuracy. Walkthrough an approved invoice to confirm that the workflow arrangements have been correctly applied. 	<ul style="list-style-type: none"> 1 x pay run (BACS and Cheque) in 2015/16 2 x creditor set up in 2015/16 2x creditor amendment in 2015/16 1 x workflow approval of an invoice in 2015/16 1 x workflow approval of an invoice over £50k in 2015/16
To perform a check on system data through the IDEA software to provide assurance that data quality and information is in the correct format; and to identify potential duplicate records and unusual trends in creditors data.	<ul style="list-style-type: none"> Identify any potential duplicate payments Identify officers which has raised and approved their own requisitions. Identify suppliers with more than one Supplier ID 	<ul style="list-style-type: none"> All system data in 2015/16 (April 2015 to January 2016)

3 Audit Opinion

3.1 A summary of Internal Audit's opinion levels and their definitions is provided below:

Level	Definition
Significant Level of Assurance	The system of internal control is designed to support the Council's corporate and service objectives and controls are consistently applied in all the areas reviewed.
Good Level of Assurance	There is generally a sound system of control designed to support the Council's corporate and service objectives. However, some improvements to the design or application of controls is required.
Partial Level of Assurance	Weaknesses are identified in the design or inconsistent application of controls which put the achievement of some of the Council's corporate and service objectives at risk in the areas reviewed.
No Level of Assurance	There are weaknesses in control, or consistent non-compliance which places corporate and service objectives at risk in the areas reviewed.

3.2 This audit has been given a **Good** Level of Assurance.

Walkthrough testing of the key creditor controls found that processes are well managed and they are operating effectively. Key system controls ensure that creditor processing is accurate and secure. There is also an adequate separation of duties to ensure that checks and authorisation controls are in place before payments are made.

The Creditors system restricts the ability for users to create and approve their own requisitions. The 2014/15 creditors audit identified 39 transactions where a requisition was raised and approved by the same user. The ability to raise and approve your own requisitions is a key risk for the creditors system as this potentially allows users to create and pay fraudulent transactions. In the 2015/16 audit, testing on 100% of creditor data processed between April 2015 to January 2016, found that no (zero) users had raised and approved their own requisitions.

A follow up of the 2014/15 creditor recommendations found that all 6 (100%) of the recommendations made, had been fully implemented prior to the 2015/16 review. This is encouraging, as this shows that key findings made in the previous review have been actioned and the improvements are now embedded into the system.

This review identified 13 users with different approval limits on the authorised signatory list compared to the Agresso creditor system limits. There is a risk that users are approving the invoices which exceed their agreed approval limit. Whilst the list is reviewed on a yearly basis, the lists are not updated if there are in year changes to users approval limits. The authorised signatory list is a key document and it is a requirement of the Financial Procedure rules to keep this up to date.

A weakness has been identified allowing some payments over £50k to be approved and countersigned by the same user. Financial Procedure Rules state that payments over £50k should be approved by an officer with the correct approval limit, but must be countersigned by a member CLT or delegated substitute. Testing identified that Agresso authorisation for workflows within selected cost centres allow the approval and countersignature of over £50k payments, to be made by the same officer. There is a risk that potential fraudulent payments are made and there is no challenge/check by a senior officer. Workflows should be amended to ensure that the approving officer and counter signature are completed by different officers.

4 Detailed Findings & Action Plan

The audit findings are detailed in this section on an exception basis only for the attention of management, therefore KCO's with adequate controls based on the samples examined are not included.

Recommendations are prioritised as follows; Priority 1 – These recommendations relate to significant gaps in the Internal Control Framework, Priority 2 – These recommendations relate to minor gaps in the Internal Control Framework or significant issues of non-compliance with key controls, Priority 3 - These issues relate to minor issues of non-compliance with controls.

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
	To determine that the administration arrangements enable an adequate separation of duties and roles and responsibilities have been clearly defined.			
1	<p>The authorised signatory list and the Agresso approvers do not agree.</p> <ul style="list-style-type: none"> • 2 officers are on the authorised signatory list, but have known to have left the authority • 8 officers are listed as approvers on Agresso, but are not listed on the Authorised Signatory list • 3 officers approval level on Agresso, did not agree to approved limit on the Authorised Signatory list 	<p>Users can approve invoices which are not within their approval limit</p> <p>Approval limits on Agresso do not agree to the approved authorised signatory list.</p>	<p>Priority 1</p> <p>The authorised signatory list and the Agresso approver roles should be reviewed and agreed on a regular basis.</p> <p><u>Management response</u></p> <p>Agreed.</p> <p>The VFM and Improvement Manager and the Corporate Head – Financial Management will review the requirement to maintain the Agresso approval list and the manual signatory list. Manual payments are rare and if a sample signature is needed, a copy of a signature is held within the payroll sample</p>	<p>VFM and Improvement Manager</p> <p>August 2016</p>

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
			<p>signature list.</p> <p>If the creditor's manual signature list is not maintained, section 4.55 of the Financial Procedure Rules will be updated to reflect the change.</p>	
To confirm that creditor payments are approved, accurate and secure.				
2	<p>Amended Supplier forms have not been completed for all changes. This form is important as this ensures that the input of changes is checked by another officer for accuracy and to record which officer requested the amendment to supplier details for audit trail purposes.</p>	<p>Changes to the supplier masterfile are unauthorised</p>	<p>Priority 3</p> <p>Amendment to supplier details should be completed on the relevant form.</p> <p><u>Management response</u></p> <p>Not agreed</p> <p>The amended supplier form is not designed to be used in all cases for example where a supplier sends a letter confirming change of bank details. It is normal procedure for a counter check of any changes made to the supplier master file and relevant paper work signed. However, it is acknowledged that this has been overlooked in some instances.</p>	<p>VFM and Improvement Manager</p>

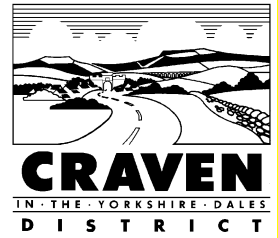
Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
			Whilst it is not agreed that the form will be used in all amendments, we will endeavour to ensure that in all cases the relevant paper work is signed by two officers to confirm the details have been input and to confirm the change is accurate.	
3	<p>A walkthrough of a payment over £50k found that the Strategic Manager – Financial Services (s151 officer) approved the invoice and countersigned the payment.</p> <p>Financial Procedure Rules require a counter signature by a member of CLT, or nominated substitute, and on this occasion, the Corporate Head – Finance was approving an invoice within their budget responsibility, it would be good practice to workflow the system so that payments over £50k are approved and countersigned by different officers.</p>	There is no independent check of high value invoices before payment is made	<p>Priority 1</p> <p>Consider amending the counter signature workflow for payments over £50k to ensure approval and checking is completed by different officers.</p> <p><u>Management response</u></p> <p>Agreed.</p> <p>Workflows will updated so that where the Strategic Manager – Financial Services (s151 officer) has approved an invoice over £50k that they cannot also countersign the invoice</p>	<p>VFM and Improvement Manager</p> <p>August 2016</p>

The agreed actions will be subject to a follow up review to establish whether they have been implemented.

Any queries or requests for further information regarding this report should be directed to Tom McIntosh, Internal Auditor by email at tom.mcintosh@harrogate.gov.uk or by telephone on (01423 500600 x58589)

Internal Audit would like to thank the officers involved for their assistance during this audit.

Audit & Governance Committee – 21 June 2016



Internal Audit – Implementation of Recommendations

Report of the Corporate Head, Financial Management

Ward(s) affected: All

- 1 **Purpose of Report** – To update committee members on priority one internal audit recommendations outstanding and those completed in the period.
- 2 **Recommendations** – Members are recommended to:
 - 2.1 Note the contents of Appendix A – Outstanding Priority One Internal Audit Recommendations and consider inviting responsible officers to the next meeting where appropriate.
 - 2.2 Note the contents of Appendix B – Audit Recommendations Completed in the Period and approve the contents of that Appendix. Recommendations will not be archived before this approval is received together with that of the Audit Services Manager, Shared Audit Service.
- 3 **Implications**
 - 3.1 **Financial and Value for Money (vfm) Implications** – as highlighted for individual recommendations in Internal Audit Reports
 - 3.2 **Legal Implications** - none
 - 3.3 **Contribution to Council Priorities** – not applicable
 - 3.4 **Risk Management** – as highlighted for individual recommendations in Internal Audit Reports
 - 3.5 **Equality Analysis** – not applicable
- 4 **Consultations with Others**

Senior Managers/Action Owners
- 5 **Access to Information: Background Documents**

None
- 6 **Author of the Report**

Rebecca Steel, Performance Management Officer
Telephone: 01756 706215
e-mail: rsteel@cravenc.gov.uk

Note: Members are invited to contact the author in advance of the meeting with any detailed queries or questions.
- 7 **Appendices** –

Appendix A – Outstanding Priority One Internal Audit Recommendations
Appendix B – Audit Recommendations Completed in the Period

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Appendix A – Outstanding Priority One Internal Audit Recommendations

Priority 1 Recommendations relate to significant gaps in the Internal Control Framework.
Recommendations are included where the original completion date was prior to June 2016.

Source Report	Recommendation Name	Original Target Date	Service Area	Status	Latest Update	Updated by	Date
C4 08 - Data Protection 2013/14 C5 08 - ICT Review of Outstanding Actions	IA 15/16 157 A clearly owned information asset inventory should be developed and maintained. Once developed, identified information asset owners should ensure that risks and opportunities are monitored	C4 08 Data Protection - Aug 2014 C5 08 ICT Review of Outstanding Actions - Apr/Sep 2015 A&G Nov 15 - Dec 2015	ICT	Amber	An inventory has been developed, and has been referred to the identified Information Asset Owners for completion and return. The Council's overall inventory has been partially completed. It is anticipated that the project will be completed in June 2016.	DRN	06/06/16
C6 01 - Building Control	IA 15/16 227 A replacement for the Fast Control system should be timetabled for implementation as soon as possible	C6 01 - Feb 2016	Planning & Building Control	Amber	Recruitment to the project manager role is underway. Once an appointment is made there will be a lead in time of approximately 18 months before the new system is fully introduced.	DM	04/05/16
C6 04 - Bereavement Services	IA 15/16 245 Access levels should be set up on the BACAS system	C6 04 - Jan 2016	Bereavement Services	Amber	We are currently working with BACAS to achieve this. Access levels as appropriate should now be introduced by the end of June.	MB	28/04/16
C6 08 - Physical Security of ICT Equipment and Data	IA 15/16 256 There should be appropriate arrangements put in place to ensure that the Belle Vue Square ground floor alarm is set in any absence of the Caretaker	C6 08 - Mar 2016	Property Services	Amber	The Council has a number of alarms from different suppliers across its property portfolio. The intention is to rationalise them. In the interim a meeting with the BVS alarm company has been arranged and an order placed to alarm the Registrars Zone whilst a practicable solution is sought to keep flexibility of access in other areas.	PC	06/06/16
C6 08 - Physical Security of ICT Equipment and Data	IA 15/16 263 The security and condition of the Engine Shed Lane archive store should be assessed in terms of its adequacy for data storage and appropriate action taken	C6 08 - Mar 2016	ICT	Amber	Review is currently in progress and will be completed in 2016. (Date to be determined)	DRN	06/06/16

Appendix B – Audit Recommendations Completed in the Period

Source Report	Recommendation Name	Original Target Date	Service Area	Status	Latest Update	Updated by	Date
IT 08-03 - IT Service Support (Dated Feb 09) - Priority 2 C2 06 - IS Procurement - Priority 2 C5 08 - ICT Review of Outstanding Actions - Priority 2	IA 15/16 005 Produce an IT Strategy ensuring that it is documented and appropriately held so as to enable access when necessary	IT 08-03 - Oct 2009 C2 06 - Dec 2012 C5 08 - Dec 2014 A&G Nov 15 - Dec 2015	ICT	Green	A formal ICT Strategy has been completed and agreed by CLT and approved by Policy Committee.	DRN	27/04/16
C2 07 - Data Handling - Priority 1 C5 08 - ICT Review of Outstanding Actions - Priority 1	IA 15/16 059 A strategy should be compiled as to the most appropriate way in which to carry out a Council wide review of all data sharing, and arrangements put in place to promptly address this to ensure compliance with the guidelines	C2 07 Data Handling - Aug 2012 C5 08 ICT Review of Outstanding Actions - Mar 2015 A&G Nov 15 - Dec 2015	ICT	Green	The Information Management and Governance Strategy has been approved by the Audit and Governance Committee. This includes an approach to reviewing data sharing.	DRN	06/06/16
C4 09 - Council Tax and Non-Domestic Rates 2013/14 - Priority 2 C5 12 - Council Tax and Non-Domestic Rates 2014/15 - Priority 2	IA 15/16 131 All procedure notes relating to the recovery process should be made available electronically and centrally stored. Progress as to the documentation of a complete set of up to date procedure notes should continue.	C4 09 - Dec 2014 C5 12 - Dec 2015	Revenues & Benefits	Green	Council Tax Recovery Procedures have been obtained and have been reviewed, updated and saved to a central location where all relevant staff can access them.	SHP	12/01/16
C4 06 - Data Security Standards - Priority 3	IA 15/16 146 ICT Management should update their records to ensure that these reflect actual payment card hardware used Council wide	C4 06 - Jan 2015	ICT	Green	Completed - and have met all the requirements of the PCI-DSS standard.	DRN	27/04/16

AGENDA ITEM 5b

Source Report	Recommendation Name	Original Target Date	Service Area	Status	Latest Update	Updated by	Date
C4 08 - Data Protection - Priority 2	IA 15/16 158 The Retention Guidelines and the Records Transfer, Retrieval and Disposal Procedures should be included in the documents made available on fileshare	C4 08 Data Protection - Oct 2014 A&G Nov 15 - Nov 2015	ICT	Green	A comprehensive Records Management Policy has been published on the Intranet documents, and further awareness will be undertaken when other policies are also published.	DRN	27/04/16
C4 08 - Data Protection - Priority 2	IA 15/16 159 Information risks notified to the Corporate Risk Management Group should also be reported to the SIRO	C4 08 Data Protection - Oct 2014 A&G Nov 15 - Dec 2015	ICT	Green	A separate Information Risk Register is also being compiled and will incorporate any information risks that are included on the Corporate Risk Register; an Information Management Group has been formed and will meet regularly from May 2016, and will review the Council's information risks on a regular basis.	DRN	27/04/16
C5 05 - Officer Expenses - Priority 2	IA 15/16 183 The form should have a declaration section whereby the claimant signs to declare that the journeys listed have been undertaken and that they have read the governing rules and that the journeys were authorised business journeys	C5 05 - Jan 2015	Financial Management	Green	Forms now reviewed and updated. To be submitted to CLT in June for approval and then circulated to officers and Members and can be used for July claims. From August onwards the new forms must be used for all claims.	CH	25/05/16

AGENDA ITEM 5b

Source Report	Recommendation Name	Original Target Date	Service Area	Status	Latest Update	Updated by	Date
C5 05 - Officer Expenses - Priority 2	IA 15/16 185 Control systems should be updated to ensure liability is covered effectively. The form should include a signed declaration whereby the claimant declares that their licence is valid and that their insurance policy incorporates a clause indemnifying the Council against third party claims arising out of the use of vehicles on official business. Thus devolving responsibility to the car user.	C5 05 - Jan 2015	Financial Management	Green	Forms now reviewed and updated to include additional declarations. To be circulated to staff/Members for use for claims submitted from July onwards.	CH	04/05/16
C5 02 - Creditor Spend Review 2013 14 - Priority 2	IA 15/16 190 A procurement process should be completed for the spend area 'food and vending supplies at Craven Pool cafe'	C5 02 - Jun 2015	Leisure Services	Green	New suppliers are now being used following a tendering exercise.	LH	26/04/16
C5 13 - Review of Motor Workshop, Engine Shed Lane, Skipton - Priority 2	IA 15/16 205 Stock Control - The revised arrangements should be reviewed after 12 months operation to see if the anticipated benefits are being realised	C5 13 - Jul 2015	Waste Management	Green	Review has been completed and new processes put in place.	WA	25/04/16
C5 03 - Sundry Debtors 2014/15 - Priority 3	IA 15/16 212 Payment for the marked register of electors and dog waste bags (debt types EL and EP respectively) should be taken in advance of the service provided	C5 03 - Sep 2015	Financial Management	Green	Discussion has been held with necessary services and it has been agreed that payment will be taken in advance where possible in future.	CH	04/05/16

AGENDA ITEM 5b

Source Report	Recommendation Name	Original Target Date	Service Area	Status	Latest Update	Updated by	Date
C5 11 - Housing Benefits 2014 15 - Priority 2	IA 15/16 216 Update the Overpayment policy	C5 11 - Housing Benefits 2014 15 - Sep 2015	Revenues & Benefits	Green	Working Practice now available for Benefits. Work to commence on areas by Finance. Benefit working practices, including an overpayment working practice, have been obtained from City of Bradford MDC and are available on the shared drive.	DBC	14/04/16
C6 02 - Transparency - Priority 1	IA 15/16 217 An Information Management Strategy should be in place to establish how information is managed, published, stored / disposed and used. As part of this a standard data publishing process with nominated officer/s responsible for publishing data should be included.	C6 02 - Dec 2015	ICT	Green	The Information Management and Governance Strategy (including a standard data publishing process) and related Delivery Plan have been approved by Committee. A further audit has been undertaken and responsibility for publishing information in accordance with the Transparency Code has been clarified.	DRN	06/06/16
C6 04 - Bereavement Services - Priority 2	IA 15/16 234 Fire safety measures should be improved by identifying a wireless temperature monitoring solution to realise administration efficiencies and putting in place a fire evacuation procedure and training staff	C6 04 - Jun 2016	Bereavement Services	Green	Wireless temperature monitoring solution has been implemented. Fire evacuation procedure and training have been completed.	HS	12/04/16
C6 04 - Bereavement Services - Priority 2	IA 15/16 237 A business decision should be made on the replacement of the 2 cremators; to include timing, funding, approval, and the risks of extending their life expectancy beyond 2018	C6 04 - Jun 2016	Bereavement Services	Green	2 x cremators require replacement in 2018/19 and this has been identified together with ballpark costs within the Council's forward Capital programme.	HS	12/04/16

AGENDA ITEM 5b

Source Report	Recommendation Name	Original Target Date	Service Area	Status	Latest Update	Updated by	Date
C6 04 - Bereavement Services - Priority 3	IA 15/16 238 The Ministry of Justice should be consulted on the possibility of sending cremation records to the medical referee electronically for digital signature	C6 04 - Jun 2016	Bereavement Services	Green	This has been completed and all forms are now being e-mailed to Ilkley for signature.	MB	28/04/16
C6 04 - Bereavement Services - Priority 1	IA 15/16 239 The procedure for raising, recording and approving credit notes should be consistent and staff reminded of the process	C6 04 - Jan 2016	Bereavement Services	Green	Staff training commenced in December. A new management report has been devised and introduced to highlight all accounts with credits or zero invoices. These are then checked by the Bereavement Services Manager. The reports are then retained on file. Training will be completed by the end of June. This action has now been deemed completed by internal audit.	MB	06/06/16
C6 04 - Bereavement Services - Priority 1	IA 15/16 240 Credits on the BACAS cremation and burial records should be approved with an adequate segregation of duties and record a reason for the credit. In order to evidence this, management should introduce an internal credit note request form to attach to the printed BACAS invoice summary sheet.	C6 04 - Jun 2016	Bereavement Services	Green	Segregation of duties is covered in procedure notes. We are now able to ensure that these processes are being followed following the introduction of additional management checks. Credit request notes have been introduced as recommended but we are now introducing a 'checklist label' as an improvement. The label system is now in place on a trial basis.	MB	28/04/16
C6 09 - Payment Card Industry : Data Security Standard (PCI:DSS) - Priority 1	IA 15/16 253 Access restrictions should be put in place on any Belle Vue Square visitors passes not returned	C6 09 - Aug 2016	Property Services	Green	All visitor passes not returned at the end of each day are cancelled by the Reception team	IH	26/04/16

AGENDA ITEM 5b

Source Report	Recommendation Name	Original Target Date	Service Area	Status	Latest Update	Updated by	Date
C6 08 - Physical Security of ICT Equipment and Data - Priority 1	IA 15/16 258 Access restrictions should be put in place on any Belle Vue Square visitors passes not returned	C6 08 - Mar 2016	Property Services	Green	Each non-returned pass is deleted from the system by the Reception staff at the end of that particular day.	IH	21/04/16
C6 08 - Physical Security of ICT Equipment and Data - Priority 2	IA 15/16 264 Arrangements should ensure that there are at least two keyholders available for the Engine Shed Lane vehicle workshop should they need to be called upon	C6 08 - Mar 2016	Waste Management	Green	Action completed. The Transport Manager and Mechanic are now both key holders for the Engine Shed Lane vehicle workshop.	WA	27/04/16
C6 08 - Physical Security of ICT Equipment and Data - Priority 2	IA 15/16 265 Once the full IT asset inventory has been updated, the inventory should be maintained going forward by promptly recording acquisitions and disposals and carrying out a full annual check as indicated	C6 08 - Mar 2016	ICT	Green	Inventory has been updated, and is now being maintained in accordance with the audit recommendation.	DRN	27/04/16
C6 08 - Physical Security of ICT Equipment and Data - Priority 2	IA 15/16 270 Evidence of missing signed AUPs should be pursued to verify user security awareness	C6 08 - Aug 2016	ICT	Green	Implemented this is now the responsibility of the first line support officer and is maintained on an on-going basis. Compliance checks will be undertaken during the year.	DRN	28/04/16
C6 08 - Physical Security of ICT Equipment and Data - Priority 2	IA 15/16 271 The review and update of the AUP should be progressed	C6 08 - Aug 2016	ICT	Green	The process has been updated following review and is now in place. A further audit will be done to ensure the process is working correctly within the 2016/17 financial year.	DRN	28/04/16

Audit and Governance Committee
21st June 2016



ANNUAL INTERNAL AUDIT REPORT 2015/16

Report of the Audit Services Manager – Shared Internal Audit Service

Ward(s) affected: All

1. Purpose of Report

- 1.1 To consider the key findings and conclusions from audit work undertaken in 2015/16 and to give an opinion on the overall adequacy and effectiveness of the Council's arrangements for risk management and governance and on its internal controls.

2. Recommendations

- 2.1 Members are recommended to note the contents of the report for 2015/16 and note the opinion given based on the audit work undertaken during 2015/16.

3. Background Information

- 3.1 2015/16 was the first year of a new 3 year Shared Internal Audit Service collaboration arrangement with Harrogate Borough Council; shared arrangements having been in place under previous agreements since April 2010.

The service was hosted by Harrogate and provided 240 days per annum of audit time plus an additional 10 days per annum to be used at the discretion of Craven District Council's Strategic Manager – Financial Services (s151 Officer).

In line with the previous collaboration arrangement, the Shared Service was managed by a Partnership Board, which consisted of the Chief Finance Officers of the two authorities.

- 3.2 The work of internal audit is governed by the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the Standards and the Council's Internal Audit Charter the Chief Audit Executive or equivalent is required to submit an annual report which should include an overall opinion on the adequacy and effectiveness of the organisation's risk management and governance arrangements and on its internal controls.

In addition, the report should:

- Include a summary of audit work actually undertaken to support the opinion
- Provide details of any qualification to the opinion, together with the reasons for the qualification (including any impairment to independence or objectivity)
- Comment on the performance of Internal Audit and its Quality Assurance and Improvement Programme
- Comment on compliance with the PSIAS.

3.3 The Council is responsible for ensuring it complies with the law and proper standards to carry out its business. As such the Council is responsible for ensuring that effective risk management and governance arrangements and internal controls are in place in order to deliver value for money in the use of its resources and to achieve its corporate and service objectives.

3.4 Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (PSIAS).

3.5 Internal Audit can provide reasonable assurance on the arrangements and controls examined. This does not imply infallibility. Internal Auditors cannot be expected to identify each weakness or irregularity. Also, Internal Audit is not an extension or substitute for management. It is for management to accept Internal Audit findings and implement recommendations or to accept the risks of not taking action.

4. Audit Approach

4.1 At the conclusion of all audit work undertaken, meetings have taken place between relevant service managers and chief officers to discuss and agree audit findings within our audit report. These audit reports have subsequently been presented to this Committee in full where they have been subjected to scrutiny and challenge by members of this Committee.

4.2 On reporting lines, the Internal Audit Service operated under regular monthly meetings between the Strategic Manager – Financial Services (s151 Officer) and the Audit Services Manager. Meetings were also held that included the Chief Executive and any other members of the Corporate Leadership Team as required.

4.3 The Audit Services Manager attended meetings of the Audit and Governance Committee to summarise progress and to present individual audit reports. Quarterly meetings were also held with the Chair of the Committee.

4.4 On individual assignments, Internal Audit liaised with the relevant Managers to agree the programme of work, kept them informed of progress during the course of the audit in question and subsequently discussed findings and agreed recommendations.

- 4.5 The level and mix of staff for each audit assignment was determined by the knowledge and experience of the Auditors in the team, relative to the complexity of each audit. For example, the team's specialist auditors on ICT and procurement matters were allocated audit work in these areas.
- 4.6 During the year, Internal Audit liaised with the Authority's external auditors, Mazars LLP. The objective was to maximise the benefit to the Authority from all audit work to avoid duplication of coverage and to learn from each other's findings to provide maximum assurance.
- 4.7 The achievement of audit plans depends upon the contribution of the Council's staff. Internal Audit would like to record their appreciation for the involvement and commitment of staff and for their critical appraisal of the conclusions drawn and recommendations made.

5. Summary of Audit Findings

- 5.1 The Appendix attached to this report sets out details of all audits undertaken between 1st April 2015 and 31st March 2016. It includes details of budgeted days compared to actual days for each audit as well as the assurance level given and the number of recommendations made.
- 5.2 The Appendix shows 95% of audit work was completed by 31st March 2016 (2014/15: 95% of the plan was completed by 31st March 2015).
- 5.3 In summary:
- All 3 audits brought forward from 2014/15 were completed in 2015/16. Unfortunately no time for completion had been allocated in the agreed 2015/16 Audit Plan although 25 days had been earmarked for contingency purposes. The completion of these audits therefore came from this allocation.
 - 8 planned audits from the approved 2015/16 audit plan were completed in the year.
 - 6 follow up audits / 6 month reviews were completed within the year. These confirmed that good progress had been made by Management with the implementation of audit recommendations.
 - The remaining 4 audits are in progress at the year end and will be brought to this committee as soon as possible.
- 5.4 Of the 21 audits completed in 2015/16, 6 were not awarded an audit opinion as they related to follow up audit work on outstanding recommendations. An additional audit on the service charge for Belle Vue Square also contained no overall audit opinion as the audit work did not include an assessment of risk or internal control.

The following 4 audits were in progress at the year-end as follows:

Audit	Draft Assurance Level (to be agreed with client)
Fraud Code of Practice	Not applicable
Treasury Management	To be determined
Creditors	Good
Fraud – refunds	Good

Of the remaining 10 audits the following opinions were given:

Assurance Level awarded	Number of audits
Significant	3
Good	3
Partial	4
No	0

5.5 The above 2 tables show that, where an audit opinion on the level of assurance has been provided, 67% (8 out of 12) were either significant or good. This is broadly similar to the position reported in the 2014/15 Annual Report (71%) and the 2013/14 Annual Audit report (73%).

5.6 Per the Shared Services Agreement, Craven District Council paid for 240 audit days in 2015/16. The appendix to this report shows that only 228 were spent and therefore an additional 12 will be provided in 2016/17 over and above the agreed 2016/17 audit plan of 240 days.

The main reasons for the underspend were:

- The number of days allocated for follow up audit work on outstanding audit recommendations was significantly greater than the number of days required to complete the work.
- The creditors audit did not begin until very close to the year end and therefore a significant amount of audit testing remained outstanding at the year end.

6. Quality Assurance and Improvement (QAIP)

6.1 Under the PSIAS, the chief audit executive must develop a quality assurance and improvement programme (QAIP). The objectives are to assess the efficiency and effectiveness of internal audit activity, identify opportunities for improvement and to evaluate whether or not the Standards are being met.

6.2 The QAIP consists of:-

- Ongoing monitoring of the performance of Internal Audit
- Periodic self-assessments
- Maintenance of an Internal Audit manual
- An external assessment which must be undertaken at least once in every 5 years by a qualified independent assessor or assessment team from outside of the Authority. This was completed during April 2014 with an overall conclusion that Internal Audit was substantially compliant with the PSIAS.

6.3 Ongoing Monitoring

There are management and supervision arrangements within Internal Audit in order to ensure that each audit assignment meets the required quality standards. These involve discussions between Audit Management and the individual Auditor concerned during the planning of the audit to ensure that the key risks are covered, during fieldwork and at draft and final report stages. The purpose is to ensure that the engagement, evidence and reporting requirements set out in the PSIAS are met, together with the Code of Ethics. (Integrity, Objectivity, Confidentiality, Competency).

6.4 Following each applicable audit, Internal Audit send out a post audit questionnaire (PAQ) to the relevant Client Manager for feedback on the quality of the audit from the client perspective and on whether any improvements could be made. The PAQ asks 8 questions and provides for responses ranging from “very satisfied” to “very dissatisfied”. In 2015/16 100% of responses received were either satisfied or very satisfied with the work of the internal audit team.

6.5 Internal Audit also has various performance indicators which are monitored during the year. These include:-

Delivery of Audit Plan- Measured in terms of actual chargeable audit days compared to planned chargeable audit days. As at 31st March 2016 95% of the agreed Audit Plan had been delivered.

Sickness Monitoring- The total level of sickness for the 6 members of the Team was only 1 day – well below average.

7. Audit Opinion

7.1 The Public Sector Internal Audit Standards (Performance Standard 2450) states that:

“The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.”

This must be based on an objective assessment of the framework of governance, risk management and control within the Council’s governance, operations and information systems.

7.2 **The overall opinion is that, based on the audit work undertaken during 2015/16, the Council’s framework of governance, risk management and internal control is satisfactory and operating effectively in practice.**

7.3 In giving this opinion attention is drawn to the following significant control issues which are considered relevant to the preparation of the 2015/16 Annual Governance Statement:

a) Transparency Code

Audit work identified that 5 datasets (38%) required by the Transparency Code 2015 had yet to be published, which could result in complaints being made to the Information Commissioners Office under the existing Freedom of Information Framework. At the year end this is still outstanding as the primary focus has been to implement the Information Management Strategy. Plans are in place to publish these datasets by July 2016.

b) Information Security

Internal Audit work during the year identified concerns in relation to information security. 2 separate audits identified that personal information was not being held securely but left in unlocked cabinets or drawers.

8. Implications

8.1 Financial and Value for Money Implications

The contribution paid by Craven District Council towards the cost of the Shared Service for 2015/16 was just over £56,000.

8.2 Legal implications

This report is submitted to comply with the requirements of the Public Sector Internal Audit Standards.

8.3 Contribution to Council Priorities

Council Transformation

8.4 Risk Management

The Internal Audit function is an integral part of internal control. The major risks to the provision of the service to Craven include:-

- Insufficient resources and capacity – for example due to long-term sickness or vacant posts. If this situation arises it will be addressed by the Internal Audit Shared Service Partnership Board, reporting to the respective audit committees of the two Councils if necessary.
- The need for a major investigation which will mean that some planned work will have to be deferred or an increase in the days provided at an additional cost to Craven.

8.5 **Equality Impact Assessment**

The Council's Equality Impact Assessment Procedure has been followed. An Equality Impact Assessment has not been completed on the proposals as completion of Stage 1- Initial Screening of the Procedure identified that the proposed policy, strategy, procedure or function does not have the potential to cause negative impact or discriminate against different groups in the community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • rural isolation.

9. **Consultations with Others**

Strategic Manager – Finance Services (S151 Officer)

10. **Access to Information : Background Documents**

None

11. **Author of the Report**

Kim Betts, Audit Services Manager, Craven District Council and Harrogate Borough Council Shared Internal Audit Service.

Note: Members are invited to contact the author in advance of the meeting with any detailed queries or questions. (Telephone 01423 500600 ext 58587; Email kim.betts@harrogate.gov.uk)

12. **Appendices**

Appendix 1 – Internal Audit Plan 2015/16

APPENDIX 1

INTERNAL AUDIT PLAN 2015/16

	Plan	Actual	Assurance Level	Number of Recommendations
<u>6 Month Reviews / Follow up audits:</u>				
Key Financial Systems	8	7	N/A	N/A
IT	5	4	N/A	N/A
Car Park Income Follow Up	3	1	N/A	N/A
Town Hall Processes and Procedures	1	1	N/A	N/A
Strategic Waste Services	1	0	N/A	N/A
Creditor Spend Review	2	0	N/A	N/A
Contingency	25	24		
<u>Audits b/fwd from 2014/15:</u>				
Housing Benefits			Significant	1
CT/NDR			Good	5
Payroll			Significant	0
<u>2015/16 planned audits:</u>				
Transparency	10	10	Partial	7
On-line Payments	20	20	Good	7
BVS Service Charge	10	11	N/A	N/A
IT: Physical Security of Data & Equipment	11	11	Partial	16
IT: PCI DSS	9	9	Good	9
Grants (Community Grants and Localism Reserve Funded By The New Homes Bonus)	15	18	Significant	1
Treasury Management	10	9	WIP	2

	Plan	Actual	Assurance Level	Number of Recommendations
Bereavement Services	20	20	Partial	12
Fraud – Refunds	10	13	WIP	1
Building Control	20	21	Partial	10
Creditors	20	11	WIP	3
CIPFA Fraud Code of Practice	15	13	WIP	N/A
<u>Non-chargeable time:</u> CDC Auditing Reporting / Committee Papers / Audit Reviews	25	25	N/A	N/A
Totals	240	228		
Contingency (CDC Discretion)	10	0	N/A – Not Paid For	N/A

Audit & Governance Committee – 21st June 2016

Annual Governance Statement 2015/16



Report of the Corporate Head of Financial Management

Ward(s) affected: All

1. Purpose of Report

- 1.1 To present the Draft Annual Governance Statement for 2015/16 for consideration and approval by Committee, prior to sign off by the Chair of the Audit Committee and the Chief Executive.

2. Recommendation

- 2.1 That, members consider and approve the Draft Annual Governance Statement which will form part of the Statement of Accounts 2015/16.

3. Background Information

- 3.1 The Council is required to publish an Annual Governance Statement (AGS) which must accompany its Annual Statement of Accounts in compliance with the Accounts and Audit (England) Regulations 2015 – Regulation 6(1)b.
- 3.2 Good governance is important to all involved in local government. The statement summarises the governance arrangements in place and sets out how they will be further improved in the year ahead.
- 3.3 The preparation and publication of an AGS in accordance with the CIPFA/SOLACE Framework is necessary to meet the statutory requirements set out in Regulation 4(2) of the Accounts and Audit Regulations which requires authorities to “conduct a review at least once a year of the effectiveness of its system of internal control” and to prepare a statement on internal control “in accordance with proper practices”.
- 3.4 The AGS is attached at Appendix 1 for member approval for inclusion with the Annual Statement of Accounts.

4. The Report

- 4.1 The CIPFA/SOLACE Framework defines proper practices for the form and

content of a governance statement that meets the requirement to prepare and publish a statement of internal control. There is no requirement to prepare and publish a separate statement on internal control.

- 4.2 The CIPFA “Statement on the Role of the Chief Financial Officer in Local Government”, issued in 2010, expects that the AGS will include a specific statement on whether the Council’s financial management arrangements conform to the governance requirements of the statement. If they do not then an explanation must be given on why and how the Council’s arrangements deliver the same impact.
- 4.3 At Craven DC there is full compliance as the Strategic Manager – Financial Services (s151 Officer) is a member of the Corporate Leadership Team.
- 4.4 Whilst all meetings of the Authority and its Committees are an integral part of our corporate governance framework, the Audit and Governance Committee has a specific role which is key to its operation. The Committee should determine whether it is satisfied that the review process has been rigorous and thorough.
- 4.5 The AGS provides public assurance the Council has a sound system of internal control, designed to help manage and control risks that will impede the achievement of its objectives. The AGS should not be seen as a purely financial requirement, but as an important public expression of what has been done and how priorities have been set out and monitored. The requirement for it to be signed by the Chair of Audit and Governance Committee and the Chief Executive reflects the importance with which it is viewed.
- 4.6 The External Auditor will be considering the AGS as part of the review of the Statement of Accounts for 2015/16. The Auditor is required to issue an opinion on the accounts and “sign them off”.
- 4.7 In common with most local authorities, the Council has a well established system of internal control in place. The AGS process requires the Council to formally demonstrate what these controls are and how they safeguard against the most significant risks and to gain assurance based on evidence that these controls are operating effectively and if they are not then identify areas for improvement.
- 4.8 The AGS sets out the significant governance issues outstanding at the end of 2015/16 and the proposals for addressing them during 2016/17. Committee Members should ensure that they are satisfied with the corrective actions being proposed.
- 4.9 The production of the AGS is not an isolated act, but the final stage in a continuing review of internal control processes and procedures.
- 4.10 Since April 2013 the work of internal audit in local authorities has been governed by the Public Sector Internal Audit Standards (PSIAS). The PSIAS state that at least once every five years, local authorities are required to commission a review by an outside organisation to see how far their internal

audit service meets the Standards. Mazars LLP undertook this review during March 2014 prior to the commencement of the current Internal Audit Contract with Harrogate BC. The overall conclusion was that Internal Audit is “substantially compliant“, with the requirements of the PSIAS. An improvement action plan was developed and all actions except one – an assurance mapping exercise – have been completed. This has been included at Appendix A.

- 4.11 During 2015/16 the majority of issues highlighted in the 2014/15 AGS were addressed and a summary is provided at Appendix 2.
- 4.12 Outstanding 2015/16 Internal Audit reports – If any recommendations contained within these reports are identified as priority 1, and they have not been resolved prior to the approval of the 2015/16 Statement of Accounts in September, they will be included within the 2015/16 AGS.

5. Implications

5.1 Financial and Value for Money Implications

None

5.2 Legal implications

It is a statutory requirement for the Council to produce its Annual Governance Statement for inclusion with the Statement of Accounts.

5.3 Contribution to Council Priorities

Financial resilience through appropriate procedures and practices

5.4 Risk Management

Implementation of measures to improve the Council’s governance arrangements help to mitigate against Corporate Governance risks.

5.5 Equality Impact Assessment

The Council’s Equality Impact Assessment Procedure **has been** followed. An Equality Impact Assessment **has not** been completed on the proposals as completion of **Stage 1- Initial Screening** of the Procedure identified that the proposed policy, strategy, procedure or function **does not have** the potential to cause negative impact or discriminate against different groups in the community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • rural isolation.

6. Consultations with Others

CLT, Insurance Risk and Procurement Manager, Internal Audit Manager, VFM & Improvement Manager.

7. Access to Information : Background Documents

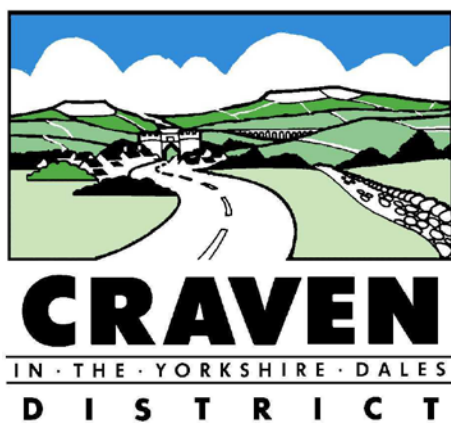
CIPFA – Delivering Good Governance in Local Government.
CIPFA Finance Advisory Network – AGS a Rough Guide for Practitioners

8. Author of the Report

Nicola Chick – Strategic Manager – Financial Services (s151 officer)
Telephone: 01756 706418
E-mail: NChick@cravendc.gov.uk

9. Appendices

Appendix 1 – Annual Governance Statement
Appendix 2 – Completed Actions from 2014/15 Statement



ANNUAL GOVERNANCE STATEMENT 2015/16

Annual Governance Statement (AGS)

1. Scope of Responsibility

- 1.1 Craven District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which include arrangements for the management of risk.
- 1.3 The Council has approved and adopted a Local Code of Governance (the Code), which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Local Code can be obtained from the Council's website www.cravencd.gov.uk or by writing to: - Financial Management, Craven District Council, 1 Belle Vue Square, Broughton Road, Skipton, North Yorkshire, BD23 1FJ.
- 1.4 This Statement explains how Craven District Council has complied with the Code and meets the requirements of regulation 4 regulation 4(2) of the Accounts and Audit (England) Regulations 2015. It is a requirement to produce this statement under regulation 6(1) b of the Accounts and Audit (England) Regulations and that it is approved by Audit & Governance Committee in advance of them agreeing the statement of accounts. The Statement also sets out significant governance issues that will be addressed during 2016/17.

2. The Purpose of the Governance Framework

- 2.1 The Governance Framework comprises the systems and processes, and cultures and values, by which the Council is directed and controlled and the activities through which it accounts to, engages with and, where appropriate, leads the community. It enables the Authority to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2 The system of internal control is a significant part of that Framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.
- 2.3 The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of Craven District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.4 The framework for corporate governance recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) identifies six underlying principles of good governance. These principles have been taken from the Good Governance framework and adapted for local authorities. They are defined as follows:

- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
- Members and officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Developing the capacity and capability of members and officers to be effective
- Engaging with local people and other stakeholders to ensure robust public accountability.

2.5 The Governance Framework has been in place at Craven District Council for the year ended 31st March 2016, and up to the date of the approval of the Statement of Accounts for 2015/16. It has seen reports submitted to Audit & Governance Committee on the progress made on issues identified in the previous Annual Governance Statement and identified any issues for consideration in the 2015/16 Statement.

3. The Council's Governance Framework

Set out below are the key elements of the Council's systems and processes that comprise our governance arrangements in accordance with the six principles:

3.1 Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.

3.1.1 The Council produces and publishes a Council Plan which sets out the Council's Vision, and states clear key priorities for improved outcomes for citizens. The Council Plan is published as a four year rolling document. A review of the Plan, including the Council's vision, mission and priorities is carried out on an annual basis through the strategic planning process. This process is informed by community and member consultation, reflecting political and community objectives, and acts as the basis for setting the Council's priorities. Service Plans are also produced on an annual basis setting out the key goals, actions and targets for the year, for each service area. The Plans incorporate improvement actions and performance indicators, including those relating to the delivery of the Council Plan.

3.1.2 The Council has a Long Term Financial Strategy and Medium Term Financial Plan which includes budgets that are soundly based and are designed to deliver the Council's priorities. The financial management system includes:

- A Long Term Financial Strategy highlighting key financial risks and pressures on a ten year rolling basis
- An annual budget cycle which gives a three year Medium Term Financial Plan and incorporates Council approval for detailed revenue and capital budgets as well as treasury management strategies
- Annual Accounts supporting stewardship responsibilities, which are subject to external audit and which follow Statements of Recommended Practice, Accounting Codes of Practice, and International Financial Reporting Standards
- Budget Monitoring Reports and Quarterly Performance clinics (including Value For Money (VFM)) Clinics which combine budget and performance monitoring.

- 3.1.3 A Performance Management Framework sets out the formal arrangements for effective performance management, and is used to monitor and report progress against the Council Plan, Annual Service Plans, Budgets and Performance Indicators.
- 3.1.4 The Council has a Value for Money Framework detailing the Council's principles and actions for securing Value for Money in the services it delivers. This includes an agreed approach for Service Reviews to secure efficiencies and improve effectiveness.
- 3.2 Members and Officers working together to achieve a common purpose with clearly defined functions and roles

The Council has the following arrangements in place:

- 3.2.1 A Constitution, updated on a rolling basis, setting out how the Council operates, how decisions are made, and the procedures which are followed to ensure that these are lawful, efficient, open, transparent and accountable to local people. This includes Standing Orders; Financial Regulations, Committee Membership and Terms of Reference, Scheme of Delegation to Officers, and Members and Employee Codes of Conduct / Protocol.
- 3.2.2 Regular meetings between the Leader of the Council, the Chief Executive and Group Leaders.
- 3.2.3 Lead Members and Champions for specific Council Priorities including a Lead Member for Asset Management and Financial Resilience.
- 3.2.4 A designated Head of Paid Services (the Chief Executive), responsible and accountable to the Authority for all aspects of operational management, in accordance with Section 4 of the Local Government and Housing Act 1989.
- 3.2.5 A designated Section 151 Officer (the Strategic Manager – Financial Services), responsible to the Authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control, in accordance with Section 112 of the Local Government Finance Act 1988.
- 3.2.6 A designated Monitoring Officer (the Solicitor to the Council and Monitoring Officer), responsible to the Authority for ensuring that agreed procedures are followed and that all applicable statutes, regulations and other relevant statements of good practice are complied with, in accordance with Section 5 of the Local Government and Housing Act 1989.
- 3.2.7 An Independent Remuneration Panel that reviews Members' remuneration.
- 3.2.8 Recruitment and Selection and Job Evaluation Policies and Procedures, providing a framework for the recruitment and selection of employees which reflects fairness, equity and best practice.
- 3.2.9 A strategic planning process, communication strategy and performance framework to ensure the Council's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated.
- 3.2.10 Effective mechanisms to monitor service delivery, e.g. the Performance Management Framework, the complaints, comments and compliments procedure,

and customer satisfaction surveys.

- 3.2.11 Constitutions, Terms of Reference or Service Level Agreements are in place for each partnership, as appropriate. These measures ensure that there is clarity over the legal status of powers, and roles and responsibilities in respect of each partnership in which the Council is involved. The Council has a comprehensive database of partnerships which is maintained on an on-going basis.
- 3.3 Promoting the values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- 3.3.1 The set of shared core Values embedded in the culture of the organisation, guiding and influencing the way the Council and its staff work, and helping to continually improve performance.
- 3.3.2 The Council has developed and adopted formal Codes and Protocols aimed at ensuring high standards of conduct and personal behaviour, which make up the Council's ethical framework for both Members and employees.
- 3.3.4 The Localism Act 2011 introduced changes to the standards regime. The Council has a duty under the act to promote and maintain standards. The Council's Standards Committee acts as the main means to raise awareness and takes the lead in promoting and maintaining high standards of conduct and the effectiveness of the ethical framework.
- 3.3.5 Arrangements are in place to ensure that members and staff are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and appropriate processes exist to ensure they continue to operate in practice. These include a complaints procedure, standards hearings, codes of conduct, equality impact assessments of services, and policies and equalities training.
- 3.4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- 3.4.1 The Council's Select (Scrutiny) Committee provides constructive challenge in relation to the Council's services and those of other agencies. The Scrutiny Officer provides support to the Committee and the development of the scrutiny function. A work programme is formulated on an annual basis which complements the aims and objectives of the Council's Priorities in the Council Plan. Issues that arise during the year can also be referred to the Committee. Different methods are used to involve the public and stakeholders in Select (Scrutiny) Reviews, including surveys, press releases and invitations to meetings. An annual report is produced recording recommendations and actions.
- 3.4.2 The Audit and Governance Committee acts as the Council's responsible body charged with governance. In doing so it provides independent assurance on the adequacy of the risk management framework and the associated control environment, approves the Final Statement of Accounts, and receives reports from External and Internal Audit. In February 2015 the Council approved the appointment of a non-voting independent member to assist the Committee. The appointment is for 2 years until May 2017.
- 3.4.3 The Council has a Standards Committee that is responsible for promoting and maintaining good ethical governance within the organisation and operates in accordance with legislative requirements.

- 3.4.4 The Call-In Procedure provides a mechanism for Members to directly challenge decisions made by the Policy Committee.
- 3.4.5 The Council has a Whistleblowing Policy and an Anti-Fraud and Corruption Policy.
- 3.4.6 Arrangements and processes are in place to ensure conflicts of interest on behalf of members and employees are avoided.
- 3.4.7 The Council has an established Complaints, Comments and Compliments procedure which is due to be reviewed in 2016. There are also procedures in place to deal with complaints about Members.
- 3.4.8 In order to ensure those making decisions are provided with information that is fit for purpose, relevant, timely and gives clear explanations of technical issues and their implications, the Council uses a standards report format. The reports include financial, legal and risk management implications, as well as relevance to Council Priorities. Wherever possible, reports are circulated in good time before meetings in order to meet the Access to Information requirements.
- 3.4.9 The Council has a formal system of Risk Management. Whilst responsibility for the identification and management of risks rests with service managers, corporate arrangements are coordinated by the Risk Management function to ensure that:
- the council's assets are adequately protected;
 - losses resulting from hazards and claims against the council are mitigated through the effective use of risk control measures.
- 3.4.10 The system of risk management includes the maintenance of an overall and corporate risk register. The Risk Management Group and Corporate Leadership Team (CLT) are responsible for keeping arrangements for both risk registers under review. The Register is used to monitor risks and identify appropriate action plans to mitigate risks. These risk management arrangements and the Corporate Risk Register containing the Council's key strategic risks are monitored by CLT and the Audit & Governance Committee.
- 3.4.11 The Council has policies in place to ensure compliance with established policies, procedures, laws and regulations.
- 3.5 Developing the capacity and capability of Members to be effective and ensuring that officers, including statutory officers, also have the capability and capacity to deliver effectively
- 3.5.1 The Councils People Strategy 2016 – 2020 was approved by Policy Committee in April 2016. The action plan is monitored, reviewed and updated quarterly.
- 3.5.2 Recruitment and selection procedures are based on recognised good practice that aims to secure applicants for employment from all sections of the Community.
- 3.5.3 Induction training is given to new Members and staff.
- 3.5.4 Protocols are in place which set out the roles and responsibilities of the three statutory officers.
- 3.5.6 Performance of officers is managed under the Council's Performance Development Review (PDR) system. This links individuals' performance to that of their Service and the Council. The PDR provides the opportunity to identify staff training and development needs.
- 3.5.7 Member Training is provided to meet the needs of all Members. Options are

being explored to develop a Member Development Programme with other Local Authorities.

- 3.5.8 The Council revises its Training and Development Plan annually. A Leadership and Management Development Programme was delivered during 2013-2015. A further Management Development Programme is due to be delivered in July 2016 to enable succession planning as required in the future. A variety of training across all service areas is delivered throughout the year, as highlighted via the Council Performance Development Review process.
- 3.5.9 The Council continues to develop its Apprenticeship Scheme. During 2015 4 new Apprentices were appointed. Recruitment is currently underway to recruit a further 3 Apprentices in 2016
- 3.5.10 In March 2015 it was confirmed that the Council had retained its Investors in People (IiP) accreditation. The IiP award is a very challenging standard to meet and is increasingly seen as a measure of a quality employer. The award represents a significant achievement for the Council and it serves as a testament to the work of all staff and Members in establishing excellent management practices. Most importantly, it acknowledges the efforts of all the staff who have embraced the considerable changes that have been necessary to move the Council forward. The next review is due to take place in 2018.
- 3.5.11 Various partnerships are in place with local schools, colleges and voluntary organisations to provide opportunities for work experience to individuals from all sections of the community.

3.6 Engaging with local people and other stakeholders to ensure robust local public accountability

- 3.6.1 The Council ensures its staff and the community are clear to whom and for what the Council is accountable through publication of its Constitution.
- 3.6.2 The Council's Community Engagement Strategy and Toolkit sets out how the Council will consult, engage and involve the public in service improvement and delivery. The Select (Scrutiny) function is one of the Council's primary means of engaging with local communities and stakeholders. An annual report on the activity of the scrutiny function is produced.
- 3.6.3 The Council also operates an Employers Consultative Working Group consisting of Members, the Chief Executive, Corporate Head of Business Support and Trades Union representatives.
- 3.6.4 Clear channels of communication are in place with the Parishes, for example the Parish Liaison Group and the Parish Clerks Forum.
- 3.6.5 All meetings of the Council, its Committees and Sub-Committees are open to the public, except when we have to discuss information in closed session to avoid the disclosure of exempt information.
- 3.6.7 The following includes some of the arrangements the Council has in place to enable us to engage with all sections of the community effectively:
- The annual consultation programme - Have Your Say
 - A Residents Panel
 - Active involvement with the Craven Youth Council
 - Budget Consultation
 - Publishing an Annual Statement of Accounts

- Crime and Disorder Committee
- Craven Community Safety Partnership

3.6.8 The Council requested a peer review which was completed in June 2012. One of the guiding questions for this type of challenge is 'Are effective governance and decision-making arrangements in place to respond to key challenges and manage change and transformation'. The review found that the council embraced the challenge positively, transparently and openly. The Council is in early discussions with the LGA for a review in 2017.

3.6.9 The Council nominates Members on to outside bodies.

3.6.10 The Council is continuing with its approach of Community Led Planning, establishing Local Action Teams. The 'Localism Reserve' established in 2011 and has provided funding for organisations and individuals including third sector, parish and town councils and community and business groups to deliver community projects that fit with Council priorities. The Localism Reserve is provided two years funding for the Council's Core Grant Funding Scheme in 2014/15 and 2015/16.

4. Review of Effectiveness

4.1 Craven District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the Council's Leadership Team, who have responsibility for developing and maintaining the governance environment, the Audit Services Manager's annual report, and also by the comments made by external auditors and other review agencies and inspectorates.

4.2 Issues identified in the 2014/15 Annual Governance Statement and the management actions to reduce the risk have been reported to, either Audit & Governance Committee and or Policy Committee and or Council. These reports where appropriate have also included new issues for consideration.

4.3 The purpose of a review is to identify and evaluate the key controls in place to manage the main risks. It also requires an evaluation of the assurances received, identifies gaps in controls and assurances, and should result in an action plan for addressing significant internal control issues.

4.4 This document is produced as a result of that review in respect of the 2015/16 financial year.

4.5 Key roles in maintaining and reviewing the effectiveness are performed by:

4.5.1 The Council

The Council is the supreme body of Members and has overall responsibility for the Council's policy and budget framework, which includes adoption of, and any fundamental changes to, the Council's Constitution.

4.5.2 Policy Committee

The Policy Committee is responsible for exercising the Council's powers within the budget and policy framework in the non-regulatory areas of its functions. It is also charged with making recommendations to the Council on the budget and framework and any plans, policies or strategies that have a significant corporate impact.

4.5.3 **Select (Scrutiny) Committee**

This Committee plays an important part in Members' influence on the Council's governance, including holding the decision-makers to account, primarily through the call-in procedure, contributing to policy development and review.

4.5.4 **Audit and Governance Committee**

The Audit and Governance Committee has overall responsibility for ensuring the effective development and operation of corporate governance within the Council and ensuring compliance with best practice. The Committee's remit includes internal and external audit activities, the control environment, risk management and the review and approval of the Council's annual Statement of Accounts.

The Committee is also responsible for maintaining the Council's Constitution and for conducting community governance reviews within the District.

In June 2014 the Council approved the appointment of a non-voting independent member to assist Audit & Governance Committee in their work. An appointment to the role was agreed in February 2015 for a period of two years.

4.5.5 **Standards Committee**

The Standards Committee monitors compliance with codes and protocols, reviews the operation of the Members' Code of Conduct, ensures the provision of effective training and is responsible for the system that ensures complaints relating to alleged breaches of this Council's and the Parish Councils' Codes of Conduct are dealt with. The Committee is a consultee on all elements of the Constitution relating to the ethical framework.

4.5.6 **Statutory Officers (i.e. Head of Paid Service, Chief Financial Officer, and Monitoring Officer)**

The Chief Executive is the Council's head of paid service; the Strategic Manager – Financial Services is the Council's chief financial officer (s151 officer). The Solicitor to the Council is the Monitoring Officer. This officer has a statutory responsibility to ensure the legality of transactions, activities and arrangements that the Council enters into.

All reports presented to Committee for decision making require the legal, financial, and staffing implications to be explicitly detailed. The council's Head of Paid Service, Chief Financial Officer, and Monitoring Officer/Deputy Monitoring Officer consider these reports, along with their implications.

Each officer also provided on-going advice in connection with both the financial and legal standing of council business, including monthly reviews of the council's expenditure against budget.

The Council's Monitoring Officer, oversees the operation of the Constitution in order to ensure that its aims and principles are given full effect. A Corporate Governance Working Group, consisting of the s151 officer, the Monitoring Officer, other relevant officers and Members, oversees the review of the governance framework.

At the end of the year a statement assuring that there were no significant governance issues that were not covered in the Annual Governance Statement which was signed on behalf of management by the Chief Executive.

4.5.7 **Internal Audit**

The work of internal audit in local authorities is now governed by the Public Sector

Internal Audit Standards (PSIAS). These took effect from April 2013 and it is a legal requirement for local authorities to comply with them. The PSIAS state that at least once every five years, local authorities are required to commission a review by an outside organisation to see how far their internal audit service meets the Standards. Craven commissioned its external auditors, Mazars LLP, to review its Internal Audit Service during March 2014.

Whilst the overall conclusion of the review was that Internal Audit is “substantially compliant”, with the requirements of the PSIAS it identified a number of areas where there was scope for improvement in the work of Internal Audit, the overall governance and assurance arrangements within the Council and the role Internal Audit plays within those arrangements. All actions included in the improvement plan have now been implemented – except for developing an assurance map. The intention is to consider this during 2016/17 and for it to become part of the planning process for the 2017/18 Internal Audit Plan.

The PSIAS require that “chief audit executive”, or equivalent gives an annual opinion on the overall adequacy and effectiveness of the organisation’s arrangements for governance risk management and internal control. The Audit Services Manager has set out his opinion on these arrangements for Craven covering 2015/16 in her Annual Internal Audit Report.

The 2015/16 financial year was the first year of the new three year shared service arrangement between Craven District Council and Harrogate Borough Council. The overall opinion of the Council’s Internal Audit is that:

*“.....**Governance:** This concerns the combination of protocols, procedures and structures in place to inform, direct, manage and monitor activities towards the achievement of the Council’s objectives. The opinion is that generally speaking, adequate and effective arrangements are in place. The Annual Governance Statement sets out those arrangements and I can confirm that these are comprehensive.”*

Internal Audit does however express concern regarding the following:

- The security of personal and sensitive information needs to be reviewed to ensure that it is protected and adequately secured.
- The publication requirements contained within the Transparency Code need to be followed so that no breach of the Code occurs.

*“.....**Risk Management:** The Council has adequate arrangements in place with risk management being embedded within the Authority. This is based on Internal Audit’s experience and observation of proceedings at the Risk Management Group – together with a review of the Risk Management Strategy and risk registers (both corporate and specific (recent examples include Tour de France, Skipton Town Hall refurbishment, Health and Safety). There is also robust challenge by Members when risk registers are submitted to the Audit and Governance Committee for consideration and approval.” Audit and Governance Committee appointed its Independent Member to be its representative on the Risk Management Group. His remit is to report back to the Committee the scope for improving effectiveness of the Council’s arrangements and provide suggestions for areas of focus.*

*“.....**Internal Control:** Generally, fundamentally sound systems of internal control are in place. 67% of the opinions issued were either “significant” or “good”. In other areas, progress continues to be made.*

4.5.8 **External Audit**

The external audit of the Council is provided by Mazars. Whilst external auditors are not required to form an opinion on the effectiveness of the Council's risk and control procedures, their work does give a degree of assurance. The Council believes that a proactive relationship with the Mazars strengthens its governance arrangements. Regular meetings have taken place to cover corporate matters and accounting and internal audit matters.

Conclusions and significant issues arising in 2015/16 are included in their report to those charged with governance. There were no significant issues from the 2014/15 Audit.

5. Significant Governance Issues

5.1 It is stressed that no system of control can provide absolute assurance against material mis-statement or loss. This statement is intended to provide reasonable assurance.

5.2 Issues that have been identified as Significant Governance Issues are included in Appendix A. Appendix B sets out the major issues arising from the work of Internal Audit ('Priority 1' issues). Under the Council's 2015/16 governance arrangements, all internal audit recommendations are reported through the Audit and Governance Committee. Outstanding Priority 1 issues arising during 2015/16, and brought forward from the previous year, have been set out in Appendix B.

5.3 The governance issues set out in Appendices A and B will be addressed during 2016/17. Progress on actions identified to address the recommendations of the Audit Commission's report will be subject to regular monitoring by the Council's Audit and Governance Committee.

APPENDIX A: SIGNIFICANT GOVERNANCE ISSUES 2015/16

Ref	Gaps in 2015/2016	Improvement Action	Responsible Officer	Timescales	Position at 31 March 2016 & Commentary
PSIAS Review March 2014					
1.	Integration of the role of Internal Audit within the Council's 'assurance framework'. An assurance mapping exercise to ensure that operational risks are identified is required.	An assurance mapping exercise should be carried out within the framework of a new assurance framework to ensure that all of the key risks the Council and its service lines are facing are identified.	Internal Audit Services Manager	31 March 2016 Revised to 31 March 2017	Work has yet to begin due to the focus being on the procurement of a new integrated audit and risk system. This will occur in June/July 2016 with an expectation of the new system being in place by the Autumn. The assurance mapping exercise will occur after installation and will be integral to the creation of the 2017/18 Audit Plan.

APPENDIX B: SIGNIFICANT GOVERNANCE ISSUES					
Ref	Gaps in 2015/16	Improvement Action	Responsible Officer	Timescales	Position at 31 March 2016 & Commentary
2015/16 (Outstanding Priority 1 issues arising from 2014/15 Internal Audit Work)					
1.	IA 14/15 157 A clearly owned information asset inventory should be developed and maintained. Once developed, identified information asset owners should ensure that risks and opportunities are monitored.	Data audits to document the Councils Information Assets form part of the Information Governance Project.	ICT Manager	June 2016	An Information Asset Inventory framework has been developed, and is being compiled and refreshed on an ongoing basis with the identified Information Asset Owners (Service Managers). The Council's overall inventory has been partially completed. It is anticipated that the project will be completed in June 2016
2015/16 (Outstanding Priority 1 issues arising from 2015/16 Internal Audit Work)					
2.	IA 15/16 227 A replacement for the Fast Control system should be timetabled for implementation as soon as possible	Replacement system is budgeted for within the capital programme for delivery by April 2017	Strategic Manager – Planning & Regeneration	April 2017	Recruitment to the project manager role is underway. Once an appointment is made there will be a lead in time of approximately 18 months before the new system is fully introduced.
3	IA 15/16 239 The procedure for raising, recording and approving credit notes should be consistent and staff reminded of the process	Regular management checks to be introduced.	Bereavement Services Manager	January 2016 – June 2016	Staff training commenced in December. A new management report has been devised and introduced to highlight all accounts with credits or zero invoices. These are then checked by the Bereavement Services Manager. The reports are then retained on file. Training will be completed by the end of June.
4	IA 15/16 245 Access levels should be set up on the BACAS system	Appropriate levels of access to be set on the BACAS system.	Bereavement Services Manager	January 2016 – June 2016	We are currently working with BACAS to achieve this. Access levels as appropriate should now be introduced by the end of June.

APPENDIX B: SIGNIFICANT GOVERNANCE ISSUES cont.....

Ref	Gaps in 2015/16	Improvement Action	Responsible Officer	Timescales	Position at 31 March 2016 & Commentary
5.	IA 15/16 256 There should be appropriate arrangements put in place to ensure that the Belle Vue Square ground floor alarm is set in any absence of the Caretaker	Appropriate zoning for alarms required / arranged for BVS.	Facilities Manager	March 2016	The Council has a number of alarms from different suppliers across its property portfolio. The intention is to rationalise them. In the interim a meeting with the BVS alarm company has been arranged and an order placed to alarm the Registrars Zone whilst a practicable solution is sought to keep flexibility of access in other areas.
6.	IA 15/16 257 Cabinets containing personal data should be locked at night	Staff reminder issued via core brief. Staff training via e-learning. Policies updated. Approval of Information Management & Governance Strategy	ICT Manager	September 2016	This recommendation will be completed during the current financial year.
7.	IA 15/16 259 Arrangements should be made to ensure that any data of a personal and/or sensitive nature held in the chapel office is stored securely	Staff reminder issued via core brief. Staff training via e-learning. Policies updated. Approval of Information Management & Governance Strategy	ICT Manager	September 2016	A review of filing storage has been undertaken and VDU screens relocated. Locked storage alternatives are now being considered.
8.	IA 15/16 261 Arrangements should be made to ensure that any data of a personal nature held in the TIC should be stored securely	Staff reminder issued via core brief. Staff training via e-learning. Policies updated. Approval of Information Management & Governance Strategy	ICT Manager	September 2016	This action has been implemented, but compliance will be confirmed by July 2016.
9.	IA 15/16 263 The security and condition of the Engine Shed Lane archive store should be assessed in terms of its adequacy for data storage and appropriate action taken	Visit by Information Governance Officer and recommendations proposed.	ICT Manager	March 2016	Review is currently in progress and will be completed in 2016.

Through the actions referred to above, we propose, over the coming year, to address the issues that have been identified, with a view to further enhancing our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and we will monitor their implementation and operation as part of our next annual review.

Signed

Signed

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Councillor C Harbron
Chairman of the Audit & Governance
Committee

.....

Paul Shevlin
Chief Executive

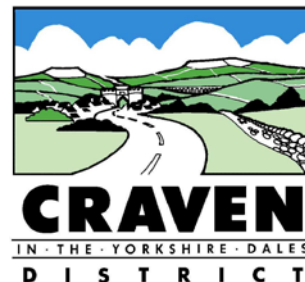
SIGNIFICANT GOVERNANCE ISSUES					
Ref	Gaps in 2015/2016	Improvement Action	Responsible Officer	Timescales	Progress at 31 March 2016 & additional comments
Asset Management Plan (AMP) 2011-2015 & Corporate Peer Challenge June 2012					
1.	The AMP recommends reviewing the disposals policy during the plan period (2011/15), taking any adopted and approved changes through the appropriate channels. The Corporate Peer Challenge recommends that growth of the capital reserve would be partly met through more co-ordinated management of assets.	As part of the review of the Disposals Policy, to formally adopt and implement a protocol for the disposal of land and property at an undervalue.	Director of Services	31 March 2013 revised to March 2016	Completed The Council has approved an Asset Management Plan setting out a structured process to ensure the Council's assets are fit for purpose and increase its capital reserves through managed disposals, this includes disposals at undervalue which are treated on individual merits. Monthly meetings are held with lead member for Assets to report on progress against the plan and performance monitored on a quarterly basis as part of the overall budget monitoring process. s123 of the Local Government Act 1972 gives guidance on the disposal of assets at undervalue. Circular 06/03:Local Government Act 1972 general disposal consent (England) 2003 disposal of land for less than the best consideration that can reasonably be obtained, gives further guidance
Report C2/7 – Data Handling IA 2013/14					
2.	IA 13/14 059: A strategy should be compiled as to the most appropriate way in which to carry out a Council wide review of all data	An Information Sharing Agreement (ISA) template has been added to the intranet. SLT have been instructed to complete this for all data sharing	ICT Manager	31 December 2012. Date revised to March	The Information Management and Governance (IMG) Strategy has now been completed, this includes arrangements for a review of all data sharing arrangements operated by the

	sharing, and arrangements put in place to promptly address this to ensure compliance with the guidelines	documents. A log has been compiled in order to centrally record ISAs in place. This will be reviewed annually		2015	Council. A data sharing protocol with partners across North Yorkshire has been signed by the Council (which puts a formal framework around new arrangements for information sharing with partner signatories in the County). All staff have been made aware of the ICO's data sharing checklist. Implementation of the Strategy will be monitored and reviewed by the newly established Information Management Group.
C3/5 Data Handling Members IA 13/14					
3.	IA 13/14 103: IS security responsibility document to be devised for Members and agreement to abide by conditions obtained	Acceptable usage forms have been issued to all Members for signature. Two remain outstanding at 19th March. These Members will be reminded in the new year. This will now be escalated to the Member Services Manager.	Information Services	December 2013. Date revised to November 2014.	All newly elected members are required to sign the Council's revised Acceptable Usage Policy before ICT equipment is issued. The signed copies are retained centrally. This is routinely enforced.
4.	IA 14/15 152 The electronic records and the EDRMS phases of the Information Management Project should be progressed.	An approved project plan is now in place. Project plan developed.	ICT Manager	December 2014	A Records Management policy has been introduced, and where appropriate, electronic records are maintained in addition to paper documents. The new facilities manager has undertaken a review of Council archives and these are being rationalised. Arrangements have been introduced to centralise all requests for information made under the DPA. A full suite of information-related policies and guidance is being developed, which will mitigate the risks originally identified in the audit

					recommendation. No further action is recommended at this time.
5.	IA 14/15 153 A Records Management Policy covering all formats, which is clearly owned at an appropriate level, should be produced, approved, appropriately communicated Council wide and training provided. Compliance with the Policy should be monitored.	A Records Management Policy is being written. It will be approved and published by 31st March 2015. The training element will be addressed by the Information Governance Project.	ICT Manager	March 2015	The Records Management Policy has been approved and published. Information rights awareness training is being undertaken for new staff, and we are reviewing the arrangements for existing officers. Compliance with the policy will be monitored on an on-going basis, and compliance activities have been covered in the IMG Strategy's Delivery Plan referred to above.

Audit & Governance Committee – 21 June 2016

Sector Led Body For Appointment of External Auditors – Update



Report of the Strategic Manager – Financial Services (s151 Officer)

Ward(s) affected: All

1. **Purpose of Report**

- 1.1 To update Audit and Governance Committee on the proposal from the Local Government Association (LGA) that Public Sector Audit Appointments Ltd (PSAA) is appointed as the sector-led body to procure future External Audit contracts for local government.

2. **Recommendations**

- 2.1 Members are recommended to note the report

3. **Background**

- 3.1 In August 2010, the Secretary of State for Communities and Local Government announced plans for new arrangements to audit local public bodies in England. The Government consulted widely and worked with a range of partners to develop and refine its proposals. The Local Audit and Accountability Act 2014 which received Royal Assent in January 2014 lead to the abolition of the existing regime which included the Audit Commission.
- 3.2 The closure of the Audit Commission on 31 March 2015 heralded the start of the process of devolving the responsibility for making external audit appointments to all local public bodies including all classes of local authorities, police (CC and OPCC), fire and rescue bodies (where separate), waste disposal, transport authorities and executives, together with relevant NHS bodies.
- 3.3 Initially transitional arrangements were put in place until 31 March 2017. Public Sector Audit Appointments Limited (PSAA) an independent company established by the LGA was set up to manage the existing appointments.
- 3.4 The Council is currently audited by Mazars LLP who were appointed as the Council's auditors upon the closure of the Audit Commission.
- 3.5 The transitional arrangements were due to expire when the 2016/17 audits are complete (i.e. by March 2018). On 5 October 2015 the Secretary of State notified his intention to extend the transitional arrangements, larger local

government bodies will remain on current appointments contracts until the completion of the 2017/18 audits. This means new appointments will need to be made by 31 December 2017.

- 3.6 As approved by the meeting of Audit and Governance Committee on April 4 2016, and expression of interest was made on behalf of the Council for an 'opt in' to the Sector Led Body proposal from the LGA. Over 200 authorities expressed an interest.
- 3.7 PSAA responded to DCLG's market enquiry for bodies interested in becoming the sector led appointing person and has submitted an application. They are now waiting to hear from DCLG as to the next steps and timetable. It is still expected that PSAA will be specified as a sector led body by September they may or may not be the only one. Formal invitations to opt-in will be issued shortly after that. The likely deadline for opt-in will be November/December 2016. The legislation requires a minimum of 8 weeks between invitation and closure of the window to opt-in.
- 3.8 The consensus from colleagues within North Yorkshire is that a sector led body should offer the most cost effective route.
- 3.9 It is currently understood that formal opt-in will require full council approval. LGA is seeking advice on whether Council's can get 'approval in principle' in advance of the formal invitations to opt-in being received.
- 3.10 The next stage will depending on timing either be a report to this committee with a recommendation to Council or a report straight to Council.

4. Implications

4.1 Financial and Value for Money Implications

There are no financial implications associated with this report.

4.2 Legal implications

None arising directly from this report.

4.3 Contribution to Council Priorities

External Audit is part of the Governance framework of the Council which assists with the assurances required that the Council is financially resilient.

4.4 Risk Management

The Council is required to have appropriate External Auditors. A sector-led body to negotiate contracts would undertake the due diligence and other associated requirements for contract tendering and negate the need for an independent auditor appointment panel.

4.5 Equality Impact Assessment

The Council's Equality Impact Assessment Procedure **has been** followed. An Equality Impact Assessment **has not** been completed on the proposals as completion of **Stage 1- Initial Screening** of the Procedure identified that the proposed policy, strategy, procedure or function **does not have** the potential to cause negative impact or discriminate against different groups in the

community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • isolation.

5. **Consultation with Others**

None

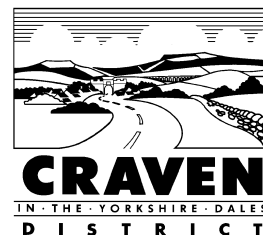
6. **Access to Information : Background Documents**

LGA & DCLG Websites

7. **Author of the Report**

Nicola Chick, Strategic Manager – Financial Services (s151 Officer)
Tel: 01756 706418, Email: NChick@cravendc.gov.uk

Audit and Governance Committee.

Exemptions granted under Contract Procedure Rules

Report of the Strategic Manager – Financial Services (s151 officer)

Ward(s) affected: All

1.0 Purpose of Report – To report on the exemptions granted from the Council's Contract Procedure Rules from January to June 2016

2.0 Recommendations –

2.1 Members are requested to note the exemptions granted from the Council's Contract Procedure Rules

3. The Report

3.1 Under the Contract Procedure Rules it is recognised that under certain circumstances there are occasions when it appropriate not to seek tenders or quotations provided that an alternative method of selection can demonstrate value for money. On other occasions quotations are sought but insufficient responses are received.

3.2 Under the contract Procedure Rules there are 5 named circumstances under which a responsible officer may seek exemption from the normal procedures.

3.3 The responsible officer seeking an exemption must obtain the prior approval of the Solicitor to the Council & Monitoring Officer and the Chief Financial Officer. The exemptions granted must then be reported to Audit & Governance Committee.

3.4 In the six month period January to end of June 2016 there have been 5 exemptions granted. A summary of the exemptions can be found at Appendix A and Members are requested to note these.

4. Financial Implications – There are no financial implications associated with this report.

5. Legal Implications – None.

6. Contribution to Corporate Priorities –

Risk Management contributes to all our Corporate Priorities by identifying hazards and ensuring adequate controls are in place to help ensure corporate priorities are achieved.

7. **Risk Management** – There are no risks arising as a direct result of this report.
8. **Consultations with Others** none
9. **Access to Information: Background Documents** – Exemption reports
10. **Author of the Report** – Carol Lee

Tel No: 01756 706271
E-mail: clee@cravendc.co.uk

Appendix A – Summary of exemptions granted under CPR 6.2

Appendix A

Summary of Exemptions granted from tendering under CPR 6.2 of Craven District Council's Contract Procedure Rules

January - June 2016

Number	Date	Description	value	Exemption
1	23 March 2016	Temporary contract for recycling of green waste	£81,000 to £90,000	6.2 (a) That only one provider is able to carry our work or service (in our area)
2	16 May 2016	Route optimisation software	£33,700 over 4 years	6.2 (d) That goods are required as partial replacement for or in addition to existing goods or installations.
3	1 April 2016	Continued appointment of Health and Safety Advisory Services	£33,600	6.2 (d) That goods are required as partial replacement for or in addition to existing goods/services or installations.
4	19 February 2016	Technical support (SASS) and ad hoc consultancy for Financial Management system	£47,700	6.2(d) That goods are required as a partial replacement for or in addition to existing goods or installations and obtaining them from another provider would result in incompatibility or disproportionate difficulties in operation/maintenance
5	1December 2015	Software support and upgrades for financial management system	£66,953 over 4 years	6.2(a) That only one provider is able to carry out work or service or to supply the goods for technical or artistic reasons or because of exclusive or proprietary rights.

Audit and Governance Committee 21st June 2016



REGULATION OF INVESTIGATORY POWERS ACT 2000

Report of the Solicitor to the Council and Monitoring Officer

1. **Purpose of Report** – To inform the Committee on the Council's use of covert surveillance under the Regulation of Investigatory Powers Act 2000 since November 2015.
2. **Recommendations** – Members are recommended to note the content of the report.
3. **Report**
 - 3.1 The Council has a number of statutory functions which involve officers investigating the conduct of others with a view to bringing legal action against them. The majority of investigations are carried out openly but some may require the use of covert surveillance techniques or involve the acquisition of communications data.
 - 3.2 The Regulation of Investigatory Powers Act 2000 (RIPA) regulates the authorisation and monitoring of these investigations to safeguard the public from unwarranted intrusion of privacy and since November 2012, the Protection of Freedoms Act 2012 has required local authorities to obtain the prior approval of a magistrate for the use of covert surveillance.
 - 3.3 At its meeting on the 9th November 2015 and in order to meet the requirements of the revised Home Office Code of Practice, this Committee resolved that the Solicitor to the Council submit six monthly reports to the Committee on the Council's use of covert surveillance.
 - 3.4 Since November 2015, no covert surveillance has been authorised.
 - 3.5 For members further information, the annual statistics return to report on the conduct and use of covert surveillance for the year ending 31st March 2016 was returned to the Office of Surveillance Commissioners on the 7th April 2016. The Council submitted a NIL return.
4. **Implications**
 - 4.1 **Financial and Value for Money (vfm) Implications** – There are no financial implications arising from this report.
 - 4.2 **Legal Implications** – These are set out in the body of the report.

- 4.3 **Contribution to Council Priorities** – Not applicable.
- 4.4 **Risk Management** – Not applicable.
- 4.5 **Equality Analysis** – The Council’s Equality Impact Assessment procedure does not apply to this report as there are no changes to any policy.
5. **Consultations with Others** – None
6. **Access to Information : Background Documents** –
7. **Author of the Report** – Annette Moppett, Solicitor to the Council and Monitoring Officer; telephone: 01756 706325; e-mail: amoppett@cravendc.gov.uk
- Note : Members are invited to contact the author in advance of the meeting with any detailed queries or questions.
8. **Appendices** – None