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PUBLIC

To: Members of Audit Committee

16 September 2019

Dear Councillor,

Please attend a meeting of the **Audit Committee** to be held at **2.00 pm** on **Tuesday, 24 September 2019** in Committee Room 3, County Hall, Matlock, Derbyshire DE4 3AG, the agenda for which is set out below.

Yours faithfully,

A handwritten signature in cursive script that reads 'Janie Berry'.

**JANIE BERRY**  
**Director of Legal and Democratic Services**

**A G E N D A**

1. Apologies for Absence  
To receive apologies for absence (if any)
2. Declarations of Interest  
To receive declarations of interest (if any)
3. Minutes (Pages 1 - 8)  
To confirm the non-exempt minutes of the meeting of the Audit Committee held on 23 July 2019

4. Strategic Risk Review (Pages 9 - 30)
5. Annual Audit Letters 2018-19 (Pages 31 - 58)
6. Treasury Management Annual Report 2018-19 (Pages 59 - 72)
7. Revenue Budget Monitoring 2019-20 (as at 30 June 2019) (Pages 73 - 90)
8. Capital Budget Monitoring to Month 3 2019-20 (Pages 91 - 98)
9. Audit Services Unit - progress against Audit Plan 2019-20 (Pages 99 - 110)
10. Audit Charter (Pages 111 - 122)
11. Role of the Head of Internal Audit in Public Service Organisations (Pages 123 - 146)
12. Local Government Governance and Accountability (Pages 147 - 154)

PUBLIC

**MINUTES** of a meeting of the **AUDIT COMMITTEE** held on 23 July 2019 at County Hall, Matlock

**PRESENT**

Councillor K S Athwal (in the Chair)

Councillors N Barker, S Brittain, L M Chilton, A Griffiths and P Murray

Officers in attendance – E Alexander, J Berry, P Handford, C Hardman and P Spencer (representing Derbyshire County Council) and J Pressley and M Surridge (representing Mazars)

**Declarations of Interest**

Councillor K S Athwal declared a personal interest in Minute No.25/19 as a Director of Derbyshire Developments Limited.

**21/19**      **MINUTES** An amendment be made to Minute No 20/19 to read: “Following concerns expressed from a Member, Mr Handford provided an update on the issues surrounding the New Waste Treatment Facility in Sinfen, Derby.”

**RESOLVED** that the minutes of the meeting held on 20 June 2019 be confirmed as a correct record and signed by the Chairman.

At the request of the Director of Finance & ICT and for ease of clarity, it was agreed that the report for the Statement of Accounts 2018-19 be received after the report of the Annual Audit Report.

**22/19**      **REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL** The Director of Finance & ICT advised the Committee that the Accounts and Audit Regulations 2015 required it to review the effectiveness of the system of internal control which:

- (a) facilitated the effective exercise of its functions and the achievement of its aims and objectives;
- (b) ensured the financial and operational management of the authority was effective; and
- (c) included effective arrangements for the management of risk.

There were two actions as part of the requirement to review the internal control system that needed to be considered:

- (i) conduct a review of the effectiveness of the system of internal control; and

- (ii) prepare an annual governance statement.

In order to provide Members with the necessary assurances around the effectiveness of the system of internal control it was appropriate to consider and reflect on the work of the Audit Committee, the assurances received from internal and external audit and evidence from the Statement of Accounts. In particular it was appropriate to refer Members to the following:

- That the Council had thoroughly reviewed its Constitution, including Financial Regulations & Standing Orders Relating to Contracts during the past year;
- The Annual Governance Statement was considered at this meeting;
- The evidence of compliance with International Auditing Standards was presented alongside the Annual Governance Statement;
- The work of internal auditors culminating in the Annual Audit Report from the Assistant Director of Finance (Audit) presented to this meeting;
- The ISA260 report presented to this meeting by the Council's external auditor Mazars;
- The detail contained within the Strategic Risk Register which had been regularly presented to Members;
- The standard and quality of the Statement of Accounts for 2018-19 and in particular the transparency illustrated by the disclosures made and the opportunity given to the Committee to discuss its contents;
- The Council's spending against budget, reserves and achievement of budget reductions were monitored on a regular basis and reported to both management, portfolio holders, Cabinet, Audit Committee and Council. In addition, the Audit Committee and Cabinet received reports detailing the Council's significant Treasury management operations; and
- Reviews of service delivery were planned and underway across the Council.

PwC concluded a review of the Audit Services Unit (reported to Audit Committee on 28 July 2014). The Public Sector Internal Audit Standards (PSIAS) required an external review to be conducted at least once every five years. PwC provided a positive view of the Unit's effectiveness and compliance with the PSIAS. Additionally, the External Auditor continued to use the work of Internal Audit to inform their assessment of the Council's significant risks.

An internal self-assessment of performance against the recommended checklist provided by CIPFA in the Local Government Application Note for the UK PSIAS had been undertaken by the Assistant Director of Finance (Audit).

The Director of Finance & ICT had reviewed the self-assessment to ensure it provided an objective, evidence based view and confirmed that it was a sound assessment of Audit's and the Council's adherence to the PSIAS. Areas for improvement were identified and would be monitored as part of wider actions from the Annual Governance Statement.

The Director of Finance & ICT also stated that he was satisfied that Audit Services achieved adherence to the standards set out in the PSIAS, and provided a sound basis from which the Council rely on the assurances provided by Audit Services in respect of the effectiveness of the internal control system. An external review of the effectiveness of Internal Audit would be conducted over the coming months ready for reporting in late 2019.

The work of Audit Services was subject to the requirements of the Unit's Audit Manual, which was regularly reviewed as part of consideration of the systems and procedures used by the Unit alongside the Quality Assurance and Improvement Programme. Cabinet had also approved the Council's "Audit Charter" as required by the PSIAS.

**RESOLVED** that the report be noted.

**23/19      ANNUAL GOVERNANCE STATEMENT AND SYSTEM OF INTERNAL CONTROL** The Director of Legal and Democratic Services informed Members of progress on the review of the County Council's compliance with Best Practice requirements in respect of the annual review of the system of internal control and the production of the Draft Annual Governance Statement (AGS). The AGS also included details of the Council's compliance with International Auditing Standards.

Cipfa/Solace had produced a framework Delivering Good Governance in Local Government which was supplemented by an Application Note specifically developed to advise on Cipfa's Statement on the Role of the Chief Financial Officer. The framework outlined the approach to reviewing existing governance arrangements and an Annual Governance Statement. The Draft Annual Governance Statement for 2018-19 was attached at Appendix 1 and was included in the pre-audit accounts reported to Audit Committee on 20 June 2019.

A Governance Group was established to conduct an ongoing review of key systems and processes operated within the County Council to ensure that they deliver effective Corporate Governance. This was undertaken utilising an objective assessment process prescribed by the Cipfa/Solace framework, which provided a checklist of best practice standards against which compliance can be assessed. The Annual Governance Statement once approved would be included in the Council's post audit Statement of Accounts for 2018-19.

The External Auditors had specific duties placed on them under International Auditing Standards relating to fraud in the audit of financial

statements, laws, regulation, litigation and claims; the Council's assurance was detailed in Appendix 2.

**RESOLVED** to (1) consider the information provided as evidence of the Council's effective compliance with the statutory requirement to produce an Annual Governance Statement; and

(2) recommend the AGS for inclusion in the Council's Statement of Accounts.

**24/19      ANNUAL AUDIT REPORT** The Assistant Director of Finance (Audit) presented the report outlining the work undertaken by the Audit Services Unit for the financial year 2018-19 and to update Members on the overall performance against the Audit Plan.

The Audit Services Unit discharged the Council's statutory responsibilities under Regulation 5 of the Accounts & Audit Regulations 2015, and significant aspects of the Director of Finance & ICT's statutory duties under Section 151 of the Local Government Act 1972. The Unit also worked with the Council's appointed auditors Mazars in accordance with the External and Internal Audit Protocol which was reported to the Audit Committee on 27 March 2019.

The role and responsibilities of the Unit were further clarified and reinforced in the Council's Financial Regulations and Standing Orders relating to Contracts, Anti-Fraud and Anti-Corruption Strategy, Fraud Response Plan and the requirements of the Confidential Reporting Code. The Council had approved an Audit Charter in compliance with the PSIAS.

The Annual Audit Report contained:

- an analysis of planned and actual audit activity for 2018-19;
- an analysis of reports issued, assurance levels and recommendations made and agreed;
- productivity statistics;
- areas of good practice identified and areas for improvement;
- client satisfaction indicators for the Unit; and
- the Assistant Director of Finance (Audit)'s formal controls assurance statement and opinion which contributes to the Council's Annual Governance Statement.

The PSIAS required that the "chief audit executive (Assistant Director of Finance (Audit)) must deliver an annual internal audit opinion and report that would be used by the organisation to inform its governance statement. The opinion concluded on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report also included a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

The Opinion was as follows:

“I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the Council’s internal control framework.

In my opinion whilst some critical/high priority recommendations have been made to address potentially significant or serious weaknesses and/or evidence of a level of non-compliance with some controls identified, the Council’s framework of governance, risk management and control is basically sound. Audit Services’ staff have worked with Senior Management to agree appropriate corrective actions and a timescale for improvement which are incorporated into relevant action plans. Should these weaknesses remain unaddressed they may result in continued, significant control failure which in turn could increase reputational risk, potential for financial loss and/or incur financial penalty.

As of this date I am satisfied that there are no matters which would cause the External Auditor to consider any qualification of his certification of the Council’s Statement of Accounts”.

**RESOLVED** that the Committee (1) consider the detailed Annual Audit Report for 2018-19; and

(2) note the overall quality of the performance of the Audit Services Unit during the period.

**25/19      STATEMENT OF ACCOUNTS 2018-19** The Accounts and Audit Regulations 2015 require the Director of Finance & ICT to certify the pre-audit Statement of Accounts by 31 May and the Audit Committee to approve the post-audit version by 31 July. The certified pre-audit Statement of Accounts were submitted to the Council’s external auditors, Mazars, on 31 May 2019. At Audit Committee on 20 June 2019, a detailed presentation, followed by a Question and Answer Session, took place to explain the Statement of Accounts in more detail and respond to any particular questions which Members had.

Under the Local Audit and Accountability Act 2014 (Sections 25 to 28) and the Accounts and Audit Regulations 2015 (Regulations 10, 14 and 15), the Council’s accounts for the year ended 31 March 2019 and certain related documents were made available for public inspection from 1 June 2019 to 12 July 2019, Monday to Friday. One query was received, in relation to two grants awarded under the Community Priorities Programme (CPP) and seven projects supported under the Community Leadership Scheme (CLP). The enquirer visited the Council to inspect CPP Cabinet papers and grant application forms and was interested in the grant approval and assurance process. A challenge to the accounts was received by Mazars on 11 July 2019. The elector challenged whether arrangements in place were sufficiently adequate to ensure that a grant provided under the CPP, and grants provided under the CLP,

delivered value for money. This challenge was being considered by the external auditor at the time of writing.

The core financial statements in the Statement of Accounts were listed. The approved Statement of Accounts would be reported to full Council in October. The Pension Fund Accounts would be reported to the Pensions and Investment Committee in August.

A copy of the audited Statement of Accounts was appended to the report at Appendix One. The included the Annual Governance Statement which was in draft form and was presented separately at the meeting. Details of changes made to the pre-audit Statement of Accounts were included at Appendix Two.

The International Standard on Auditing ISA 580 required the Council to provide a Management Representation Letter to the external auditors. The letter outlined the responsibilities of those charged with governance. Separate letters had been provided in respect of the Council's Accounts and the Pension Fund Accounts. These letters were yet to be finalised but drafts were included at Appendix Three and Appendix Four, respectively.

**RESOLVED** that the Committee approve the Statement of Accounts 2018-19.

**26/19      EXTERNAL AUDITOR REPORTS** J Pressley and M Surridge, representatives of Mazars presented two Audit Completion Reports: "Derbyshire County Council" and "Derbyshire Pension Fund", both for year ending 31 March 2019. The documents summarised their audit conclusion and outlined the work done and their conclusion was that the significant audit risks and other areas of management judgement remain appropriate.

For Derbyshire County Council, J Pressley/M Surridge discussed the executive summary and the status of the four areas of work:

- Financial statements - there were now shorter deadlines to work to. A letter would be sent to the Director of Finance & ICT to confirm that everything was closed off.
- Value for Money – adequate arrangements were in place to secure value for money. It was recognised that the County Council had an adequate approach and was in a stable state. Some uncertainties would be considered, with challenges facing the Council in 2020-21.
- Whole of Government Accounts (WGA) - anticipated completing their work on the WGA submission, in line with the instructions issued by the NAO, by the extended deadline. It was anticipated reporting that the WGA submission was consistent with the audited financial statements.



- Wider powers - A letter of objection to the accounts had been received. The matter was not material to the accounts and did not have an effect on the work but some investigation to be made before certificate was produced. This would be reported back to Committee.

The County Council's Statement of Accounts 2018-19 were formally noted.

J Pressley/M Surridge summarised the executive summary and the status of the three areas of work:

- Financial statements – anticipated issuing an unqualified opinion, without modification.
- Consistency Report – there was a delay in issuing the audit certificate following minor work that needs to be done.
- Wider powers – more than happy with the arrangements in place.

Some final checks needed to be completed with a recommendation regarding the reconciliation on the pensions payroll and ledger. Management were in agreement and this would avoid delays next year. Work was being completed on the pensions administration system with on-going negotiations with the software supplier.

**RESOLVED** that the reports be noted.

The Director of Finance & ICT acknowledged the work done by Mazars and thanked all for the work they had carried out.

On behalf of the Committee, the Chairman also thanked the officers involved and Mazars for their professionalism and the work they had undertaken. It was also pointed out that in order to do justice to the various reports, they needed to be made available to Members with the other Committee papers and any late reports in the future, may not be accepted by the Committee.

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**Agenda Item No: 4(a)**

**DERBYSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE**

**24 September 2019**

**Report of the Director of Finance & ICT**

**STRATEGIC RISK REVIEW**

**Purpose of Report**

To advise Members of the latest update to the Strategic Risk Register.

**Information and Analysis**

The Council undertakes regular review of risks and the latest detailed assessment of the highest ranking risks forms the Council's Strategic Risk Register which is attached at Appendix 3.

The Strategic Risk Register should be a means by which the Council identifies, monitors and manages the risks that could have a significant impact on the delivery of the Council Plan, and it should also be used to inform the budget process. Risk mitigation measures do not always involve a financial requirement, but many do, and budgetary provision, financial reserves and provisions are made accordingly, taking account of Council priorities and available funding.

The Risk Register is designed to capture strategic risk which by its nature has a long time span. The Strategic Risk Register has been reviewed by the Risk and Insurance Manager pending review by CMT and Cabinet and there are a couple of additions and a number of deletions where risks that were previously thought to impact strategically are now deemed to be more suitable at a departmental level.

CMT attended a workshop on the 25<sup>th</sup> June 2018 to assist them in identifying the key strategic risks that could impact on the Council's ability to meet their objectives. The Risk and Insurance Manager was advised at that time that a further workshop was planned at a further date to enable them to consider the risk appetite and key strategic risks in greater detail.

As agreed previously, the report has been changed so that only those risks that have changed are detailed in Appendix One. New risks are detailed in Appendix Two and the full Strategic Risk Register is included in Appendix Three.

### **Council Risk Management Strategy and Strategic Risk Update**

The Risk Strategy has been re-written to reflect the Council Plan and the need to include opportunity risks within the Strategy. This has been circulated and Cllr Foster has requested that an implementation plan be included. The Strategy incorporating the Implementation plan is due to be put to Cllr Foster in October 2019.

It is vital that risk management policies and procedures support the Council Plan and its ambitions. The management of risk must be a key part of the Council's delivery of service to assist in the delivery of these plans. Service Plans should adequately reflect the risks facing services and the management of those risks, as the Five Year Financial Plan does.

A project has been set up with input from all departmental Risk Champions to develop a risk reporting mechanism, it is envisaged that a system for reporting risks on the Council's EDM system will be in operation in early 2019. This system will link to the performance management system, APEX to give a real-time overview on the risks that the Council faces at a Strategic and Departmental level. It is envisaged that the system could also be used for project and procurement risks if required to ensure that all risks are recorded in one central repository allowing a global overview of all risks to the Council.

### **Departmental Risk Focus**

#### **Business Continuity Planning**

It has been acknowledged that a number of departments have to update their business continuity plans to reflect their current methods of working.

The effect upon the business of this could potentially be extreme and lead to delays in providing services and have an impact on income generation.

As this high risk has been flagged at the Risk Group, the Risk Champions are currently reviewing the plans that are in place and what departments need plans or need to review the plans that have been written to ensure that we can continue to deliver services should any emergency situation arise.

As part preparations for exiting the EU on 31<sup>st</sup> October 2019, workshops will be held across all departments in the forthcoming weeks to identify the key business areas that will be required to be maintained in the event of possible shortages in certain areas. This should provide the Council with some resilience in order to protect services for our vulnerable residents.

### **Transporting Children and Vulnerable Adults**

The risk of transporting Children and Vulnerable Adults is appearing on ETE, Children's and Adult's risk register, scored between 20-25 dependent upon the department.

The Risk and Insurance Manager, together with Health and Safety and Transport have been holding a number of workshops to fully consider the risks that are posed and to identify any means of further mitigating these significant risks and increasing costs to the Council.

As background, the Council outsources this provision to individual companies from small taxi companies to larger providers; however this prevents a logistical and now safeguarding issue, some of which are detailed below:

- Some operators do not know how to secure wheelchairs/equipment in a safe manner meaning an increased risk of injury/death to service users.
- Circa 50% of contractors vehicles checked did not pass safety inspections.
- Inability to control/provide adequate training and disciplinary action if required.
- Inability to ensure correct equipment is being used.
- Lack of continuity of drivers/passenger assistants creating safeguarding issues.
- Some companies do not follow guidelines required creating safeguarding issues – i.e. not providing trained passenger assistance.
- Some companies do not understand the requirement to keep data safe.
- Rising number of children and adults requiring transport is increasing thereby increasing costs.
- Increasing number of children and adults with complex specialist needs with not enough providers to meet needs or having to accept reduced provision.
- Due to the large volume of vehicles that require checking as well as internal fleet vehicles that ETE will still be responsible for, it will prove

very difficult to ensure that the vehicles used are fit for purpose without additional capacity provided.

The review has been completed and a larger piece of work identified to cover a number of different work streams to identify a potential solution to the risks posed.

### **Strategic Risk Horizon Scanning**

A number of Strategic Risks are on the horizon that may require a long term approach and consideration, and the Risk and Insurance Manager feels that further discussion is given to both risks and opportunities that present from:

- Climate Change
- The Internet of Things
- Artificial Intelligence

### **Considerations**

In preparing this report the relevance of the following factors has been considered:- financial, Legal and Human Rights, equality of opportunity, health, environmental, transport, property and crime and disorder considerations.

### **Officer's Recommendation**

That the report be noted.

**PETER HANDFORD**  
**Director of Finance & ICT**

## Strategic Risk Register – Summary of Changes

### New Risks

The risk register has been updated to account for the new Council Plan priorities and values.

There are three new risks identified during this period stemming from recurrent risks appearing across departmental risk registers. CMT have been requested to allocate a lead for each of these new risks.

<b>Risk Identifier</b>	<b>Description</b>	<b>Score</b>	<b>Comments</b>	<b>Link to Council Plan</b>
2018/04 Page 13	Failure to recruit and retain staff. Lack of succession planning	20	<p>This risk is appearing on all Departmental Risk registers and therefore it is appropriate that the Council identifies this as having a potential impact upon the Council as a whole and a centralised plan put in place to mitigate this risk.</p> <p>CMT and the Risk Champions will be asked to consider this risk and mitigating actions as an agenda item. CMT is requested to allocate the risk to an appropriate member of CMT for oversight.</p>	<ul style="list-style-type: none"> <li>High performing Council Services</li> </ul>
2018/04	Lack of knowledge and understanding of legislative requirements	25	<p>Following meetings over a number of weeks with a few departments, it would appear that there is a lack of knowledge as to what is required to fulfil our statutory duties. Due to the serious nature of the issue, it is requested that CMT ensure that all departments have a full understanding of all of their statutory duties and have an action plan to ensure that this knowledge is maintained and updated appropriately to ensure compliance.</p>	<ul style="list-style-type: none"> <li>High performing Council Services</li> </ul>

			CMT and the Risk Champions will be asked to consider this risk and mitigating actions as an agenda item. CMT is requested to allocate the risk to an appropriate member of CMT for oversight.	
2019/01	Brexit Planning	15	The Council needs to understand the potential impact on the delivery of services and upon service users whether the service is provided internally or commissioned externally.	<ul style="list-style-type: none"> <li>High performing Council Services</li> </ul>

## Changes to risks already on the Strategic Risk Register

### Scores

There have been two changes to the scores since the last register was seen by CMT.

Dep't Risk Identifier	Description	Impact	Old Score	New Score	Impact on Council Plan
2011/2	Failure to meet waste management targets	High financial and reputational impact due to the delay and difficulties surrounding the Sinfin project	20	25	<ul style="list-style-type: none"> <li>Value for money</li> </ul>
2011/18	Provision of services to schools	<p>All services fully trading or partly trading with schools are under pressure to continue to achieve reductions in costs as well maintain or increase income. The reduction in resource could lead to impaired service delivery.</p> <p>Customer expectations of price/quality/responsiveness are raised and this will place services under more pressure.</p> <p>There is increasing competition from the private sector which could result in a loss of income.</p> <p>As more schools convert to academies there will be a loss</p>	12	16	<ul style="list-style-type: none"> <li>High performing Council Services</li> </ul>



		of grant and a potential loss of income. If schools budgets are flat or decrease this will have an impact on their ability to buy council services, therefore a further decrease in income.			
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**Mitigations**

Some of the mitigations/comments have changed and are highlighted in red within Appendix 3.

**Summary of Risks Which Will No Longer Appear on the Register**

None

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## Departmental Risk Registers

### New Risks on Departmental Registers scoring over 12

Dept	Dept Risk Identifier	Description	Impact	Score	Link to Strategic Risk	Impact on Council Plan
Public Health	PH 12/18a	Reduced level of senior team staffing complement due to vacancy	Reduced capacity at senior management level could result in errors and omissions due to increased workload	12	2018/04 Staff Recruitment	<ul style="list-style-type: none"> <li>High performing Council Services</li> </ul>
Adult Care Page 16	TBC	Structural surveys of 18 DCC Residential Care homes for Older people to be completed to establish capital requirements to maintain buildings to current standards	Preliminary surveys of 4 homes have provided individual costs of £9m requirement over the next 5 years.	15	2012/2 Maintenance of assets	<ul style="list-style-type: none"> <li>High performing Council Services</li> </ul>
Childrens Services	47	Failure to plan/manage impact of Brexit	Failure to plan/manage impact of Brexit leads to short-term delivery failure of key services / care for children and young people e.g. school meals, children's homes, starting point	15	2019/1 Brexit Planning	<ul style="list-style-type: none"> <li>High performing Council Services</li> </ul>
Adult Care	17	Financial and Reputational Damage following CQC prosecution	Potential significant fine and media scrutiny. Increased focus of CQC and LGO on the Council	15	2011/9 Protection of Children and Vulnerable adults	<ul style="list-style-type: none"> <li>A focus on prevention and early intervention</li> </ul>

Childrens Services	48	Section 75 Agreement - 0-19 Service Redesign	<p>Risk that reductions in service capacity to support 5-19 age group adversely affects prevention and targets early intervention for this age group, leading to escalation of need. Risk of reduced health engagement into child protection processes.</p> <p>Risk that focus of service is not sufficiently clear/realistic leading to staff not being able to meet demands.</p>	12	2011/9 Protection of children and vulnerable adults	<ul style="list-style-type: none"> <li>A focus on prevention and early intervention</li> </ul>
ETE Page 17	2018/02	Risk of not maintaining Department for Transport Incentive fund Band 3 status.	Failure to retain Band 3 would result in a budget reduction of £1.591m in 2019/20 and £2,227m in 2020/21	12	2012/2 Maintenance of assets	<ul style="list-style-type: none"> <li>High performing Council Services</li> </ul>
ETE Page 17	2019/01	Associated risk of Brexit and implications on business and council services	Increased costs for delivery of services. Potential shortfall in supplies such as petrol	15	2019/1 Brexit Planning	<ul style="list-style-type: none"> <li>High performing Council Services</li> </ul>
CCP	56	Library Strategy	<p>Inability to achieve major changes to service delivery within the required timescale due to resistance to change, potentially low levels of engagement by and with community organisations and long lead in times to achieve changes to staffing structures. Resulting in a delay in meeting required savings targets.</p>	20	2011/1 Impact of a prolonged recovery and funding gap	<ul style="list-style-type: none"> <li>High performing Council Services</li> </ul>

CCP	57	Domestic Abuse Support Service	The contract for the Domestic Abuse Support Service, which includes adult outreach, refuge provision and childrens support services comes to an end in March 2020 and a new service will need to be commissioned over the next 12 months. Funding from all internal stakeholders has not yet been agreed and any delays may impact the procurement timetable. If funding contributions are reduced the impact on the service will have to be addressed and will be subject to public consultation.	16	2011/1 Impact of a prolonged recovery and funding gap	<ul style="list-style-type: none"> <li>• A focus on prevention and early intervention</li> </ul>
CCP	58	Library Self Service procurement	The library Service currently uses 43 self-service machines in 25 of the larger and busier libraries which are now out of date and need replacing. The self-service machines reach the supplier's 'end of life' for contracted support and maintenance in August 2019. The supplier will continue to offer ad hoc support arrangements but further advise that they do not intend to support these machines beyond expected end of support for Windows 7 in Jan	15	2011/19 Effective Change Management	<ul style="list-style-type: none"> <li>• High performing Council Services</li> </ul>

Page 19			2020. The procurement project is due to complete in July 2020 leaving machines unsupported between Jan and July 2020			
	CCP	59	Community Managed Libraries(CMLs)  The initial proposal for CMLs was to sublet the property to the community group or organisation. There are now discussions around community organisations taking over the lease from DCC. If, after a period of time, the community group failed or service notice to the library service, DCC may not have access to a building or property to continue to provide a library service from	12		<ul style="list-style-type: none"> <li>Empowered and self-sufficient communities</li> </ul>

### Risks on Departmental Registers Increasing scoring above 12

Dept	Dep't Risk Identifier	Description	Impact	Old Score	New Score	Link to Strategic Risk	Impact on Council Plan
Public Health	PH8/18	Lack of signed contract with Northamptonshire County Council to provide Ocitgo IT solution. System will no longer be available after 31.03.19	DCC will not be indemnified in respect of a breach of data; system cannot be used for reporting.	15	25	2012/1 Information Governance, Cyber and Social Media	<ul style="list-style-type: none"> <li>High performing Council Services</li> </ul>

Public Health	PH05/15	Difficulties in accessing NHS and public health information due to new organisational arrangements and information governance barriers	Potentially resulting in inappropriate resource allocation or commissioning decisions based on incomplete data.	9	12	2012/1 Information Governance, Cyber and Social Media	• High performing Council Services
ETE	2017/7	Failure to meet waste management targets following delays in completion of the Household Waste Recycling Centers in Derbyshire	Financial and potentially reputational should the centre fail to be commissioned	12	25	2011/2 Failure to meet waste management targets	• High performing Council Services.
CCP Page 20	01	Maintaining (including servicing) and providing property in safe, adequate and suitable condition.	Risk of breach of Duty of Care under the Health & Safety at Work Act 1974 leading to prosecution of Officers under the Corporate Manslaughter and Homicide Act 2007 to employees and others working for us, occupiers of premises owned by us and the wider public.  High risk that damage to property or injury death to service users/public/staff will be uninsured	16	20	2012/2 Maintenance of Assets	• High performing Council Services.
CCP	28	Traded Services non-Schools: All services fully or partly trading are under pressure to continue to	The reduction in resource will lead to impaired service delivery. and a potential reduction in traded income.	9	12	2011/18 Provision of services to schools	• High performing Council Services

		achieve reductions in costs as well maintain or increase income					
CCP	29	Traded Services Schools: All services fully or partly trading are under pressure to continue to achieve reductions in costs as well maintain or increase income	The reduction in resource will lead to impaired service delivery and a potential reduction in traded income.	<b>12</b>	<b>16</b>	2011/18 Provision of services to schools	<ul style="list-style-type: none"> <li>High performing Council Services</li> </ul>

Category	Risk Identifier No	Risk Description	Dept	New Score			Previous Score			Change	Mitigation - Current Comments	Link to Council Plan	Risk Owner
				Impact	Likelihood	Previous Score	Impact	Likelihood2	Current Score				
Financial	2011/1	<p><b>UPDATED Impact of a prolonged recovery and a funding gap</b></p> <p>A prolonged, slow recovery to the economy is likely. The Authority is faced with rising demand for its services countered by a dramatic fall in funding and income - creating a potentially significant "funding gap". This mismatch between service demand and budget availability could lead to an increase in financial instability. Pressure is also present between "demand-led services" (eg social care) and other priorities.</p>	ALL	5	5	25	5	3	15	DOWN	<ul style="list-style-type: none"><li>• Five year plan (2016/7 to 2020/21) in place and reflects planned use of General Reserves to support demographic needs (Adult Care) in the medium term.</li><li>• Departmental budget reductions programme developed together with a plan of lead-in times for consultation, where appropriate, and the identification of workforce reductions.</li><li>• General/Earmarked Reserve positions risk assessed, regularly monitored, and reported to Cabinet.</li><li>• Priority based budgeting model in place. with development of departmental financial modelling systems.</li><li>• Budget monitoring processes and procedure embedded (including planned "budget holder monitoring" roll-out.</li><li>• Regular reporting to Members and briefing about potential implications of non-achievement of cuts.</li><li>• 'Lean thinking' review of Council wide processes including service redesigns.</li><li>• Improved models of work across organisations to reduce duplication.</li><li>• Engagement and communication with key stakeholders and Local Area Committees.</li><li>• Property rationalisation – including work with district and health colleagues</li><li>• Positive use of Better Care Fund and alignment of health and social care priorities for integrated working.</li><li>• Established "Fairer Deal for Derbyshire" campaign.</li><li>• Active in all public consultations and continued Government lobbying.</li><li>• Maximising alternative funding streams (ie. Combined Authority).</li><li>• Utilise asset based approaches to develop social capital, helping to build natural communities of interest away from services.</li><li>• Four year funding offer from Government to be considered to help support the development of a robust medium term financial plan</li><li>• Additional budget of approximately £5m per annum for Adult Care from the Adult Social Care Precept</li><li>• Prioritisation process plus underspends on Public Health contracted activity in 2015-16 have resulted in non-recurrent reserves of approximately £2.6m for investment in prevention interventions.</li><li>Allocation of prevention funding to be agreed via panel process May 2016.</li><li>• Spending review 2019 has given indication of significant additional funding alongside a clear indication of revised saving plans as part of the latest Five Year aplan indicators.</li></ul>	Value for money	ALL
Financial	2011/18	<p><b>UPDATED Provision of services to schools</b></p> <p>All services fully trading or partly trading with schools are under pressure to continue to achieve reductions in costs as well maintain or increase income. The reduction in resource could lead to impaired service delivery.</p> <p>Customer expectations of price/quality/responsiveness are raised and this will place services under more pressure.</p> <p>There is increasing competition from the private sector which could result in a loss of income.</p> <p>As more schools convert to academies there will be a loss of grant and a potential loss of income.</p> <p>If schools budgets are flat or decrease this will have an impact on their ability to buy council services</p>	ALL	4	3	12	4	4	16	UP	<ul style="list-style-type: none"><li>• Schools funding consultations have awareness of implications for trading.</li><li>• Assistant Director, Traded Services &amp; co-ordinating team in post to provide capacity &amp; oversight.</li><li>• Schools Trading Governance including Cabinet /CMT /Departmental leads in place.</li><li>• of council systems to support schools trading including infrastructure.</li><li>• better promotion of council services.</li><li>• Customer relationship management in place through networks and communication although needs improving.</li><li>• customer data and information to support sales strategies are being developed.</li><li>• Development of links with other councils to seek regional responses to MAT's.</li><li>performance of school services is being developed</li></ul> <div>• Raised profile of schools trading through CMT and elected members.</div> <div>• Ongoing review</div> <div>• Sales platform in place to ensure</div> <div>• Effective live &amp; annual feedback systems in place for customers.</div> <div>• Systems to capture customer data and information to support sales strategies are being developed.</div> <div>• Monitoring of sales</div>	High performing council services	Angela Beighton
Financial	2011/10	<p><b>UPDATED Looked after Children</b></p> <p>An increase in Looked After Children (LAC) numbers and therefore costs - due to increasing demand pressures mirroring national trends, UASC, reductions in Early Help Services and rising placement costs.</p> <p>A reduced capacity to identify and address emerging needs early on runs the risk that vulnerable children's issues will escalate with potentially an increased number being admitted into our care.</p> <p>Currently Derbyshire has 40 50 LAC per 10,000 children which is very low compared with 55.5 for our statistical neighbours</p>	CS	5	4	20	5	4	20	—	<ul style="list-style-type: none"><li>• Continue to highlight pressures and risks to central Government via ADCS.</li><li>identified to increase social work capacity to strengthen ongoing work with families to avoid situations escalating for some children who might otherwise come into care.</li><li>• Delivery of LAC sufficiency project to increase placement availability and reduce costs.</li><li>recruitment and support to foster carers.</li><li>Social Research to increase the number of children who can be safely reunified with family.</li><li>services especially where services have reduced.</li><li>young people in care to return home to family</li><li>• Mitigate impact from Early Help review via 3 year transition team to support partners in developing their Early Help practice</li></ul> <div>• Growth funding</div> <div>• Ongoing</div> <div>• Project with Dartington</div> <div>• Closely monitor impact of Early Help</div> <div>• To strengthen practice on reunification i.e. encouraging</div>	A focus on prevention and early intervention	Allison Noble



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Financial	2011/12	<b>Continuing Healthcare</b> Tighter interpretation of eligibility to NHS funded Continuing Care (and changes in NHS at national/local level) resulting in some people with complex additional care needs, including challenging behaviour, becoming Council's funding responsibility.	AC	5	4	20	5	4	20	—	<ul style="list-style-type: none"><li>DCC Senior Management representation established on Board of 4 out of 5 Clinical Commissioning Groups covering Derbyshire.</li><li>Escalate Continuing Healthcare discussions</li><li>Establish joint funding and lead commissioning priorities</li><li>Agree with CCGs how to review clients affected.</li><li>On-going work to establish joint solutions approach across agencies.</li><li>Contributing to ADASS/LGA/NHS review of process to establish shared tools</li><li>Social Work teams enhanced to establish 7 day working capability via Care Act Grant monies</li><li>Increased frequency of escalaiton discussions</li><li>Improve flow across all services</li><li>Explore development of joint commissioning strategy and ppoled budget for Learning Disability Services to minimise focus on co-ordination to ensure better value for money</li></ul>	Value for money	Roger Miller
Government Modernisation Agenda	2011/19	<b>Effective Change Management</b> The Council is undergoing significant organisational change which will create significant workforce issues around having the right skills, productivity and capacity, each of which may adversely impact upon service delivery if not managed. The effect of reducing the Council workforce and pressure for increased productivity without effective change management and employee engagement also carries health and attendance risks.	ALL	4	5	20	4	5	20	—	<ul style="list-style-type: none"><li>As part of service planning, build a definitive workforce reduction plan to achieve the budget reductions</li><li>Ensure that any Employee Communication Strategy is able to support the workforce reduction programme, maintaining and improving levels of engagement</li><li>Ensure HR resources are effectively deployed to support the change programme</li><li>Put in place a workforce development plan which includes plans to :<ol style="list-style-type: none"><li>Develop management capacity and capability through a Leadership Development programme (Derbyshire Manager)</li><li>Ensure that My Plan is effective so that employees' objectives support changing service needs and that skills development plans are in place to support new ways of working</li><li>Improve provision of L&amp;D processes (L&amp;D Review) and ensure an effective programme of reskilling is in place to support workforce realignment</li></ol></li><li>Put in place an HR/OD Strategy which includes plans to<ol style="list-style-type: none"><li>Mitigate compulsory redundancies, improve redeployment and talent management through the timely development of an Internal Jobs Market</li><li>Enable increased flexibility and support remodelling of the workforce by implementing remaining job families and contracting employees with the Council rather than departments</li><li>Use the Organisational Design principles effectively in developing new structures</li><li>Review employment policies and market positioning</li></ol></li><li>Ensure that appropriate Counselling Service capacity is in place to support possible increased demand.</li><li>Review cross council processes to ensure they are lean and effective</li><li>IIP accreditation and action plan implementation.</li></ul> <div>• Ensure Enterprising</div> <div>• Looking at how consistent change</div> <div>Council priorities are at the heart of change management activity</div> <div>management is applied across the Council</div>	High performing council services	ALL
Government Modernisation Agenda	2011/22	<b>Central Government Reforms</b> Demand on the integration and alignment agenda and increased expectation of partnership working combined with continued organisational change. Potential funding dependent upon performance targets being met. Examples include NHS reform and the establishment of Better Care Fund to advance integrated reform of health and social care. Opportunities are presented by working in Combined Authority and LEP structures.	ALL	5	5	25	5	5	25	—	<ul style="list-style-type: none"><li>Corporate Partnership Protocols.</li><li>Continued dialogue with all partners to ensure a collaborative approach to improving outcomes for all young or looked after individuals. Agreed (Adult Care) each organisation will monitor the schemes they are leading on.</li><li>Alignment of Adult Care and Health &amp; Wellbeing Boards. Governance structure being established to report to Health and Wellbeing Board.</li><li>Continuing engagement with developing Clinical Commissioning Groups</li><li>Commissioning of Children and Adolescents Mental Health Service is being rolled out.</li><li>Engagement of all stakeholders in the process. Stakeholder and Provider Engagement Forums established.</li><li>Joint agreement on plans to deliver BCF outcomes.</li><li>Joint Health and Wellbeing Strategy refreshed in 2014.</li><li>Escalated joint working with acute hospitals and CCGs. Incorporate service added targets.</li><li>Joint commissioning priorities refreshed for 2014/15.</li><li>Whole system dialogue and contribution to Better Care Fund development.</li><li>Incorporate of service targets into CCG performance targets.</li><li>Escalate CHC discussions to Assistant Director level when necessary.</li><li>Combined Authority working represents opportunities for freedoms and flexibilities in relation to securing the prosperity of the area and to be involved in devolution discussions.</li><li>Working with the Local Enterprise Partnership, for which DCC is the Accountable Body, will ensure we are in a position to take advantage of funding streams that are distributed via the LEP, particularly in relation to transport, infrastructure and economic growth.</li></ul>	Value for money	Roger Miller, Linda Dale

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Regulatory & Legislative Failures	2011/21	<b>Collective Challenge under Judicial Review</b> The Council is exposed to possible challenges over decisions on continuation of some services in the face of budgetary restrictions if it fails to incorporate key considerations.	ALL	4	3	12	4	3	12	—	<ul style="list-style-type: none"><li>• Projections in Joint Strategic Needs Assessment helps providers plan for the future.</li><li>• Equality Impact Assessments supporting decision making process.</li><li>• Appropriate relevant consultation.</li><li>• Stakeholder consultations</li><li>• Compliance with good project management guidance</li></ul>	Value for money	ALL
Emergency Response & Service Continuity	2011/20	<b>UPDATED Supply Chain Failure</b> In a prolonged recession and slow recovery, supplier instability in particular, is certain to increase and the new Care Act increases responsibility to monitor supplier resilience. The Council may also be faced with the failure of suppliers to meet expectations. Private sector arrangements may be challenged by a tension between the profit motive and the public service ethos. <b>The potential implications of a disorderly Brexit could also affect the supply chain.</b>	ALL	5	5	25	5	5	25	—	<ul style="list-style-type: none"><li>• Development of joint commissioning arrangements.</li><li>• Enhance contractual negotiations with expectation of business continuity plans in place.</li><li>• Further development of risk based contractual negotiations.</li><li>• Strengthening of commissioning processes. Maintain Associate Commissioner status with Clinical Commissioning Groups for 2015/2016 contracts.</li><li>• Regular monitoring meetings with Derbyshire Community Health Services.</li><li>• Use of regulatory data and market analysis information.</li><li>• Transparency about placement information helps providers plan for the future.</li><li>• Plans to develop sector wide approaches and innovative approaches to delivering health support in care homes - locally and at county level.</li><li>• Identifying ownership of all providers in Derbyshire to better understand financial positions.</li><li>• Joint strategic work with councils</li><li>• Include governance standards into contract specifications.</li><li>• Communicate with market about gaps by developig a full range of market position statements.</li><li>• Promoting use of direct payments and direct care to support areas of deficiency.</li><li>• Broaden provider range.</li><li>• Develop responses with health commissioners to maintain capacity</li><li>• Consolidate specialist social worker input to compliance team to supplement and improve effectiveness of social worker contributions to reducing safeguarding concerning the adult social care sector.</li></ul> <p><b>Brexit mitigation is being co-ordinated within the Council</b></p>	High performing council services	ALL

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Government Modernisation Agenda	2011/8	<p><b>Implementation of Self Directed Support in line with the Personalised Care Agenda</b></p> <p>The Council is required to ensure people have real control over the resources used to secure their care and support. The Council faces challenges including in (a) meeting Direct Payment targets, (b) people not choosing our "in-house" services and (c) new responsibilities for prisoners.</p>	AC	4	4	16	4	4	16	—	<ul style="list-style-type: none"> <li>Continue Self Directed Support as the main delivery approach within Adult Care.</li> <li>Continue Self Directed Support training programmes.</li> <li>Trusted Befriending Scheme is established</li> <li>Adopt a personalised care approach within all Council departments.</li> <li>Develop self-directed care strategy and robust preparation</li> <li>Trusted PA Reigster in place.</li> <li>Implications of increased complexity of casework being handled and the specific requirements of the Mental Capacity Act 2005 , Deprivation of Liberty Safeguard regulations and recent legal judgements has resulted in increase in probability score.</li> <li>Established Direct payments performance and standards group.</li> <li>Assessment and decision making tools reviewed and updated continuously.</li> <li>Projections of potential demand fr self-funded carers, assessments in prison and advocacy.</li> <li>Review Assessment Pathway under continuous review</li> <li>Investment in social work training.</li> <li>Specific investment to create specialist response to prisoners.</li> </ul>	Empowered and self-sufficient	Roger Miller
Regulatory & Legislative Failures	2011/2	<p><b>UPDATED Failure to Meet Waste Management Targets</b></p> <p>The Council is faced with challenges of presenting alternatives to landfill whilst considering environmental impact, increasing financial costs and reputational impacts arising from decisions over types of waste management employed.</p>	ETE	4	3	20	4	3	25	UP	<p>A long term waste contract with Resource Recovery Solutions (Derbyshire) Ltd (RRS), to manage residual waste and Household Waste Recycling Centres in Derbyshire and Derby, commenced in 2010. As a part of this contract a waste treatment facility was proposed in Sinfin, Derby City. After a protracted planning process, financial close was finally achieved in August 2014. The risk and economic balance of the project was comparable to that agreed when the Project Agreement was executed in December 2009 and affordability of the project was maintained. Achievement of financial close has enabled development of the treatment facility at Sinfin Lane to commence. Construction commenced in September 2014 and is continuing. The ACT technology provider went into administration. The facility was originally scheduled to be fully commissioned by April 2017, however it has failed to pass acceptance tests. <b>Following delays in construction the long stop date of the contract elapsed on 30 September 2018. The Councils issued the project funders with a FDA notice. After delivering that, they felt that there was no market to find an alternative operator of ther plant, the funders served notice on RRS that they would no longer support the project and the plant has reverted to Council ownership. Work is now underway to establish the plant's capabilities and its fair value as well as to ensure the plant is property insured.</b></p>	Value for money	Claire Brailsford
Regulatory & Legislative Failures	2012/1	<p><b>Information Governance, Cyber and Social Media</b></p> <p>The Council manages a significant amount of personal data and information in relation to service users and employees in the delivery of services using a range of systems and mediums. With data held in a vast array of places and in varying formats, it becomes susceptible to loss, protection, availability, misuse and privacy risks particularly with increased use of electronic transfer, and management (including use of the Government Public Sharing Network). The Council is exposed to financial penalties and reputational impact.</p>	ALL	5	3	15	5	3	15	—	<ul style="list-style-type: none"> <li>The Council has achieved its ISO 27001 status and work continues to maintain this accreditation.</li> <li>Independent health checks and penetration tests.</li> <li>The on-going programme of activities, such as training for employees who process personal data, regular communication and continual review and updating of security policies continues. A security breach reporting system is also in place.</li> <li>Local and regional public health information governance groups established.</li> <li>Public Health contracts to be negotiated with information access rights.</li> <li>Consider co-locating of community teams to ensure access.</li> <li>Protocols established with schools prescribing requirements for accessing Frameworki records.</li> <li>Dialogue with partners about requirements.</li> <li>Secure email account establish for each area in CAYA.</li> <li>Ongoing work to secure effective information transfer.</li> <li>Secure methods of communicating controlled and restricted data utilised as required (post, encrypted email, GCSx).</li> <li>DCC has achieved PSN Code of Connection - the practices of using GCSx (via PSN) are enforced through protocols and policies. PSN certification is reassessed annually in September.</li> <li>Memorandums of Understanding in operation to enforce/augment communication channels with external partners.</li> </ul>	High performing council services	Jo White

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Organisational Change	2011/14	<b>UPDATED Residential Care</b> The Authority faces a challenge in maximising use/potential of planned Residential Community Care Centres and extra care developments <b>as well as ensuring all residential care accommodation is maintained to a level in excess of legal expectations.</b>	AC	4	3	12	4	5	20	—	<ul style="list-style-type: none"> <li>Tight budget management at corporate and responsibility care level and within programme board.</li> <li>Monitoring of high level risk of individual projects at SMT level.</li> <li>Positive use of Better Care Fund and alignment of health and social care priorities for integrated approaches to working.</li> <li>Market management.</li> </ul> Strategic Direction for DCC Direct Care Residential Services 2015/20 Plan developed and approved by Cabinet will; <ul style="list-style-type: none"> <li>seek to consult on the closure of 5 residential care homes which are unsustainable in the long term</li> <li>ensure maximum use of Extra Care</li> <li>minimise use of Residential placements</li> <li>seek to drive down in house unit costs</li> <li>maximise funding from NHS partners</li> </ul> • Asset <b>surveys regularly completed and maintenance programmes developed and subject to robust business cases. Linked to risk 2012/2 Maintenance of Assets</b>	High performing council services	Roger Miller
Emergency Response & Service Continuity	2011/6	<b>ICT Infrastructure &amp; Systems</b> The procurement of new and replacement computer systems that meet organisation and departmental requirements. In particular; (a) The availability of systems capable of meeting complex business requirements (b) The costs associated with replacing, procuring and running systems (c) Resource capability for implementing new large scale ICT projects (d) The ability to provide technical support on what are now becoming increasingly complex systems. (e) Continuity of service during transfer to new systems. (f) The ability to satisfy internal/external security requirements (e.g. PSN / ISO 27001, CoCo etc). (g) Capacity of systems to cope with the level of demand.	ALL	4	4	16	4	4	16	—	<ul style="list-style-type: none"> <li>A new governance checklist has been developed to ensure that all the necessary approvals and funding is in place prior to project initiation.</li> <li>A communications strategy is agreed at the start of each project to ensure that all stakeholders are appropriately engaged.</li> <li>Procurements are supported by clear departmental requirements documentation.</li> <li>Close liaison with suppliers and rigorous market testing including 'Supplier Discovery Days' are used where appropriate.</li> <li>A formal project management approach with agreed roles, agreed documentation and rigorous controls.</li> <li>Rigorous testing schedules and temporary parallel running of systems.</li> <li>Project delivery process includes assessing training needs.</li> <li>Senior departmental representation on project teams.</li> <li>Replacement of strategic ICT systems incorporated in departmental planning processes.</li> <li>Continued training for ICT staff on current technologies</li> <li>Using lessons learned from past procurements to improve procurement process for other departments.</li> <li>Close liaison with client department in system design.</li> <li>Issues arising during implementation are resolved jointly with senior supplier representatives.</li> <li>Toolkit is being revised to ensure that service requirements are fully taken into account.</li> <li>Senior level discussions with suppliers to maintain dialogue and set expectations.</li> <li>improved performance management of contract compliance in conjunction with stakeholders.</li> <li>Personal email use-is not allowed.</li> </ul> devices; antivirus and other security tools are kept under review • Looking at how to improve defences against phishing. <ul style="list-style-type: none"> <li>Encryption on</li> </ul>	High performing council services	Peter Handford
Emergency Response & Service Continuity	2011/11	<b>Adapting to Climate Change</b> The Council faces a challenge in relation to an increase in inclement weather patterns (flood, heat waves, drought, windstorm, increased snow fall) building the right infrastructure and new statutory flood and water risk management duties. Having sufficient financial resources and flexibility to address these challenges may become increasingly difficult.	ALL	4	2	8	4	2	8	—	<ul style="list-style-type: none"> <li>Local climate impact profile completed and Level 1 of indicator on target.</li> <li>Completion of asset management inventory - in particular Road Gullies.</li> <li>Flood data analysed to determine priority for further investigation. Database extended as a result of recent flood incidents.</li> <li>Implemented recommendations of the Pitt Review.</li> <li>Implemented new Flooding &amp; Water Act 2010 responsibilities.</li> <li>Link to partnership (DPF) priorities (Climate Change Performance measures).</li> <li>Contribute to comprehensive risk assessment of the effect of projected future climatic changes.</li> <li>Some exchange of data with engaged planning Authorities regarding flood risk posed by future development.</li> <li>Technical Flood Risk Group comprising all Risk Management Authorities meet quarterly to resolve problems affecting residential properties, businesses or infrastructure.</li> <li>Implementation of flood response protocol for Derbyshire including all Risk Management Authorities.</li> <li>Consulting on a Local Flood Risk Strategy for Derbyshire, due to be published June 2015.</li> <li>Review DEFRA proposals for SW drainage to be the responsibility of the Planning Authorities and Derbyshire's proposed role as Statutory Consultee.</li> <li>Flood Warden schemes being developed in high flood risk areas.</li> <li>Anticipated establishment of £2 million contingency fund.</li> <li>DVMWHS Environmental research projects planned. My City, My River - Derby</li> <li>Provision and maintenance of silt traps and fuel interceptors proposed.</li> <li>Pursue likely contraventions of the Highways Act resulting in pollutants discharging onto the Highway. Derbyshire Flood Risk management Strategy, published December 2014, sets out the action plan to mitigate flood risk across the county.</li> <li>Implementation of the climate change manifesto</li> </ul>	High performing council services	Geoff Pickford

				New Score			Previous Score						
Category	Risk Identifier No	Risk Description	Dept	Impact	Likelihood	Previous Score	Impact	Likelihood2	Current Score	C h a n g e	Mitigation - Current Comments	Link to Council Plan	Risk Owner
Emergency Response & Service Continuity	2011/5	<p><b>UPDATED Adequacy of Business Continuity Planning</b></p> <p>The Council's ability to respond to a major incident, such as severe weather (eg. climate change based flooding), loss of power or pandemics, and to maintain its critical services to the public. The emerging risk environment, the number and type of emergency and the interdependencies of services is increasingly making continuity or "resilience" a significant focus for the Council. Budget cuts and rationalisation (including resourcing reductions) also challenge the Council in its ability to fulfil its Category 1 Responder statutory duty.</p>	ALL	5	2	10	5	2	10	—	<p>On-going Mitigations;</p> <ul style="list-style-type: none"><li>• Business Continuity Plan part of the "Council Capacity" section in the Council Plan.</li><li>• Business Continuity Plan updated and tested regularly (plan reviewed annually, training and exercises held annually</li><li>• Business Impact Analysis updated regularly</li></ul> <p>Planned Mitigations;</p> <ul style="list-style-type: none"><li>• A major upgrade to the Council's core data network is complete which has increased resilience.</li><li>• Installation of virtual switching system has been completed with separate generator.</li><li>• ICT resilience is designed into key services.</li><li>• Increased ICT resilience is provided through the 2nd data centre which has been enhanced.</li><li>• Critical Salvage Strategy, Document Management Strategy and Procurement Strategy incorporated into Corporate Business Continuity Plan 2014.</li><li>• Corporate Business Continuity Plan reissued August 2015</li></ul> <p>Report to CMT September 2015.</p> <ul style="list-style-type: none"><li>• New converged infrastructure to be installed in Data Centre leading to improved performance and resilience.</li><li>• Auditing of Business Continuity Arrangements completed July 2015.</li><li>• Adult Care undertaking joint procurement for case recording system with Children's Services</li></ul> <p>• Risk Champions to undertake a full review of Business Continuity Plans in January 2019 with them considering the effectiveness and consistency of these plans prior to this date</p> <p>Training is to be delivered in the next quarter to all managers who will need to have input into writing a business continuity plan.</p> <p>NB. This risk will remain on the Strategic Risk Register for monitoring purposes</p>	High performing council services	Liz Partington

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Regulatory & Legislative Failures	2011/9	<b>Protection of Children and Vulnerable Adults</b> The Council has a statutory responsibility to protect children and vulnerable adults from harm.	AC/ CS	5	3	15	5	3	15	—	<ul style="list-style-type: none"><li>• Robust safeguarding procedures, including within Starting Point to embed multi-agency thresholds and pathways. chairing of Derbyshire Children's Safeguarding Board ensures robust challenge to all agencies informed by audit activity</li><li>• Reduce social worker caseloads to reduce levels of risk.</li><li>• Help/Social Care.</li><li>• culture across the Department including learning from Serious Case Reviews</li><li>• licences/qualifications to ensure best practice.</li><li>• Continue to learn from National reports and implement any appropriate recommendations.</li><li>• Continue with Safeguarding training across all staff groups.</li><li>• Continue to invest in early intervention strategies.</li><li>• Effective multi-agency working &amp; information sharing protocols</li><li>• Multi-agency safeguarding hub in police HQ.</li><li>• Introduce social pedagogy to improve outcomes.</li><li>• Independent Chair Adults and Childrens Safeguarding Boards appointed</li><li>• Deprivation of liberty safeguards (DOLs) training and sustained additional capacity.</li><li>• Guidance to providers and fieldwork staff about thresholds for DOLs in light of Supreme Court Judgements.</li><li>• Safeguarding teams to be area based for improved service and efficiencies.</li><li>• Action plan developed to support response to the lower threshold for deprivation.</li><li>• Development of prevention strategy to provide extended options to meet needs.</li><li>• Introduced direct care trading.</li><li>• Policy and procedure review to ensure Care Act compliance.</li><li>• Independent Growth funding identified to Review of supervision policy taking place for Early</li><li>• Work to strengthen learning and development and performance/QA</li><li>• Effective risk management processes for outdoor services delivered by DCC and</li><li>• Promotion of culture of managing risk within each setting.</li></ul>	A focus on prevention and early intervention	Roger Miller / Jane Parfremment
Emergency Response & Service Continuity	2012/2	<b>Maintenance of Assets</b> The property rationalisation programme is currently under review which may delay further the provision of suitable accommodation and may not generate anticipated capital receipts. Combined with further cuts to maintenance and repair budgets services face maintenance challenges and a shortage of suitable accommodation until the programme is completed. Highway and Countryside Assets - risk of failure of assets, e.g. landslips, reservoirs, blocked gullies causing flooding, safety fencing, street lighting columns etc	CCP/ET E	3	5	15	3	5	15	—	<ul style="list-style-type: none"><li>• Asset Management Plan in place</li><li>• Capital Programme in place</li><li>• Joint working with other district councils/partners.</li><li>• Location independent working initiated.</li><li>• Regular Health and Safety inspections undertaken.</li><li>• Annual premises reviews undertaken by Property Division to identify defects and remedial actions.</li><li>• Defect reporting procedure in place.</li><li>• Relevant testing schemes in place.</li><li>• Staff access to building information.</li><li>• Develop building facilitator course for staff with responsibility for buildings.</li><li>• Customer Profiling intended to provide optimal solution on where presence should be focused.</li><li>• Review property strategy.</li></ul>	Value for money	Dave Massingham / Geoff Pickford
		<b>Maintenance of Assets Cont.</b>				15			15	-	<ul style="list-style-type: none"><li>• Buy-in for IT infrastructure needed to support project.</li><li>• Continue to develop Asset Management Strategy and associated policies and work on high risk locations</li><li>• Accredited Highways and Structures Inspection Regime</li><li>• Intelligent Gully Cleansing procedures being rolled out across all Boroughs and Districts to improve maintenance, resolve defects, and enhance history of actions</li><li>• Continue to develop Asset Management of the structures stock, gather retaining walls data and assess associated risks</li><li>• Manage large raised reservoirs on DCC property to comply with Floods and Water Act 2010</li><li>• Undertake routine inspection and maintenance on canal assets. Agree surveillance regime particularly following storm or high rainfall events.</li><li>• Highway safety and service inspections in accordance with the CoP</li><li>• Three year, £23.3m, investment into LED and dimming technology has been approved. This will include the replacement of 22,000 5 and 6m columns considered to have a higher risk of failure within the lifetime of the LED. Start date may be Q4 of 2016/17.</li><li>• Columns above the 6m height will continue to be assessed and monitored and will be subject to future capital LTP replacement programmes</li><li>• Annual inspection of "A" road network; "B" road network inspection every 2 years</li><li>• Working towards a risk based approach to asset management in line with the recently released Code of Practice - "Well Maintained Transport Infrastructure".</li><li>• Corporate Landlord Statutory Compliance Monitoring</li><li>• Corporate Property Asset Management Strategy</li><li>• New Adverse Weather Policy being developed during 2018</li></ul>	Value for money	Dave Massingham / Geoff Pickford



Category	Risk Identifier No	Risk Description	Dept	New Score			Previous Score			C h a n g e	Mitigation - Current Comments	Link to Council Plan	Risk Owner
				Impact	Likelihood	Previous Score	Impact	Likelihood2	Current Score				
Government Modernisation Agenda	2013/2	<u>Impact of welfare reform</u> Welfare reforms and widening gaps between richest and poorest residents may increase the number of service users in need/poverty which could create increased family referrals and pressure on adult, children service and public health resources.	AC/ CS/ HAC	4	5	20	3	5	15	-	<ul style="list-style-type: none"><li>• New arrangements for administration of self-funding.</li><li>• Anti-poverty strategy implementation plan being developed by DCC.</li><li>• Health and Wellbeing Strategy to be refreshed to increase economic wellbeing and poverty agenda.</li><li>• Protection and enhancement of current welfare rights support service.</li><li>• Media releases on Public Health issues.</li><li>• Regular briefings for Health and Wellbeing Portfolio holder and board.</li><li>• Services targeted at areas of greatest need.</li><li>• Credit Union, Food Bank and Children's Centre initiatives in place.</li><li>• Director of Health Annual Report recommends partner actions.</li><li>• Payment of minimum wage for DCC employees.</li><li>• Monitor commitment to implementation of DHAR recommendations.</li></ul>	A focus on prevention and early intervention	Roger Miller/Linda Dale/Anne Hayes
Financial	2015/03	<u>UPDATED D2N2</u> The Council is the Accountable Body to the Local Growth Fund from 1 April 2015 and will be responsible for the administration of the £170m+ funding.  There is a possibility of grant clawback and the Council may be asked to take on that risk. There may be a possibility of grant funds being required to be underwritten if grants are paid in arrears i.e. impact on the cashflow position of the Council.  Grantor's rules on disposal of assets and/or change use of assets to ensure that any receipt from the sale of he asset is reimbursed to the grant issuing body and that relevant negotiations take place to minimise the risk of clawback to the accountable body.  The risk of grant clawback, particularly for capital expenditure, could be indefinite in some cases.	ETE/ CCP	4	3	12	4	2	8	D O W N	<ul style="list-style-type: none"><li>• Service Level Agreement is explicit in terms of risk of grant clawbacks.</li><li>• Register of assets purchased with grant funds should be maintained and verified on a regular basis.</li><li>• Ensure that expenditure is eligible under the grant terms and conditions and ensures compliance with the funding bodies rules and guidance, and to be aware of any changes to those rules or guidance.<ul style="list-style-type: none"><li>• CSR15 confirmed commitment of £12bn funding until 2020-21, confirming indicative allocations.</li></ul></li></ul>	Value for money	Peter Handford
Financial	2018/03	<u>UPDATED GDPR</u> The Council has a responsibility to comply with GDPR legislation incorporated into the Data Protection Act 2018 to avoid potentially large fines by the Infformation Commissioner and increased potential of Civil Action. This risk is linked to risk 2012/1 Information Governance, Cyber and Social Media	All	4	4	16	4	3	12	-	<ul style="list-style-type: none"><li>• IGG has oversight.</li><li>• Working group established Summer 2017 and action plan in place. ICO audit in September 2017 found adequate arrangements in place. Information audit completed and lawful basis for processing identified.</li><li>• Privacy Impact Assessment process embedded in procurement and data sharing projects. Training of staff managing data undertaken.</li></ul> Extensive GDPR training programme rolled out across the Council and within schools. Significant progress has been made against the ICO Action plan Emerging risk: some third party providers have refused to agree to amended contract conditions. Legal and procurement teams working together to resolve and identify key risk contracts. Emerging Risk: systems compliance. To be addressed by ICT Strategy. <b>Emerging risk - delayed Subject Access Request (SAR) responses are being actively montitored by the ICO. Additional staff being recruited to reduce backlog</b>	High performing council services	Simon Hobbs

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**Agenda Item No 4(b)**

**DERBYSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE**

**24 September 2019**

**Report of the Director of Finance & ICT**

**ANNUAL AUDIT LETTERS 2018-19**

**1 Purpose of the Report**

To provide Members with details of the external auditor's Annual Audit Letters for 2018-19.

**2 Information and Analysis**

The Council's external auditor, Mazars, is required to present an Annual Audit Letter to Members and officers of the Council. The letter describes the scope of the audit work for the financial year and reports on matters of significance arising from that work. It is a summary of its conclusions and provides an external assessment of the Council's overall financial position.

The letter is a means by which the appointed auditor fulfils its statutory requirements, which are derived from the Audit Commission Act 1998 and the Audit Commission's Code of Audit Practice. The external auditor is required to provide an opinion on the Council's financial statements and a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

The issuing of the letter, along with an audit certificate, marks the end of the audit process for 2018-19. The Council has published on its website that the audit has been concluded in accordance with the Accounts and Audit Regulations 2015.

The letters issued for the Council and the Pension Fund are attached at Appendix 1A and Appendix 1B.

The details contained within the letter have been reported to the Audit Committee previously.

**3 Considerations**

In preparing this report the relevance of the following factors has been considered:- financial, human resources, legal and human rights, equality of

opportunity, health, environmental, transport, property, crime and disorder and social value considerations.

#### **4 Background Papers**

Papers held in Technical Section, Finance & ICT Division, Room 137.

#### **5 Officer's Recommendation**

That Audit Committee notes the details of the Annual Audit Letters 2018-19.

PETER HANDFORD

Director of Finance & ICT

# Annual Audit Letter

Derbyshire County Council

Year ended 31 March 2019





## CONTENTS

1. Executive summary
2. Audit of the financial statements
3. Value for Money conclusion
4. Other reporting responsibilities
5. Our fees
6. Forward look

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Derbyshire County Council for the year ended 31 March 2019. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Council's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none"><li>• the other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>
Value for Money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 23 August 2019 we reported to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p> <p>We received a question from a local elector that we agreed to treat as a formal objection. Our consideration of the matters raised by the elector took place in August 2018, with a planned conclusion date of 28 September. We are unable to issue the Audit Certificate until at least that date.</p>

# 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified
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## The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Council on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

## Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure at a Surplus/Deficit on Provision of Services level	£31.169m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.935m
We applied a lower level of materiality to the following areas of the accounts:		
Specific materiality	• Officers' Remuneration	£5,000 per individual officer
	• Termination Payments	£374,000
	• Members' Allowances	£215,000
	• Audit Fee	£23,000

## 2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

### Our response to significant risks

As part of our continuous planning procedures, we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee in our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p><b>Management override of controls</b></p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"><li>• documenting our understanding of the processes and controls in place to mitigate the risks identified;</li><li>• testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li><li>• evaluating the business rationale for any significant transactions outside the course of the business;</li><li>• understanding the oversight given by those charged with governance of management process over fraud;</li><li>• making enquiries of management and Internal Audit regarding actual or any suspicions of fraud; and</li><li>• considering whether the Council's accounting policies are consistent with industry standards.</li></ul>	<p>There were no matters arising from our work on management override of controls.</p>
<p><b>Expenditure recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council (FRC), which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular the completeness and valuation of manually accrued payables. Due to the nature and/or value of expenditure on employee expenses, interest payments, depreciation, impairments and loss on disposal of assets; we do not believe the risk lies in those balances; but the risk is relevant to premises, transport, and supplies &amp; services.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"><li>• ensuring the accounting policies in relation to expenditure recognition and recognition of accruals were appropriate and consistently applied;</li><li>• testing year end creditors to confirm that they had been correctly valued and categorized and were correctly treated as a creditor of the authority; and</li><li>• carrying out cut-off testing, and testing for unrecorded liabilities, to confirm expenditure had been coded to the correct accounting year.</li></ul>	<p>Our work has not identified any material errors in the financial statements.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Identified significant risk	Our response	Our findings and conclusions
<p><b>Revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. Having considered the factors for revenue recognition, we believe the risk is focused on the year-end balance sheet and in particular the existence and accuracy of receivables, specifically those that are material, subject to manual intervention and/or significant estimation. Due to the nature and/or value of income from interest and investment income, council tax, business rates and government grants we do not believe the risk lies in those balances, but the risk is relevant to fees, charges and other service income.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"><li>• ensuring the accounting policies in relation to revenue recognition and recognition of accruals are appropriate and consistently applied;</li><li>• testing year end debtors to confirm that they have been correctly valued and categorized and are correctly treated as a debtor of the authority; and</li><li>• carrying out cut-off testing to confirm income has been coded to the correct accounting year.</li></ul>	<p>Our work has not identified any material errors in the financial statements.</p>
<p><b>Valuation of property, plant and equipment</b></p> <p>The Council's accounts contain material balances relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to the high degree of estimation uncertainty associated with those held at valuation, we determined there was a significant audit risk in this area.</p>	<p>We addressed this risk through:</p> <ul style="list-style-type: none"><li>• reconciling valuations from the valuer's report to those recorded in the Fixed Asset Register;</li><li>• testing a sample of assets valued during the year to valuation reports;</li><li>• where material, testing the basis for impairment of assets, the value and correct accounting treatment;</li><li>• critically assessing the Council's valuer's scope of work and methodology used; and</li><li>• considering the impact of any assets not valued during the year.</li></ul>	<p>The procedures we have undertaken have not identified any material errors or uncertainties in the financial statements.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Identified significant risk	Our response	Our findings and conclusions
<p><b>Defined benefit liability valuation</b></p> <p>The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we determined there was a significant risk in this area.</p>	<p>We addressed this risk through:</p> <ul style="list-style-type: none"><li>• reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by the consulting actuary engaged by the National Audit Office;</li><li>• agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements;</li><li>• critically assessing the competency, objectivity and independence of the Derbyshire Pension Fund's Actuary, Hymans Robertson;</li><li>• liaising with the auditors of the Derbyshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; and</li><li>• performing a walkthrough of payroll transactions at the Council to understand how pension contributions which are deducted and paid to the Pension Fund by the Council.</li></ul>	<p>Our work provided the assurance sought and we were satisfied the local government pensions liability was not materially misstated.</p>

# 2. AUDIT OF THE FINANCIAL STATEMENTS

## Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Description of deficiency	<b>Controls in place in regard to the valuation process</b> - Our 2018/19 testing of land and buildings valuations identified a number of issues, but did not identify any material errors. These issues included a misclassification of agricultural land as residential land, the omission of a school building and an inconsistent approach to the valuation of homes for older people. We do however acknowledge that management has taken steps to correct and address these matters together with the deficiencies identified in 2017/18 and has introduced a valuation manual to improve the accuracy and consistency of the valuation work undertaken.
Potential effects	Valuable assets are held by the Council. Inaccurate valuation or indexation can therefore result in large errors. This increases the risk of the Property, Plant and Equipment figure being materially misstated on the Council's Balance Sheet. For 2018/19 we did however obtain sufficient evidence to conclude the Property, Plant and Equipment figure for 2018/19 was materially correct.
Recommendation	The Council has taken steps to address the deficiencies identified in relation to the valuation of land and buildings, however it should now embed the processes set out in its valuation manual to ensure that valuation work is appropriately completed and checked on a timely basis to enable accurate entries to be made in the pre-audit statement of accounts.
Management response	Agreed. The valuation manual is a living document utilised by the asset valuation team to ensure effective valuation delivery. The team will focus on fully embedding the processes set out in the manual.

Description of deficiency	<b>Controls in place in regard to contracts of employment</b> - During our payroll testing it became apparent that management could not locate the contracts of employment for 2 members of staff.
Potential effects	Contracts of employment are important documents that may be required to clarify terms and conditions of employment or to provide supporting information in relation to grievances or disputes. Not having access to such information could be prejudicial to the Council.
Recommendation	The Council should ensure that contracts of employment are held and are accessible in relation to all members of staff.
Management response	Management accept the recommendation and acknowledges the importance of contractual documentation. The two cases identified related to employees who work and are employed by Schools and therefore the Shared Services Centre do not hold the full employee file for the employee as this is the responsibility of the School to retain. Procedures for logging and sending paper documentation for employees within Schools who purchase the traded services package offsite will be reviewed in line with the HR retention schedule to ensure that an accurate record is maintained within the Shared Services Centre for all future documentation generated.

# 2. AUDIT OF THE FINANCIAL STATEMENTS

## Internal control recommendations (continued)

Description of deficiency	Controls in place in regard to the completeness of related party declarations - During our testing of related parties it was found that three councillors had not declared their membership of another public sector body.
Potential effects	Whilst there were no inherent conflicts of interest involved and it is acknowledged that this may simply have been an oversight, good practice encourages full disclosures to ensure transparency.
Recommendation	The Council should ensure that full disclosures are made and should emphasise the importance of full disclosures during the training sessions associated with the implementation of the Council's new constitution.
Management response	Agreed. The Council's new constitution came into effect on 15 May 2019 and the importance of full disclosures will form part of the training sessions associated with the new constitution.

### 3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion	Unqualified
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#### Our approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people’. To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and other third parties.

The NAO’s guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Completion Report, we reported that we had not identified any significant risks to our VFM conclusion. We did though identify one specific matter which we needed to keep to under close review: The work we completed in relation to this matter is outlined below, which supported our auditor’s report, issued to the Council on 31 July 2019, that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019.

#### Significant Value for Money risk

Risk	Work undertaken	Conclusion
<b>Financial sustainability</b> – The Council continues to face financial pressure in the coming years and the Council keeps updating its medium term financial plan (MTFP) to meet these pressures. We needed to ensure our knowledge of the Council’s MTFP arrangements and its monitoring of the planned delivery of savings, remained up to date in order to ensure we gave the correct VFM conclusion.	We have assessed whether any matters have come to our attention through the course of our audit that lead us to conclude that a risk to our 2018/19 VFM conclusion does indeed exist. We addressed this requirement by reviewing the Council’s arrangements for developing and delivering its MTFP and for working in partnership.	We obtained sufficient assurance to conclude that the Council continues to have appropriate arrangements in place.

# 4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Consistent
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

## Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We received one such objection or question and have undertaken work to ensure that the matters involved do not have a material impact in relation to our opinion on the financial statements or VFM conclusion.

## Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 23 August 2019.

## Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

# 5. OUR FEES

## Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in March 2019.

We have completed our work for the 2018/19 financial year, but at the time of producing this report, we have not yet finalised our audit fees for the year. We carried out additional audit work to address the risk of material misstatement on the Council's pension liability, arising from the actuarial impact of GMP and McCloud, resulting in an additional fee of £750. In addition, we have proposed an additional fee of £3,500 for the work undertaken in relation to an objection we received from a local elector. These fee variations require the approval of Public Sector Audit Appointments Limited, before finalising the audit fee.

Area of work	2018/19 proposed fee	2018/19 final fee ***
Delivery of audit work under the NAO Code of Audit Practice	£96,524 plus VAT	£100,774 plus VAT

\*\*\* Please note that at the time of producing this report, the audit fee has not yet been finalised.

## Fees for non-PSAA work

At the present time we have not been separately engaged by the Council to carry out additional work outside of the fees in relation to our appointment by PSAA. Before agreeing to any non-PSAA work we will confirm there were no actual, potential or perceived threats to our independence.

# 6. FORWARD LOOK

## Audit Developments

### Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office’s consultation on the content of the Code (<https://www.nao.org.uk/code-audit-practice/about-code/>).

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

## Financial Resilience

### Fair Funding Review

The Council will need to incorporate the outcome of the Spending Review, due in the latter half of 2019, to its Medium Term Financial Plan. The Spending Review will set out the department allocations for 2020/21 and potentially beyond. Regardless of the timing and period covered by the Spending Review, the Council recognises the key issue is the management of general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. It must, therefore, ensure it clarifies and quantifies how it will bridge the funding gap through planned expenditure reductions and/ or income generation schemes.

### Local Authority Financial Resilience Index

CIPFA is moving forward with its financial resilience index, which it believes will be a barometer on which local authorities will be judged. We would expect the Council to have at least considered the index once it is formally released.

### Commercialisation

The National Audit Office will be publishing a report on Commercialisation during 2019. Depending on the Council’s appetite for Commercialisation, we would expect the Council to consider the outcome of the report and ensure any lessons learnt are incorporated into business practice.

Further, the UK Debt Management Office’s Annual Report, published on 23 July 2019, reported that, as at 31 March 2019, the Public Works Loan Board’s loan book was £78.3 billion with 1,308 new loans totalling £9.1 billion advanced during the year. As a result, we expect local authorities to clearly demonstrate:

- the value for money in the use of Public Works Loan Board funds to acquire commercial property; and
- the arrangements for loan repayment through the updated Statutory Guidance on Minimum Revenue Provision in 2019/20, 2020/21 and beyond.

## Financial Reporting

### UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

### Lease accounting

The implementation of IFRS 16 Leases in the Code is delayed until 1 April 2020. The Council will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.



# 6. FORWARD LOOK (CONTINUED)

## Next year’s audit and how we will work with the Council

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to support the Council by:

- continued liaison with the Council’s Internal Auditors to minimise duplication of work;
- attending Audit Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet with the Council to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

The Council has taken a positive and constructive approach to our audit and we wish to thank Members and officers for their support and co-operation during our audit.



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# Annual Audit Letter

Derbyshire Pension Fund

Year ended 31 March 2019





## CONTENTS

1. Executive summary
2. Audit of the financial statements
3. Other reporting responsibilities
4. Our fees
5. Forward look

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Pension Fund and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Derbyshire Pension Fund for the year ended 31 March 2019. Although this letter is addressed to the members of Derbyshire County Council, as a body and as administering authority for the Derbyshire Pension Fund, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none"><li>• the other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Pension Fund.</p>
Consistency Report	<p>We have yet to issue our consistency report setting out that in our opinion the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of the Council. We will issue our audit certificate once this work is completed.</p>

# 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified
-------------------------------------	-------------

## The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Pension Fund and whether they give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Pension Fund's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019.

## Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

We set overall materiality at the planning stage of the audit at £46m using a benchmark of 1% of net assets available to pay benefits. Our final assessment of overall materiality, based on the final financial statements is £49m using the same benchmark.

We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee) at £1.4m based on 3% of overall materiality.

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Pension Fund's financial statements. We have therefore set our performance materiality at 65% of our overall materiality being £32m.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 1% of net assets available to pay benefits	£49m
Performance materiality	Our performance materiality is based on 65% of our financial statement materiality	£32m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£1.4m

# 2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

## Our response to significant risks

As part of our continuous planning procedures, we considered whether there were risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee in our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p><b>Management override of controls</b></p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"><li>• accounting estimates impacting on amounts included in the financial statements;</li><li>• consideration of identified significant transactions outside the normal course of business; and</li><li>• journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li></ul>	<p>There were no matters arising from our work on potential areas of management override of controls.</p>
<p><b>Valuation of unquoted investments for which a market price is not readily available</b></p> <p>As at 31 March 2018 the fair value of investments which were not quoted on an active market was £634m (£844m as at 31 March 2019), which accounted for 14% (17% as at 31 March 2019) of the Fund's net investment assets. Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.</p> <p>As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore considered that there was an increased risk of material misstatement.</p>	<p>In addition to our standard programme of work in this area we have:</p> <ul style="list-style-type: none"><li>• agreed the valuations to supporting documentation including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuations;</li><li>• agreed the investment manager valuations to audited accounts. Where these were not available, we agreed the investment manager valuation to other independent supporting documentation;</li><li>• where audited accounts were available, we checked that they were supported by a clear opinion; and</li><li>• where available, we reviewed any independent control assurance reports and confirmed that they do not highlight any risks of material misstatement.</li></ul>	<p>Our work has provided the assurance we sought and has not highlighted any material errors or uncertainties in the financial statements.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Internal control recommendation

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiency in internal control as part of our audit.

Description of deficiency	<b>Controls in place in regard to pensions payroll to general ledger reconciliations</b> The SAP payroll and general ledger provide an integrated system. However achieving a reconciliation between the payroll and ledger entries took more management and audit time than anticipated this year and emphasised the value of having regular reconciliations in place between the information in the pensions payroll reports and the SAP general ledger to avoid such problems for the future.
Potential effects	Whilst the absence of this reconciliation does not indicate that an error has occurred this reconciliation is an important check that the general ledger information populated from pensions payroll is complete and accurate.
Recommendation	Whilst acknowledging that management has taken steps to address this issue for 2018/19 we recommend that pensions payroll to general ledger reconciliations are undertaken, reviewed and authorised on an ongoing basis.
Management response	Agreed. The Pension Fund will review, develop and implement a reconciliation process during 2019/20.

We also followed up on the internal control recommendations raised by KPMG in relation to 2017/18 and re-raised any outstanding actions required.



### 3. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Consistency Report - the Pension Fund financial statements within the Pension Fund’s Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of the Council	We have yet to issue our consistency report. We will issue our audit certificate once this work is completed.
Other information published alongside the audited financial statements	Consistent

The NAO’s Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Pension Fund’s external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

#### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have not received any questions or objections that relate to the financial statements of the Derbyshire Pension Fund.

#### Consistency Report

We are required to provide a Consistency Report setting out whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of Derbyshire County Council. We will issue our Consistency Report once this work has been completed including our opinion that the Pension Fund financial statements are consistent with the audited financial statements of Derbyshire County Council for the year ended 31 March 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. We will issue our audit certificate once this work is completed.

#### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Pension Fund. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



# 4. OUR FEES

## Fees for work as the Pension Fund's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in March 2019.

We have completed our work for the 2018/19 financial year, but at the time of producing this report, we have not yet finalised our audit fees for the year. If the final fee varies from that in the table below, we will write to the Director of Finance & ICT setting out the proposed variation and any reasons for the variation, and seeking agreement to it. Any variations to the final fee will also require the approval of Public Sector Audit Appointments Limited, which manages the contracts for our work.

Area of work	2018/19 proposed fee	2018/19 final fee ***
Delivery of audit work under the NAO Code of Audit Practice	£22,077 plus VAT	£22,077 plus VAT

\*\*\* Please note the final fee does not include the £16,800 detailed below which is the total chargeable by the Pension Fund to fourteen participating employers for assurances given to their auditors and that at the time of producing this report, the audit fee has not yet been finalised.

## Fees for other work

In response to requests received we have reported the results of the performance of our work programme at Derbyshire Pension Fund to the auditors of fourteen participating employers. The fee for this IAS 19 assurance work is £1,200 per employer. We are satisfied this IAS 19 assurance work does not impact our independence or objectivity in relation to the audit of the Pension Fund.

In previous years we have not charged employers or their auditors for this work where the employer was within the PSAA regime and have charged employer auditors where the employer was outside of the PSAA regime. As the number of these requests is increasing year on year, from 2018/19 Mazars is charging all employers for IAS19 assurance work. The PSAA has clarified that fees for all such work, regardless of whether the employer is within the PSAA regime, will be an audit fee variation, which means that the fees for the IAS19 assurance work will be billed to the Pension Fund; the expectation is that the Fund will seek to recover the costs of this work from relevant employers.

At the present time we have not been separately engaged by the Pension Fund to carry out any other additional work outside of the fees in relation to our appointment by PSAA. Before agreeing to any other non-PSAA work we will confirm there were no actual, potential or perceived threats to our independence.

# 5. FORWARD LOOK

## Audit Developments

### Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office’s consultation on the content of the Code (<https://www.nao.org.uk/code-audit-practice/about-code/>).

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

## Financial Reporting

### UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

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The Pension Fund has taken a positive and constructive approach to our audit and we wish to thank Members and officers for their support and co-operation during our audit.

## CONTACT

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**Agenda Item No 4(c)**

**DERBYSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE**

**24 September 2019**

**Report of the Director of Finance & ICT**

**TREASURY MANAGEMENT ANNUAL REPORT 2018-19**

**1 Purpose of the Report**

To report on Treasury Management activities during the last financial year 2018-19 and to indicate the Council's compliance with the prudential indicators set by Council at its meeting of 7 February 2018, in accordance with the Treasury Management in the Public Services: Code of Practice and Cross-Sectorial Guidance Notes 2017 (the Code).

**2 Information and Analysis**

**(i) Introduction**

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Council's obligation under the CIPFA Code to produce a Treasury Management Annual Report.

The Council's Treasury Management Strategy for 2018-19 was approved by Council on 7 February 2018, as part of the Prudential Code for Capital Finance, Capital Programme Approvals and Treasury Management Strategy Report. The Council has borrowed and invested substantial sums of money and is therefore potentially exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's Treasury Management Strategy.

## **(ii) External Context**

### **Economy**

Annual UK Gross Domestic Product (GDP) growth was 1.4%, following slower growth of 0.2% in the fourth quarter. The UK Consumer Price Inflation Index (CPI) for March 2019 remained at 1.9% year on year, just below the 2% inflation target. UK labour market data for the three months to March 2019 showed that the unemployment rate fell to a record low of 3.8% and the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3%, with real wages up 1.5%.

The Bank of England's Bank Rate (Base Rate) increased by 0.25% in August 2018 and remained at 0.75% for the remainder of 2018-19.

The original deadline for Britain's European Exit (Brexit) of 29 March 2019, came and went as the Prime Minister's deal was defeated for the third time by a majority of one (313 to 312). To avoid a "no-deal" scenario, an extension was requested from the European Union (EU). The EU agreed to a revised deadline of 31 October 2019.

Sterling depreciated against both the US Dollar and the Euro because of increased uncertainty.

The United States Federal Reserve continued to tighten policy by increasing interest rates throughout 2018, to a maximum policy rate target range of 2.25%-2.50% in December 2018, before a pause and review in March 2019.

The United States continues to be set on a path of protectionist trade policies and tensions with China in particular. The knock on effect of reciprocal tariffs has led the International Monetary Fund to downgrade its forecasts for global economic growth in 2019 and beyond.

### **Financial markets:**

The FTSE 100 fell by 13% in December 2018 but had recovered 10% by 31 March 2019. UK Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. Since October 2018, the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period, dropping from 1.73% to 1.08% and from 1.90% to 1.55%, respectively. Globally, the US yield curve inverted (10-year Treasury yields were lower than shorter US 3-month money market rates) during March 2019 and German 10-year Bund yields turned negative. The increase in UK Bank Rate pushed up money market rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and

0.94%, respectively, over the period.

### **Credit background:**

The big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ring-fenced) and investment banking (non-ring-fenced) entities.

### **(iii) Local Context**

On 31 March 2019, the Council had net borrowing of £39.961m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in table 1 below.

**Table 1: Balance Sheet Summary**

	<b>31.3.19</b>
	<b>Actual</b>
	<b>£m</b>
General Fund CFR	536.209
Less: *Other debt liabilities	-72.822
<b>Borrowing CFR</b>	<b>463.387</b>
Less: Usable reserves	-366.731
Less: Working capital	-56.695
<b>Net borrowing</b>	<b>39.961</b>
<b>Borrowing CFR is comprised:</b>	
External borrowing	313.124
Internal borrowing	150.263
	<b>463.387</b>

\* finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

The Council's strategy was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31 March 2019 and the year-on-year change is shown in table 2 below.

**Table 2: Treasury Management Summary**

	<b>31.3.18 Balance £m</b>	<b>2018-19 Movement £m</b>	<b>31.3.19 Balance £m</b>	<b>31.3.19 Rate %</b>
Long-term borrowing	293.944	-7.320	286.624	4.68
Short-term borrowing	6.000	20.500	26.500	0.78
<b>Total borrowing</b>	<b>299.944</b>	<b>13.180</b>	<b>313.124</b>	<b>4.30</b>
Long-term strategic pooled funds	19.697	48.547	68.244	4.45
Long-term investments	39.010	-15.500	23.510	1.32
Short-term investments	165.516	-20.807	144.709	1.16
Cash and cash equivalents	39.650	-2.950	36.700	0.73
<b>Total investments</b>	<b>263.873</b>	<b>9.290</b>	<b>273.163</b>	<b>1.92</b>
<b>Net borrowing</b>	<b>36.071</b>	<b>3.890</b>	<b>39.961</b>	

**Borrowing Activity**

At 31 March 2019, the Council held £313.124m of loans, an increase of £13.180m, as part of its strategy for funding previous and current years' capital programmes. The year-end borrowing position and the year-on-year change is shown in table 3 below.



**Table 3: Borrowing Position**

	<b>31.3.18</b>	<b>2018-19</b>	<b>31.3.19</b>	<b>31.3.19</b>	<b>31.3.19</b>
	<b>Balance</b>	<b>Movement</b>	<b>Balance</b>	<b>Interest</b>	<b>WAM*</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>Rate</b>	<b>Years</b>
				<b>%</b>	
Public Works Loan Board	278.944	-7.320	271.624	4.69	17.9
Banks (LOBO)	5.000	0	5.000	4.50	20.4
Banks (fixed-term)	10.000	0	10.000	4.69	23.4
Local authorities (long-term)	0	0	0	N/A	N/A
Local authorities (short-term)	6.000	20.500	26.500	0.78	0.1
<b>Total borrowing</b>	<b>299.944</b>	<b>13.180</b>	<b>313.124</b>	<b>4.30</b>	<b>16.8</b>

\*WAM – Weighted Average Maturity

The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans being a secondary objective, should the Council's long-term plans change.

In furtherance of these objectives, no new long-term borrowing was undertaken in 2018-19, while £7.320m of existing loans were allowed to mature without replacement. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

The internal borrowing (reserves and working capital) of the Council at 31 March 2019 was £150.263m. If the Council had externally borrowed £150.263m over 18 years, at a rate of 2.29% (the PWLB Certainty Rate for 18 years, the average length of borrowing), the Council would have incurred additional interest of £3.441m. If the Council had invested this sum of £150.263m at 1.92% (the Council's investment return for 2018-19, including pooled funds), then the Council would have received £2.885m of interest. In 2018-19, the Council saved net interest of £0.556m by utilising internal borrowing.

With short-term interest rates remaining much lower than long-term rates, the Council considers it to be more cost effective in the near term to use both internal resources and short-term loans instead. The net movement in short-term loans is shown in table 3 above.

The Council continues to hold £5.000m of LOBO (Lender's Option Borrower's Option) loans, where the lender has the option to propose an increase in the

interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the year.

### Other Debt Activity

After £2.770m repayment of prior years' Private Finance Initiative contracts, finance leases and transferred debt liabilities, total debt other than borrowing stood at £72.822m on 31 March 2019, taking total debt to £385.946m.

### Treasury Investment Activity

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018-19, the Council's investment balance ranged between £257.294m and £394.793m, because of timing differences between income and expenditure. The year-end investment position and the year-on-year change is shown in table 4 below.

Table 4: Investment Position (Treasury Investments)

	<b>31.3.18 Balance £m</b>	<b>2018-19 Movement £m</b>	<b>31.3.19 Balance £m</b>	<b>31.3.19 Income Return %</b>	<b>31.3.19 Weighted Average Maturity days</b>
Banks and building societies (unsecured)	51.650	4.551	56.201	0.91	91
Government (including local authorities)	172.526	-34.516	138.010	1.16	225
Corporate Bonds	0	10.709	10.709	1.38	323
Registered Social Providers	20.000	-20.000	0	N/A	N/A
Money Market Funds	0	0	0	N/A	N/A
Pooled Funds – Strategic Bond Funds	0	4.865	4.865	3.26	N/A
Pooled Funds – Equity Income Funds	0	14.362	14.362	5.47	N/A
Pooled Funds – Property Funds	9.930	14.176	24.106	4.26	N/A
Pooled Funds – Multi Asset Income Funds	9.767	15.143	24.910	4.30	N/A
<b>Total investments</b>	<b>263.873</b>	<b>9.290</b>	<b>273.163</b>	<b>1.92</b>	<b>201</b>

Both the CIPFA Code and Government guidance require the Council to invest its funds prudently and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

In furtherance of these objectives and given the increasing risk and low returns from short-term unsecured bank investments, the Council has further diversified into a combination of either more secure, or higher yielding, asset classes during 2018-19, as shown in table 4 above. Around £50m available for longer-term investment was moved from bank and building society deposits into strategic bond, equity income, property and multi-asset funds. As a result, investment risk was lowered, while the average rate of income return on investments has increased from 1.03% in 2017-18 to 1.92% in 2018-19.

The progression of credit risk and return metrics for the Council's investments managed in-house are shown in the extracts from the Council's external investment advisor's (Arlingclose) quarterly investment benchmarking in table 5 below.

**Table 5: Investment Benchmarking – Treasury investments managed in-house**

	<b>Credit Score</b>	<b>Credit Rating</b>	<b>Bail-in Exposure</b>	<b>Weighted Average Maturity (days)</b>	<b>Rate of Return %</b>
31.03.2018	4.18	AA-	17%	241	1.03
31.03.2019	4.15	AA-	33%	201	1.92
Similar Local Authorities	4.07	AA-	55%	692	1.56
All Local Authorities	4.20	AA-	55%	29	1.45

At 31 March 2019, the Council's portfolio of externally managed pooled strategic bond, equity income, property and multi-asset funds amounted to £68.243m. The Council holds these funds with the aim of receiving regular revenue income and because over the long-term their prices are relatively stable. During 2018-19 these funds generated a net return of £1.583m (2.32%), comprising a £2.982m (4.37%) income return, which has been used to support services in 2018-19 and a £1.399m (-2.05%) unrealised capital loss.

These funds have no defined maturity date but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down over months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In light of their performance over the medium-term and the Council's latest cash flow forecasts, investment in these funds has been increased during 2018-19 (see table 4).

In respect of planning for Britain's exit from the European Union, with little clarity as to whether there would be an agreed deal prior to leaving, the Council has ensured that there were enough funds available at either UK-domiciled banks or in Money Market Funds to provide sufficient liquidity, particularly around the expected departure date of 29 March 2019. The Council also ensured that its account with the Debt Management Account Deposit Facility (DMADF) remained available for use in an emergency.

The Council's borrowing decisions are not predicated on any one outcome for interest rates. The Council maintained a balanced portfolio of short and long-term borrowing throughout 2018-19.

### **Other Non-Treasury Holdings and Activity**

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Ministry of Housing, Communities and Local Government's (MHCLG) Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return. This includes service investments for operational and/or regeneration, as well as commercial investments which are made mainly for financial reasons.

At 31 March 2019, the Council held £7.908m of investments in loans to local businesses and subsidiaries:

- loans to subsidiaries - £0.500m - Derbyshire Developments Ltd;
- regeneration loan - £7.408m - Buxton Crescent & Thermal Spa Co Ltd.

This represents an increase of £5.763m on the previous year because of further investment in Buxton Crescent & Thermal Spa Co Limited.

These investments generated £0.312m of investment income for the Council, after taking account of direct costs, representing a rate of return of 6.20%.

## Treasury Performance

The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below. Investment benchmarking is performed quarterly and debt benchmarking is performed annually.

**Table 6: Performance**

	<b>Actual £m</b>	<b>Budget (CFR) £m</b>	<b>Over/ (Under) £m</b>	<b>Interest Actual %</b>	<b>Interest Other LA Benchmark %</b>	<b>Interest Over/ (Under) %</b>
Borrowing	14.909	23.253	(8.344)	4.30	3.65	0.65
Investments	5.309	5.000	0.309	1.92	1.40	0.52

The Council's average interest rate on borrowing is higher than the Other Local Authority Benchmark because of the Council's longstanding pre-financial crisis debt; the Council has a higher average interest payable than other local authorities who have borrowed at the lower prevailing interest rates since then.

The Council achieved its 2018-19 investment strategy of achieving returns higher than the Other Local Authority Benchmark by 31 March 2019.

## Compliance Report

The Director of Finance & ICT reports that all treasury management activities undertaken during 2018-19 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below and compliance with specific investment limits is demonstrated in table 8 below.

**Table 7: Debt Limits**

	<b>2018-19 Maximum £m</b>	<b>31 March 2019 Actual £m</b>	<b>2018-19 Operational Boundary £m</b>	<b>2018-19 Authorised Limit £m</b>	<b>Complied</b>
Total debt	425.707	386.117	600.000	628.000	✓

**Table 8: Investment Limits**

	<b>2018-19 Maximum £m</b>	<b>2018-19 Limit £m</b>	<b>March 2019 Actual £m</b>	<b>Complied</b>
Any single organisation, except UK Central Government (+£30m Lloyds (Main Bank))	59.482	60.000	25.653	✓
Any group of organisations under the same ownership (Money Market Funds - Individual)	30.000	30.000	0.000	✓
Any group of pooled funds under the same management (CCLA)	30.000	30.000	29.454	✓
Negotiable instruments held in a broker's nominee account	10.709	100.000	10.709	✓
Foreign countries	0.016	50.000	0.000	✓
Registered providers	15.000	50.000	0.000	✓
Unsecured investments with Building Societies	1.000	100.000	0.000	✓
Money Market Funds – Total	95.000	200.000	0.000	✓
Non Treasury Investments (loans to unrated bodies)	7.908	50.000	7.908	✓
Non-Specified investments (Local Authority Loans > 365 days, Strategic Pooled Funds & Non-Treasury Loans)	133.634	150.000	129.289	✓

## Treasury Management Indicators

The Council measures and manages its exposure to treasury management risks using the following indicators.

**Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31 March 2019 Actual	2018-19 Target	Complied
Portfolio average credit rating	AA-	A-	✓

**Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available within a rolling three-month period and additional borrowing secured without giving prior notice.

	31 March 2019 Actual £m	2018-19 Target £m	Complied
Total cash available within 3 months	66.694	30.000	✓
Total sum borrowed in past 3 months without prior notice	82.750	30.000	✓

**Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed were:

	31.3.19 Actual	2018-19 Limit	Complied
Upper limit on fixed interest rate exposure	92	100	✓
Upper limit on variable interest rate exposure	8	40	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year, or the transaction date if later. All other instruments are classed as variable rate.

**Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	<b>31 March 2019 Actual %</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>	<b>Complied</b>
Under 12 months	13	40	0	✓
12 - 24 months	1	20	0	✓
24 months - 5 years	4	20	0	✓
5 - 10 years	12	20	0	✓
10 - 20 years	32	40	10	✓
20 - 30 years	28	40	10	✓
Over 30 years	9	40	0	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

**Principal Sums Invested for Periods Longer than 365 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	<b>Beyond 31 March 2020 £m</b>	<b>Beyond 31 March 2021 £m</b>	<b>Beyond 31 March 2022 £m</b>
Actual principal invested beyond the year end	99.789	76.279	76.279
Limit on principal invested beyond the year end	150	125	100
Complied	✓	✓	✓

### 3 Considerations

In preparing this report the relevance of the following factors has been considered:- financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property, transport and social value considerations.



#### **4 Background Papers**

Treasury Management Strategy 2018-19.

Papers held in Technical Section, Finance & ICT Division, Room 137.

#### **5 Officer's Recommendation**

That Audit Committee notes the Treasury Management Annual Report 2018-19 and notes the Council's compliance with the prudential indicators set by Council for 2018-19, in accordance with the terms of the Treasury Management in the Public Services: Code of Practice and Cross-Sectorial Guidance Notes 2017.

PETER HANDFORD

Director of Finance & ICT

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**Agenda Item No 4(d)****DERBYSHIRE COUNTY COUNCIL****AUDIT COMMITTEE****24 September 2019****Report of the Director of Finance & ICT****BUDGET MONITORING 2019-20 (as at 30 June 2019)****1 Purpose of the Report**

To provide Members with the Revenue Budget position for 2018-19 as at 30 June 2019.

**2 Information and Analysis**

The report summarises the controllable budget position by Cabinet Member Portfolio as at 30 June 2019. Further reports will be considered at Cabinet and Council in accordance with the Budget Monitoring Policy and Financial Regulations.

The projected outturn compared to controllable budget is summarised below. This includes the use of one-off funding to support the Highways, Transport and Infrastructure portfolio.

	<b>Budget</b>	<b>Forecast Actuals</b>	<b>Projected Outturn</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Adult Care	252.712	248.084	(4.628)
Corporate Services	47.354	46.910	(0.444)
Economic Development and Regeneration	0.700	0.600	(0.100)
Health and Communities (exc. Public Health)	3.657	3.420	(0.237)
Highways, Transport and Infrastructure	80.082	80.082	0.000
Strategic Leadership, Culture and Tourism	10.720	10.551	(0.169)
Young People	110.607	113.670	3.063
<b>Total Portfolio Outturn</b>	<b>505.832</b>	<b>503.317</b>	<b>(2.515)</b>
Interest and Dividend Income			0.000
Debt Charges			0.000
Risk Management			(0.047)
<b>Total</b>			<b>(2.562)</b>

A summary of the individual portfolio positions is detailed below.

## **Adult Care**

There is a projected year-end underspend of £4.628m. The main variances are:

Purchased Services, £3.141m overspend – relates to an increase in the cost of complex care packages and a reduction in Continuing Health Care funding.

Assistive Technology and Equipment, £1.901m underspend – more targeted issuing has ensured that only the most appropriate community equipment is supplied, saving on the procurement of less suitable equipment.

Unallocated Budgets, £3.807m underspend – relates to budgets awaiting allocation during the year.

Due to the high projected underspend on the portfolio and an estimated increase of £1.350m in Better Care Fund grant income in addition to this, it is proposed that £5.000m of base budget is transferred from Adult Care to the Risk Management budget.

The budget savings target for 2019-20 is £5.732m. Of this target, £5.703m is expected to be achieved by the end of the financial year.

Additional funding has been provided in the 2019-20 budget for the main growth items:

- Adult Social Care Precept and Improved Better Care Fund - £12.439m, to cover the additional cost of independent sector fees and the pay award relating to staff working in Adult Care.
- Transformational Care Programme - £0.456m, to move 24 clients from long stay hospitals to social care provision in line with the independent living agenda.

The main risks which could impact on the portfolio's outturn position are contained in Appendix Two.

## **Corporate Services**

There is a projected year-end underspend of £0.444m. The main variances are:

Finance and ICT, £0.860m underspend - due to vacancy control. This will assist in managing a planned restructure aiming to deliver significant savings over the three years from 2020-21.

County Property, £0.583m overspend – this relates to the under achievement of the income target for industrial estate properties. Whilst occupancy is at a

relatively high 92%, there are a number of the units where the full income level is not being achieved as some are leased to charities at below market rates, others are benefitting from rent free periods to attract businesses and offset maintenance costs. The Council has to pay the business rates on empty industrial units which has adversely affected the ability of the units to fully meet the return expected. These issues have been a consistent problem for a number of years, however, it must be remembered that the units are still delivering a net income. The income target is challenging and work is underway to ensure the units are placed on a sustainable basis moving forward.

Strategic Management, £0.364m underspend - relates to savings arising from previous restructures of senior management.

Legal Services, £0.318m overspend – demand for services means there is still a need to employ agency staff. A different model for delivering legal services is currently being considered with the aim to manage both service demand and costs more effectively.

Human Resources, £0.142m underspend – due to vacancy control. Departmental Human Resource functions are currently being centralised. Holding vacancies will assist in managing a planned restructure of the function as a whole which is expected to deliver significant savings in 2020-21 and 2021-22.

A budget savings target for 2019-20 of £1.340m has been allocated. Of this target, £1.152m of savings initiatives have been identified, all of which are expected to be achieved by the end of the financial year.

Additional funding has been provided in the 2019-20 budget for the main growth items:

- Legal Services - £0.300m (one-off), to support the high levels of demand for the service
- ICT Strategy - £0.200m, to ensure that ICT is aligned with the needs of the business and delivery of the Enterprising Council programme.
- Enterprising Council - £0.150m (one-off), to support transformational change.
- Learning Management System - £0.083m (one-off), to manage the replacement of the Council's Learning Management system.
- HR SAP Development - £0.045m (one-off), to support the HR SAP Development team to generate financial savings.

The main risks which could impact on the portfolio's outturn position are contained in Appendix Two.

## **Economic Development and Regeneration**

There is a projected year-end underspend of £0.100m. The main variances are:

Economic Development, £0.173m underspend – Part of the budget for the Enhanced Enterprise and Investment Service is set aside to lever in external funding. Suitable projects which deliver sufficient value for money have not yet been identified, so this budget is not currently forecast to be spent.

Employment and skills, £0.073m overspend – relates to salary overspend, resulting from a budget deficit when the Head of Employment and Skills post was established.

No budget savings target has been allocated to this portfolio for 2019-20.

No additional funding has been provided to this portfolio in the 2019-20 budget.

There are no significant risks expected to impact on the portfolio's outturn position.

## **Health and Communities**

The Health and Communities portfolio includes the Public Health budget of £39.477m, which is fully funded by the ring-fenced Public Health Grant for 2019-20. The forecast year-end position for the portfolio is an underspend of £0.643m. However, excluding Public Health, the portfolio is forecast to underspend by £0.237m. The main variances are:

Public Health, £0.345m underspend – a large proportion of the underspend continues to be generated from activity-based contracts which are not achieving anticipated levels of service. Some of the underspend will be used to mitigate the effects of a reduction of £1.071m in the Public Health Grant in 2019-20 and potential lower future funding levels.

Prior year underspends have been transferred into the Public Health Reserve. The balance on the reserve was £9.601 at 30 June 2019. The funds in this reserve are now fully committed.

Trading Standards, £0.198m underspend – reduced staffing costs following a restructure in December 2018.

A budget savings target of £0.157m has been allocated for 2019-20. £0.157m of savings initiatives have been identified, of which it is anticipated that £0.156m will be achieved by the end of the financial year.

Additional funding has been provided in the 2019-20 budget for the following growth items:

- Coroners - £0.270m, to establish new posts and increase daily fees to Assistant Coroners.
- Trading Standards (Older People Support) - £0.048m (one-off), to provide a programme to increase awareness and reduce instances of fraudulent activity against older people.

The main risks which could impact on the portfolio's outturn position are contained in Appendix Two.

## **Highways, Transport and Infrastructure**

The Highways, Transport and Infrastructure portfolio is forecast to overspend by £2.622m, against a total budget of £77.460m. However, this will be brought into a break-even position, after the allocation of one-off funding from the Economy, Transport and Environment department's earmarked reserves as follows:

- £1.000m from the Winter Maintenance reserve.
- £1.622m from the prior-year underspends reserve.

Before the allocation of the reserve funding detailed above, the main variances are:

Unallocated Budget Savings, £5.250m overspend – savings targets not yet allocated to specific services.

Planning and Development, £1.105m underspend – mainly due to additional inspection fee income, paid to the Council by building developers, under Section 38 and 278 of the Highways Act (1980). The high levels of fee income reflect the present state of the local economy and the large number of developments currently underway.

Winter Maintenance, £1.027m overspend – of the £1.400m budget for the winter service, nearly £1.000m had already been spent by the end of June 2019. Further expenditure of £1.500m is forecast for the remainder of the year. These overspends will be supported by use of the Winter Maintenance earmarked reserve.

Waste Management, £0.994m underspend – lower than expected waste tonnages.

Public and Community Transport, £0.787m underspend – less support being paid to bus operators than expected.

The budget savings target for 2019-20 is £2.609m, with a further £3.321m target brought forward from previous years. Of this total target of £5.930m, £0.680m is expected to be achieved by the end of the financial year, with the expected base budget overspend being met from one-off funding, as explained above. Therefore there is currently a £5.250m forecast shortfall in

achievement of budget savings, however the multi-year savings programme to 2023-24 does allow for some slippage to be covered by prior years' underspends, still delivering the savings target in total.

Additional funding has been provided in the 2019-20 budget for the main growth items:

- Waste Management - £1.500m, to cover the increased cost of delivering the waste treatment and disposal contracts across Derbyshire and increased cost of recycling credits.
- Highways Maintenance - £1.000m (one-off), to provide a co-ordinated programme of maintenance improvements.
- Public Transport - £0.500m, to maintain reasonable levels of public transport accessibility across Derbyshire.
- Water Body £0.100m (one-off), to enable the Council to meet its obligations to manage its water bodies under new regulations
- HS2 Co-ordination Officer £0.064m (one-off), to support representation of the Council's interests as the HS2 route is developed.
- Street Lighting Energy - £0.048m (one-off), to meet inflationary increases to the cost of street lighting energy.

The main risks which could impact on the portfolio's outturn position are contained in Appendix Two.

Any additional costs incurred from the identified risks will be met from the Economy, Transport and Environment Prior Year underspend earmarked reserve and the Winter Maintenance earmarked reserve, therefore none of these issues are expected to impact on the overall budget position for 2019-20.

## **Strategic Leadership, Culture and Tourism**

A year-end underspend of £0.169m is projected. The main variances are:

Communications, £0.099m underspend – due to vacancy control, staff turnover and lower running costs.

Policy and Research, £0.111m underspend – due to vacancy control and reduced running costs.

Call Derbyshire, £0.111m underspend – due to vacancy control and staff turnover.

The budget savings target for 2019-20 is £0.542m, with a further £0.159m target brought forward from previous years. All of this total target of £0.701m, is expected to be achieved by the end of the financial year.



Additional funding has been provided in the 2019-20 budget for the following items:

- Community Managed Libraries - £0.742m (one-off), to fund the commitment to introduce community managed libraries
- Thriving Communities - £0.368m, to focus on radically reshaping demand, unlocking community potential and creating an alliance for work and skills.
- Enterprising Council - £0.094m, to support transformational change.

There are no significant risks expected to impact on the portfolio's outturn position.

## **Young People**

The projected year-end position is an overspend of £3.063m. However, it is anticipated that the eventual overspend could be as high as £4.000m to £6.000m depending on the continued trend in the rate of placements for children in care.

This forecast outturn position includes £6.756m of Dedicated Schools Grant income, as a contribution to the cost of supporting Early Help services and children with additional needs. Income from this source is not guaranteed to continue at the same level in future years.

The main variances in respect of the forecast year-end position are:

Support to Children with Disabilities, £1.248m overspend – increasing demand for support and complexity of some individuals' needs.

Education Support Services, £1.213m overspend – an increase in the number of children with Special Educational Needs (SEN) driving demand for the Psychology and the Planning and Assessment teams. Also, it is forecast that the decision not to increase the price per meal charged to schools will contribute £0.312m to the overspend on the school catering service.

Placements for Children in Care, £0.814m overspend – placement numbers have continued to rise steadily over the last six months. There are currently more placements required than can be funded from the allocated budget.

Home to School Transport, £0.595m overspend – an increase in the number of journeys provided to children with SEN and an increase in the cost of those journeys, driven by economic factors and the need to provide more specialised vehicles.

Early Help and Preventative Services, £0.445m overspend – a shortfall in contributions from schools towards the Early Help offer, offset to some extent by vacant posts in the Multi-Agency and Youth teams. A review is being finalised which, when implemented, will result in a more targeted Early Help service.

Pensions Payable to Former Staff, £0.242m overspend – enhanced pension obligations payable to staff who left during the early 1990s.

Unallocated Budget, £1.572m underspend – this represents budget released as a result of changes to the Early Help offer. It is being held to cover an anticipated £1.767m of grant income which the government has signalled will be withdrawn in 2020-21. In the interim it will help offset some of the portfolio's underspend against its current budget.

A savings target of £3.013m has been allocated for 2019-20. Savings initiatives totalling £3.013m have been identified, all of which are expected to be achieved by the end of the financial year.

Additional funding has been provided in the 2019-20 budget for the main growth items:

- Placement Demand Pressures - £3.000m plus one-off funding of £5.000m, to support the increase in the demand for placements and the increasing complexity of children and young peoples' needs.
- Social Worker Recruitment - £1.300m plus one-off funding of £2.600m, as part of a four year recruitment plan to increase the number of social workers to ensure caseloads are at a healthy working level consistent with good practice.
- Home to School Transport (SEN) - £1.450m, to support the increased cost of transporting children and young people to school, pupil referral units or alternative provision when they have been excluded from mainstream schools.
- Increase in Special Guardianship Placements - £1.097m, to ensure the budget is sufficient to meet the current level of costs payable to those who have parental responsibility under a special guardianship order.
- Children in Care Legal Proceedings - £1.050m (one-off), reflecting the greater number of court proceedings and the increased use of external legal firms to present cases.
- Children's Homes - £0.450m, to provide additional staffing required to meet the needs of children and young people placed in homes.
- Care Leavers - £0.402m (one-off), to meet the cost of additional statutory duties towards care leavers.
- SEND Assessment and Planning - £0.275m, to provide additional staffing.
- Mobile Working - £0.260m (one-off), to develop solutions to enable more flexible working with the aim of achieving cost benefits and improvements to the timeliness of information.
- Complex Case Pooled Budget - £0.250m (one-off), contingency for the Council's contribution to the pooled budget reflecting the increasing levels of expenditure in recent years.

- Child Protection - £0.105m (one-off), to fund the cost of staff needed to respond to an increased number of children on protection plans. Staff will be reduced if the number of children on plans reduces.
- Children's Participation - £0.080m (one-off), to fund a delay to a planned budget reduction to the support provided to children and young people to participate in decision making. The service is seeking to identify alternative savings options.
- Foster Carers - £0.060m, to cover the inflationary increase to foster carer allowances from April 2019.

The main risks which could impact on the portfolio's outturn position are contained in Appendix Two.

### **Dedicated Schools Grant**

The Dedicated Schools Grant (DSG) is a ring-fenced grant comprising four individual blocks: Schools Block, High Needs Block (HNB), Early Years Block and Central Block. Allocations of the blocks are governed by the Schools and Early Years Finance Regulations. Any underspend or overspend on the grant is carried forward to future years within the accumulated balance of the DSG Earmarked Reserve.

After utilising available balances from the DSG reserve, it is anticipated that 2019-20 HNB expenditure will exceed the allocated grant income by £0.968m. This deficit will accumulate in the DSG reserve and will be funded by earmarking £0.968m from the General Reserve.

Unless additional Government funding is awarded, it is forecast that HNB overspends will total £9.909m between 2019-20 and 2022-23, after using available balances from the DSG reserve:

	2019-20	2020-21	2021-22	2022-23	Total
	£m	£m	£m	£m	£m
HNB Deficits to Fund	0.968	2.504	2.660	3.777	<b>9.909</b>

£9.909m represents the cumulative pressure on the General Reserve over the four year period.

### **Summary**

A Council portfolio underspend of £2.515m is forecast, after the use of £2.622m of Earmarked Reserves to support the Highways, Transport and Infrastructure portfolio. Any underspends in 2019-20 will be used to manage the budget in 2020-21.

The Debt Charges budget is projected to break-even. This is based on forecast interest payments, anticipated Capital Financing Requirement (CFR), a Minimum Revenue Provision (MRP) of 2.5% in keeping with the policy reported to Cabinet on 22 November 2016 and an £8.000m one-off reduction

in the Council's Capital Adjustment Account Reserve. This one-off reduction was reported to Council on 7 February 2018. This reduction is made on the basis that the amounts set aside to repay debt over the last ten years are well in excess of what is required to ensure the Council can repay its debts.

The Risk Management Budget is forecast to underspend by £0.047m. This will support the management of a balanced budget in future years.

Interest and dividends received on balances is estimated to break even by the year-end. The interest base rate is currently 0.75%, however, the Council utilises a range of investments to maximise its income.

Details of the Council's Earmarked Reserves balances as at 30 June 2019 are set out in Appendix One. A review of the Council's reserves balances will be reported to Cabinet later in the year.

A summary of the expected achievement of budget savings targets is provided at Appendix Three. The budget savings target for 2019-20 is £13.393m, with a further £3.480m target brought forward from previous years. The savings initiatives identified to meet this target currently fall short by £5.438m, therefore further proposals will need to be brought forward to ensure the Council continues to balance its budget. Of this total target of £16.873m, £10.650m is expected to be achieved by the end of the financial year. Therefore, there is a £6.223m forecast shortfall in achievement of budget savings. The resulting base budget overspend is offset to some extent by one-off underspends or is being met from one-off funding from earmarked reserves.

The age profile of debts owed to the Council and the value of debts written off is disclosed in Appendix Four. This information is collected on a departmental rather than portfolio basis.

### **3 Financial Considerations**

As set out above.

### **4 Other Considerations**

In preparing this report the relevance of the following factors has been considered: legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property, transport and social value considerations.

### **5 Background Papers**

Papers held in Technical Section, Finance & ICT, Room 137, County Hall.

## **6 Officer's Recommendation**

That Audit Committee:

- 6.1 Notes the 2019-20 budget monitoring position as at 30 June 2019.
- 6.2 Notes the virement of £5.000m base budget from Adult Care to the Risk Management budget approved by Cabinet.

PETER HANDFORD

Director of Finance & ICT

**Earmarked Reserves as at 30 June 2019**

<b>Adult Care</b>	<b>£m</b>
Older People's Housing Strategy	22.676
Other reserves	0.283
<b>Total Adult Care</b>	<b>22.959</b>
 <b>Corporate Services</b>	
Budget Management	29.089
Loan Modification Gains/Losses	28.440
Insurance and Risk Management	20.069
Revenue Contributions to Capital	16.591
Planned Building Maintenance	5.932
Business Rates Strategic Investment Fund	4.889
Business Rates Pool	4.716
Uninsured Financial Loss	3.500
Computer Purchasing	3.215
Property Insurance Maintenance Pool	2.837
Property DLO	2.503
Change Management	2.379
PFI Reserves	1.981
Prior Year Underspends	1.468
Community Priorities Programme	1.025
Other reserves	4.491
<b>Total Corporate Services</b>	<b>133.125</b>
 <b>Economic Development and Regeneration</b>	
D2 Growth Fund	0.200
Markham Environment Centre	0.114
Skills Training	0.101
Other reserves	0.417
<b>Total Economic Development and Regeneration</b>	<b>0.832</b>
 <b>Health and Communities</b>	
S256/External Funding	0.254
Other reserves	0.438
<b>Total Health and Communities</b>	<b>0.692</b>
 <b>Highways, Transport and Infrastructure</b>	
Prior Year Underspends	9.274
Broadband	3.931
Winter Maintenance	2.000
Road Safety Public Service Agreement (PSA)	1.182
Waste Recycling Initiatives	0.598

**APPENDIX 1****Public**

IT Reserve	0.559
Derby and Derbyshire Road Safety Partnership Reserve	0.500
Other reserves	1.511
<b>Total Highways, Transport and Infrastructure</b>	<b>19.555</b>

**Strategic Leadership, Culture and Tourism**

Policy & Research	1.044
Prior Year Underspends	0.913
Community Managed Libraries	0.742
Derbyshire Challenge Fund	0.466
Library Restructure	0.429
Derwent Valley Mills World Heritage Site	0.193
Other reserves	0.594
<b>Total Strategic Leadership, Culture and Tourism</b>	<b>4.381</b>

**Young People**

Tackling Troubled Families	4.083
Standards Fund (Schools)	1.170
Childrens Services IT Systems	0.746
School Rates Refunds	0.600
Primary Teacher Pool Premium	0.496
Youth Activity Grants	0.330
Foster Carer Adaptations	0.262
Unaccompanied Asylum Seeking Children	0.243
Other reserves	0.778
<b>Total Young People</b>	<b>8.708</b>

<b>Total Portfolio Earmarked Reserves</b>	<b>190.252</b>
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**Schools**

Schools Balances	25.776
Dedicated Schools Grant (DSG)	5.603

<b>Total balances held for and on behalf of schools</b>	<b>31.379</b>
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<b>Public Health Grant</b>	<b>9.601</b>
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Service	Risk	Sensitivity* £m	Likelihood (1 = Low, 5 = High)
*Sensitivity represents the potential negative impact on the outturn position should the event occur.			
<b>Adult Care</b>			
Transforming Care Programme	There is currently an NHS England aim to transfer long-term hospital clients from Health to Social Care. Should this occur, it is expected that Health will fund 50% of these placements, but the remainder will have to be met by the Council.	0.910	4
<b>Corporate Services</b>			
County Property	Loss of key personnel due to uncertainty over a review planned to be implemented from January 2020. Potential net loss of income.	0.200	3
<b>Health and Communities</b>			
Coroners	National shortage of Pathologists may impact by increasing fees	0.200	2
<b>Highways, Transport and Infrastructure</b>			
Winter Maintenance	Impact of a severe winter.	1.500	4
Street Lighting Energy and Maintenance	Further energy price increases, or further slippage in implementation of the LED programme.	0.300	2
Highways Management	Deterioration in ability to fund salaries from capital projects and potential deficit on the Highways Construction overhead accounts.	0.800	2
Waste Management	Costs associated with resolving the future of the Waste Treatment Plant at Sinfin.	1.000	5
<b>Young People</b>			
Placements	Increased number of children requiring placements.	2.500	4
Social Care services	Increase in number of referrals meeting social care thresholds.	0.300	4



**APPENDIX 2****Public**

<b>Service</b>	<b>Risk</b>	<b>Sensitivity* £m</b>	<b>Likelihood (1 = Low, 5 = High)</b>
	Inability to recruit and retain sufficiently experienced social workers.	1.000	3
Department wide	Data security breaches and the subsequent risk of serious damage to reputation and financial impact if fines are imposed	0.500	3
Multi-Agency Teams	Not meeting targets for Troubled Families data collection resulting in loss of income	0.300	3

## APPENDIX 3

## Budget Savings Monitoring 2019-20

Portfolio	Budget Savings Targets			Savings Initiatives Identified			Target not Identified	Actual Savings Forecast	Savings Shortfall
	Not yet achieved Brought Forward			Still to be Achieved			(Shortfall)/ Additional Identified Savings	Forecast to be achieved by Financial Year End	Actual (Shortfall)/ Additional Achievement of Savings Target
	Prior Year £m	Current Year £m	Total Target £m	Prior Year £m	Current Year £m	Total Identified £m	£m	£m	£m
AC	0.000	5.732	<b>5.732</b>	0.000	5.732	<b>5.732</b>	0.000	5.703	(0.029)
CS	0.000	1.340	<b>1.340</b>	0.000	1.152	<b>1.152</b>	(0.188)	1.152	(0.188)
EDR	0.000	0.000	<b>0.000</b>	0.000	0.000	<b>0.000</b>	0.000	0.000	0.000
HC	0.000	0.157	<b>0.157</b>	0.000	0.157	<b>0.157</b>	0.000	0.156	(0.001)
HTI	3.321	2.609	<b>5.930</b>	0.000	0.680	<b>0.680</b>	(5.250)	0.680	(5.250)
SLCT	0.159	0.542	<b>0.701</b>	0.159	0.542	<b>0.701</b>	0.000	0.701	0.000
YP	0.000	3.013	<b>3.013</b>	0.000	3.013	<b>3.013</b>	0.000	2.258	(0.755)
Total	3.480	13.393	<b>16.873</b>	0.159	11.276	<b>11.435</b>	(5.438)	10.650	(6.223)

AC = Adult Care ; CS = Corporate Services ; EDR = Economic Development and Regeneration ; HC = Health and Communities  
 HTI = Highways, Transport and Infrastructure ; SLCT = Strategic Leadership, Culture and Tourism ; YP = Young People

**Age profile of debt, relating to income receivable, at 30 June 2019**

<b>0 - 30 Days £m</b>	<b>31 - 365 Days £m</b>	<b>1 - 2 Years £m</b>	<b>2 - 3 Years £m</b>	<b>3 - 4 Years £m</b>	<b>Over 4 Years £m</b>	<b>Total £m</b>
<b>Adult Care</b>						
1.045	6.682	1.246	0.826	0.326	0.619	<b>10.744</b>
9.7%	62.2%	11.6%	7.7%	3.0%	5.8%	<b>100.0%</b>
<b>Children's Services</b>						
0.859	0.603	0.075	0.030	0.013	0.015	<b>1.595</b>
53.9%	37.8%	4.7%	1.9%	0.8%	0.9%	<b>100.0%</b>
<b>Economy, Transport and Environment</b>						
1.278	5.605	0.530	0.044	0.021	0.009	<b>7.487</b>
17.1%	74.9%	7.1%	0.6%	0.3%	0.1%	<b>100.0%</b>
<b>Commissioning, Communities and Policy</b>						
2.308	1.403	0.250	0.094	0.018	0.176	<b>4.249</b>
54.3%	33.0%	5.9%	2.2%	0.4%	4.2%	<b>100.0%</b>
<b>All Departments</b>						
5.490	14.293	2.101	0.994	0.378	0.819	<b>24.075</b>
22.8%	59.4%	8.7%	4.1%	1.6%	3.4%	<b>100.0%</b>

**The value of debt written off in the 12 months up to 30 June 2019**

<b>Department</b>	<b>£m</b>
Adult Care	0.360
Children's Services	0.030
Economy, Transport and Environment	0.013
Commissioning, Communities and Policy	0.062
<b>All Departments</b>	<b>0.465</b>

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**Agenda Item No 4(e)**

**DERBYSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE**

**24 September 2019**

**Report of the Director of Finance & ICT**

**CAPITAL BUDGET MONITORING TO MONTH 3 2019-2020**

**1 Purpose of the Report**

To inform Audit Committee of the latest budget monitoring position for the Capital programme.

**2 Information and Analysis**

The report reflects those schemes that are currently under way and have had previous Cabinet approval. Each scheme has a nominated budget holder who is responsible for ensuring the scheme stays within budget, and who verifies the projected spend against their allocated schemes. The report contains some schemes that were open at 1 April 2019 but have been completed and closed in year.

The current budget for open schemes is approximately £673m, with the latest monitoring showing a forecast overspend over the life of the projects of £0.018m. The position statement by department is attached as Appendix 1.

**2.1 Adult Care – projected overspend of £0.041m**

There are 32 open schemes within Adult Care with a budget value of £64.697m. The major projects are:

Belper Integrated Specialist Facilities Centre	£13.837m
Darley Dale Specialist Community Centre	£11.270m
Heanor Specialist Community Care Centre	£10.750m
Disabled Adaptations 2019-20	£5.500m
Long Eaton Specialist Accommodation Unit	£2.500m
Buxton, Brown Edge Rd Residential Care Unit	£2.500m

The Belper Centre offers accommodation for up to 40 older persons with dementia, and includes a library on site. Construction work commenced in May 2018 and is on target to complete in January 2020. The centre is scheduled to open to residents in April 2020.

The authority also has 4 specialist centres, providing care for physically frail, elderly clients with dementia. These are all operational, but the schemes cannot be closed yet due to the following issues. Darley Dale opened in March 2016, Heanor opened in August 2015, Long Eaton opened in August 2015 and Buxton opened in June 2018 and is awaiting its final invoice.

The disabled adaptations scheme relates to aids and adaptations installed in people's own homes so they may remain as independent as possible and will be fully financed from borrowing together with contributions from clients and district councils.

## **2.2 Children's Services - projected underspend - £0.088m**

Children's Services currently have 648 open schemes with a budget value of £189.872m. The major schemes are:

Glossopdale School – Replacement	£23.699m
Tibshelf Secondary School & Autism Centre	£15,657m
Alfreton Park School Replacement	£11.900m
Aldercar Language College Replacement Phases 1 & 2	£11.140m
Tibshelf New Primary School	£7.000m

The replacement Glossopdale School is now complete and operational, but the demolition and site works are still ongoing with asbestos issues at the Hadfield site. Tibshelf Secondary School is operational, with some remaining defect work outstanding. The scheme to replace the Park School Alfreton is due to start early next year and is scheduled to finish by December 2021. Aldercar School Phase 1 is complete and became operational in March 2018. Phase 2 still has some outstanding remedial work to be completed. The new Tibshelf Primary school is due to be complete and operational by March 2022.

The projected underspend of £0.088m is represented by overspends on the Alfreton Park Hydro Pool (£0.099m), Lady Manners School (£0.079m), Peak Lodge Special School (£0.045m). These are partially offset by anticipated underspends on a number of schemes. These include: Creswell Infants School (£0.093m), Hadfield Infants (£0.072m); Parkside Community School (£0.070m) and Brampton Primary School (£0.035m). The balance is made up of a number of school projects that have come in under budget.

The Executive Director of Childrens Services will need to obtain approval for further financing when details have been confirmed for these schemes to cover the projected funding shortfall.

## **2.3 Commissioning, Communities & Policy – projected underspend - £0.069m**

There are 100 open schemes, the majority of which are funded from the Corporate Maintenance budget and cover all departments (excluding schools).

The total budget for Corporate Services is £65.231m. It incorporates the former Health and Community Services budget of £6.608m. The major schemes under this portfolio are:

Buxton Crescent	£41.263m
Ashbourne Library/Civic Centre	£3.029m
Green Deal and Fuel Poverty grant	£2.521m

Work is continuing on the Buxton Crescent scheme. Derbyshire County Council is now accountable for £41.263m of public funding, included in which is a contribution by the authority of £13.400m. The main construction contract commenced in May 2016 and it is anticipated that the scheme will be completed by the end of 2019. Additionally, the Council has agreed a loan to the developer of £11.390m on commercial terms.

Ashbourne Library/Civic Centre is operational and its costs are being finalised. Glossop Library opened in April 2018 and related snagging works are nearing completion.

Remaining funds of £0.099m from the original Green Deal and Fuel Poverty scheme have been allocated to Derbyshire councils for their Derbyshire Healthy Home programme to help attract additional capital match funding to their projects up to 2020-21.

The projected underspend of £0.069m relates principally to works at High Peak Pump House, together with small over/underspends on several other schemes.

## **2.4 Economy, Transport & Environment - projected overspend - £0.134m**

The budget for the 76 open schemes under this portfolio is currently £352.672m. It represents just over half of the total capital expenditure budget.

Local Transport Plan 2014-2019	£129.067m
Markham Vale Employment Zone (MEGZ)	£41,545m
LED Street Lighting	£32.100m
Waste Project, Derby	£25.062m
Accelerated Highways Maintenance	£22.800m
A61 Growth Corridor	£16.000m

Expenditure on ETE projects relates mainly to the delivery of the Highways Infrastructure and Integrated Transport Programmes. These are managed within the Council's Local Transport Plans, and funded from grants provided by the Department for Transport. All grants are fully utilised, and, subject to approval, are reallocated to other infrastructure projects.

Works on the residential network for years one and two are almost complete with a small percentage of the project over running. Year three is expected to be completed by December 2019 and will see the remaining street lights on the residential network converted to LED, apart from heritage and cast iron lighting columns. Overall this work is around 80% complete. Work is still behind schedule on the strategic network and is around 45% complete. The forecast completion of the strategic routes is the end of the 2021/22 financial year.

The contract, for delivery of the long term waste management including the Sinfin plant, with Resource Recovery Solutions (Derbyshire) Ltd was terminated on 2 August 2019. Contingency measures have been put in place by the councils to make sure that waste continues to be dealt with. The councils will now enter negotiations to pay the banks an “estimated fair value” for the plant, taking into account all of the costs of rectifying ongoing issues at the plant, and the costs of providing the services to meet the agreed contract standards. The timing of this process is yet to be determined.

The three year planned programme of work for the Accelerated Highways Maintenance began in 2015-16 and all the surface dressing work has now been completed on all 457 identified sites, with the final external costs expected around autumn.

Phase 1 works on the A61 corridor, improving walking and cycling networks, were completed on time in April 2017. Further phases are now on site (traffic signal upgrades) or in design and land assembly stages. Cabinet in October 2018 authorised the Local Enterprise Partnership (D2N2) pre-compliance funding to be drawn down to support this programme , and Full Business Cases are due to be considered by the funding body (D2N2) in September 2019.

The anticipated overspend of £0.134m relates principally to an overspend on Grassmoor Lagoons (£0.343m) and an anticipated underspend on Ilkeston Awworth Road Link (£0.101m), after land compensation claims have been settled. The balance comprises of a small number of schemes that have completed under budget.

Any funding shortfall on individual projects will need to be addressed by the Strategic Director of Economy, Transport & Environment.

## **2.5 Top Ten Capital schemes by value**

Set out in Appendix 2 is a summary of the ten largest capital schemes that the Council currently has. These represent approximately 52% in value of the current capital schemes.



### **3 Considerations**

In preparing this report the relevance of the following factors has been considered - financial, legal and human rights, human resources, equality and diversity, health, environmental, social value, transport, property and prevention of crime and disorder.

### **4 Key Decision**

No.

### **5 Background Papers**

Files held by the Director of Finance & ICT.

### **6 Call-in**

Is it required that call-in be waived in respect of the decisions proposed in the report?

No.

### **7 Officer's Recommendation**

That Audit Committee notes the current position on the monitoring of Capital schemes.

PETER HANDFORD

Director of Finance & ICT

## APPENDIX 1

## Summary of Projected Capital Spend by Department

Department	Current Budget	Total spend to date (inc commitments)	Estimated spend remaining in 2019/20	Total projected spend to 31/3/2020	Planned expenditure 2020/21	Planned expenditure 2021/22	Planned expenditure 2022/23	Planned expenditure 2023 +	TOTAL Revised planned expenditure	(Under) / Over
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adult Care & Health	64,697	52,853	8,896	61,749	1,989	1,000	0	0	64,738	41
Childrens Services	189,988	111,540	49,708	161,248	22,045	6,607	0	0	189,900	(88)
Commissioning, Communities & Policy	65,231	53,026	11,841	64,867	265	30	0	0	65,162	(69)
Economy, Transport & Environment	352,672	228,806	79,688	308,494	34,053	9,008	1,251	0	352,806	134
Grand Total	672,588	446,225	150,133	596,358	58,352	16,645	1,251	0	672,606	18

## APPENDIX 2

## Top Ten Capital Projects according to Budget Value

	Approval Year	Current Budget	Total spend to date	Estimated spend remaining in 2019/20	Total projected spend to 31/3/2020	Planned expenditure 2020/21	Planned expenditure 2021/22	Planned expenditure 2022/23	Planned expenditure 2023+	TOTAL Revised planned expenditure	(Under) / Over
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Local Transport Plan	13/18	129,067	86,340	20,697	107,037	14,524	6,285	1,168	0	129,014	(53)
Markham Employment Growth Zone	88/89	41,545	36,493	2,262	38,755	2,529	261	0	0	41,545	0
Buxton, The Crescent	06/07	41,263	37,800	3,463	41,263	0	0	0	0	41,263	0
Street Lighting LEDs	15/16	32,100	19,323	6,295	25,618	6,482	0	0	0	32,100	0
New Waste Treatment Facility Derby	07/08	25,062	62	25,000	25,062	0	0	0	0	25,062	0
New Glossopdale School - Ph 1 & 2	13/14	23,699	22,749	950	23,699	0	0	0	0	23,699	0
Accelerated Highways Maintenance	14/15	22,800	22,095	705	22,800	0	0	0	0	22,800	0
A61 - Growth Deal project	15/16	16,000	2,129	5,074	7,203	7,408	1,389	0	0	16,000	0
Tibshelf School & Autism Centre	11/12	15,657	15,448	209	15,657	0	0	0	0	15,657	0
Belper Integrated Specialist Facilities	12/13	13,838	7,472	3,754	11,226	1,612	1,000	0	0	13,838	0
		361,031	249,911	68,409	318,320	32,555	8,935	1,168	0	360,978	(53)

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**DERBYSHIRE COUNTY COUNCIL****AUDIT COMMITTEE MEETING****24 September 2019****Report of the Assistant Director of Finance (Audit)****AUDIT SERVICES UNIT – PROGRESS AGAINST AUDIT PLAN 2019-20****1. Purpose of Report**

To inform Members of progress against the approved Audit Plan for 2019-20 as at 31 August 2019.

**2. Information & Analysis**

At the meeting of this Committee held on 27 March 2019 Members approved the Audit Plan for 2019-20 which had been formulated from our risk assessment drawn from a wide range of sources including the Council Plan, the Council's strategic risk register, Departmental risk registers, service plans and meetings with Executive Directors and Directors. These meetings included the Executive Director of Commissioning, Communities and Policy (Head of Paid Service), Director of Finance & ICT (Section 151 Officer) and Director of Legal and Democratic Services (Monitoring Officer).

In accordance with the Audit Committee's Terms of Reference this report updates Members on progress against the Plan for the five months to 31 August 2019 and represents work undertaken during that period which is detailed in Appendix 1. An analysis of the priority criteria for Audit recommendations and assurance levels is provided in Appendix 2.

**Staffing**

As previously reported to the Audit Committee, most recently in the last Audit Services Annual Report, the Unit's staffing resources continue to be under considerable pressure. Recruitment exercises are currently underway to fill two Senior Auditor, one Auditor and one Trainee Auditor posts.

For these reasons some assumptions had to be made when forecasting staffing resources available to deliver the current Audit Plan, and I consider that the ongoing lack of resources will impact on the delivery of this Plan. However, the situation is constantly monitored and I will continue to take appropriate action to minimize the effects of this lack of resource.

### Operational Matters

Audit Services continues its approved programme of work including the provision of advice to Management at all levels within the Council. In common with previous years some work forming part of last year's approved Audit Plan was completed and reported in the current year which is identified at Appendix 1. Audit staff routinely follow up progress against agreed recommendations as part of subsequent work in that area.

### External Review of Internal Audit

Members are aware of the Public Sector Internal Audit Standards (PSIAS) and the requirement that internal audit are subject to external assessment at least once every five years. The last external review of Audit Services' adequacy and effectiveness and our compliance with the PSIAS was undertaken by PricewaterhouseCoopers and reported to the Audit Committee in March 2014.

Following a competitive exercise, carried out in accordance with the Council's Financial Regulations and Standing Orders relating to Contracts, the Chartered Institute of Public Finance and Accountancy has been selected to carry out a review of Audit Services in accordance with the PSIAS. It is anticipated that the review will commence imminently and the results reported to the Audit Committee on completion.

## **3. Considerations**

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

## **4. Background Papers**

A file held by the Assistant Director of Finance (Audit).

## **5. Officer's Recommendation**

That the Committee note the information on progress to date against the approved Audit Plan.

**Carl Hardman**  
**Assistant Director of Finance (Audit)**

DERBYSHIRE AUDIT SERVICES  
INTERNAL AUDIT PLAN 2019/20

The information summarized below by Service Department identifies the work approved and actual time spent for the period ending 31 August 2019.

**Corporate Activities**

It is intended to spend **1,018** days on the Audit of Corporate Activities which will be allocated over the following areas:-

Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
Corporate Projects													
• Workforce Development/ Succession Planning	H	20	-	2	-	-	-	-	-	-	-	-	-
• Cyber Security	H	30	-	-	-	-	-	-	-	-	-	-	-
• Audit of Corporate Culture	H	30	-	-	-	-	-	-	-	-	-	-	-
• Financial Resilience & Achievement of Budget Reductions	H	30	-	-	-	-	-	-	-	-	-	-	-
• New Delivery & Commissioning Models/Partnership Working	M/H	30	-	-	-	-	-	-	-	-	-	-	-
• SAP Utilisation	M/H	20	-	-	-	-	-	-	-	-	-	-	-
• Data Protection Compliance	M/H	25	-	-	-	-	-	-	-	-	-	-	-
• Supply Chain Failure	M/H	15	-	-	-	-	-	-	-	-	-	-	-
• Injury to Public or Employees	M/H	-	-	-	1	Qualified	-	2	-	1	-	-	Memo relates to 2018/19.
• D2N2 LEP	M	50	-	21	4	Other	-	-	-	-	-	-	-
• emPSN (SCo & ICo)	M	8	-	-	-	-	-	-	-	-	-	-	-
• Grants Administration	M	15	-	-	-	-	-	-	-	-	-	-	-
Corporate Governance including:-													
• Embedding Corporate Governance	H	40	-	25	-	-	-	-	-	-	-	-	-
• Business Continuity Planning	H	20	9	-	-	-	-	-	-	-	-	-	-



Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
• Corporate Health Check	H	20	-	-	-	-	-	-	-	-	-	-	-
• Information Governance Group and Support	H	30	1	7	-	-	-	-	-	-	-	-	-
• Services to Members	H	25	-	-	-	-	-	-	-	-	-	-	-
Corporate Fraud Prevention	H	460	110	62	-	-	-	-	-	-	-	-	This includes work on <ul style="list-style-type: none"> <li>• NFI;</li> <li>• publication of NAFN alerts;</li> <li>• surveillance and data communications compliance;</li> <li>• liaison with external audit;</li> </ul> 5 investigations 4 of which relate to previous years including liaison with the Police. Special Investigation Report recommendations are not categorized.
Audit Contingency	-	85	-	-	-	-	-	-	-	-	-	-	Original contingency was 150 days less transfers of 65 days.
<b>TOTAL</b>		<b>953</b>	<b>120</b>	<b>117</b>	<b>5</b>		<b>-</b>	<b>2</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	

**Commissioning, Communities and Policy**

It is intended to spend **655** days on the Audit of the Commissioning, Communities and Policy Department which will be allocated over the following areas:-

Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
Departmental Review - Management & Administration	M	60	3	9	1	Qualified	-	3	15	16	4M,1L	8M,2L	Memo relates to 2018/19. Issued as Final without all Management responses being received.
External Grants & Certifications	M/H	5	-	4	-	-	-	-	-	-	-	-	-
Information Security Reviews	M/H	50	1	36	3	1 Qualified 2 Other	-	-	2	-	-	-	New and enhanced IT systems which require approval by the Director of Finance & ICT. IT solution testing and head office visits to ensure systems incorporate core data protection principles, and do not compromise the Council's ISO27001 accreditation in accordance with the requirements of the protocol developed with the Director of Finance & ICT.
Themed and Operational													
• Community Safety	M/H	20	-	-	-	-	-	-	-	-	-	-	-
• Trading Standards	M/H	20	-	10	-	-	-	-	-	-	-	-	-
• Public Library Service	M/L	5	-	2	-	-	-	-	-	-	-	-	-
<b>Divisional Activity</b>													
Corporate Finance													
Probity and Compliance	M/H	95	-	12	4	Qualified	-	4	10	6	1L	1M,4L	-
Major Systems	H	280	25	39	3	1 Substantial 2 Qualified	-	4	28	11	4M,1L	5M,4L	Due to the nature of these key reviews they are routinely work in progress at the year end. Work on Human Resources, Accounts Payable and Treasury Management reported in year.
Corporate/Departmental ICT Services	M/H	80	29	12	1	Qualified	-	1	3	3	-	1H	Work includes assessments of new and existing IT systems together with specific reviews of the network infrastructure, BACSTEL-IP application, database and server management.
County Property	M/H	20	-	-	-	-	-	-	-	-	-	-	-

Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
Regulatory Registration Service	M/L	20	-	-	-	-	-	-	-	-	-	-	-
TOTAL		655	58	124	12		-	12	58	36	11	25	

**Children's Services**

It is intended to spend **528** days on the Audit of the Children's Services Department which will be allocated over the following areas:-

Audit Area	Level of Risk	Plan Days	Actual Days 18-19 19-20		No of Reports	Level of Assurance	Analysis of Recommendations C H M L				Recs Not Accepted	Recs Not Implmtd	Comments
Departmental Review - Management & Administration	M	45	2	7	1	Qualified	-	8	8	7	1H	1H,6M,1L	Memo relates to 2018/19.
Information Security Reviews	M/H	40	4	15	1	Other	-	-	-	-	-	-	New and enhanced IT systems which require approval by the Director of Finance & ICT. IT solution testing and head office visits to ensure systems incorporate core data protection principles, and do not compromise the Council's ISO27001 accreditation in accordance with the requirements of the protocol developed with the Director of Finance & ICT.
Schools													
Primary & Special	M/H	224	11	116	14	Qualified	-	70	139	97	1L	26H,38M,14L	It should be noted that Audit opinions and recommendations made relating to schools and establishments are categorized in relation to the school or establishment and not the Authority. <i>*20 days transferred from contingency.</i>
Secondary	M/H	49	-	19	2	Qualified	-	11	16	14	-	6H,5M,2L	-
Information Security Reviews	M/H	60	3	8	1	Qualified	-	1	-	-	-	-	New and enhanced IT systems which require approval by the Director of Finance & ICT. IT solution testing and head office visits to ensure systems incorporate core data protection principles, and do not compromise the Council's ISO27001 accreditation in accordance with the requirements of the protocol developed with the Director of Finance & ICT.
Children's Homes	M/H	20	-	12	1	Qualified	-	6	3	-	-	1H,3M	-
Derbyshire Outdoors	M/L	10	-	-	-	-	-	-	-	-	-	-	-
Themed & Operational													
• Starting Point	H	20	-	14	-	-	-	-	-	-	-	-	-
• Early Years	H	25	-	-	-	-	-	-	-	-	-	-	-
• Catering Service	M/H	40	-	39	-	-	-	-	-	-	-	-	<i>*15 days transferred from contingency.</i>

Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
• Troubled Families Programme	L	30	4	14	2	Other	-	-	-	-	-	-	-
TOTAL		563	24	244	22		-	96	166	118	2	103	

**Adult Care and Public Health**

It is intended to spend **333** days on the Audit of the Adult Care Department which will be allocated over the following areas:-

Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Accepted	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
Departmental Review - Management & Administration	M	45	1	8	1	Qualified	-	6	8	7	1L	2H,2M,3L	Memo relates to 2018/19.
Public Health	M/H	30	29	-	-	-	-	-	-	-	-	-	-
Information Security Reviews	M/H	70	20	16	1	Qualified	-	2	-	-	-	-	New and enhanced IT systems which require approval by the Director of Finance & ICT. IT solution testing and head office visits to ensure systems incorporate core data protection principles, and do not compromise the Council's ISO27001 accreditation in accordance with the requirements of the protocol developed with the Director of Finance & ICT.
Social Care													
Elderly Residential	M/H	36	21	9	4	Qualified	-	22	17	12	1H	6H,7M,8L	It should be noted that Audit opinions and recommendations made relating to establishments are categorized in relation to the establishment and not the Authority.
Physical/Mental Disability	M/H	24	-	-	-	-	-	-	-	-	-	-	-
Day Care & Hostels	M/H	12	-	8	1	Qualified	-	1	6	2	-	3H,1M,1L	-
Community Care Centres	M/H	16	-	-	-	-	-	-	-	-	-	-	-
Themed & Operational													
• Direct Payments	H	25	-	-	-	-	-	-	-	-	-	-	-
• Reduction in Clinical Commissioning Group Spending	H	25	-	11	-	-	-	-	-	-	-	-	-
• Transforming Care Plan	H	30	25	-	-	-	-	-	-	-	-	-	Relates to 2018/19. <i>*30 days transferred from contingency.</i>
• Deputyship	M/H	25	-	-	-	-	-	-	-	-	-	-	-
• Private Residential Care	M/H	25	-	3	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>		<b>363</b>	<b>96</b>	<b>55</b>	<b>7</b>		<b>-</b>	<b>31</b>	<b>31</b>	<b>21</b>	<b>2</b>	<b>33</b>	

**Economy, Transport and Environment**

It is intended to spend **150** days on the Audit of the Economy, Transport & Communities Department which will be allocated over the following areas:-

Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
Departmental Review - Management & Administration	M	45	44	5	1	Qualified	-	4	15	9	1L	3H,6M,3L	Memo relates to 2018/19.
Information Security Reviews	M/H	15	-	12	2	Qualified	-	2	2	-	-	-	New and enhanced IT systems which require approval by the Director of Finance & ICT. IT solution testing and head office visits to ensure systems incorporate core data protection principles, and do not compromise the Council's ISO27001 accreditation in accordance with the requirements of the protocol developed with the Director of Finance & ICT.
• Public Transport and Procurement of Taxis (including Vetting of Contractors)	M/H	25	-	1	-	-	-	-	-	-	-	-	-
• Planning	M/H	25	-	-	-	-	-	-	-	-	-	-	-
• Concessionary Fares	M/H	25	-	-	-	-	-	-	-	-	-	-	-
• Grants	M/H	15	-	18	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>		<b>150</b>	<b>44</b>	<b>36</b>	<b>3</b>		<b>-</b>	<b>6</b>	<b>17</b>	<b>9</b>	<b>1</b>	<b>12</b>	

### **Audit Recommendations**

Audit recommendations are prioritized depending upon the level of associated risk and impact upon the management control framework as follows:-

Level	Category	Definition
1	<b>Critical</b>	Significant strategic, financial or reputational risks where immediate remedial action is considered essential.
2	<b>High</b>	The absence of, significant weaknesses in, or inadequate internal controls over the operation of key systems or processes which compromise the integrity/probity of the client's operations. These would result in a potential, significant increase in the level of risk exposure which may be financial, reputational or take the form of an increased risk of litigation.
3	<b>Medium</b>	Findings which identify poor working practices or non-compliance with established systems or procedures which result in increased risk of loss/inefficient operation and which expose the client to an increased level of risk.
4	<b>Low</b>	General housekeeping issues which require consideration and a planned implementation date within the medium term.

### **Audit Opinions**

Audit opinions are categorized based upon the assurance that Management may draw on the adequacy and effectiveness of the overall control framework in operation as follows:

Level of Assurance	Explanation and significance
Substantial Assurance	Whilst there is a sound system of control minor weaknesses have been identified which include non-compliance with some control processes. No significant risks to the system/audit area objectives have been detected.
Qualified Assurance	Whilst there is basically a sound system of control some high priority recommendations have been made to address potentially significant or serious weaknesses and/or evidence of a level of non-compliance with some controls identified which may put system/audit area objectives at risk. Should these weaknesses remain unaddressed they may expose the Council to reputational risk or significant control failure.
Limited Assurance	Significant weaknesses and/or non-compliance have been identified in key areas of the control system which expose the system/audit area to a high risk of failure and the Council to significant reputational risk.
No Assurance	Control has been judged to be inadequate as systems weaknesses have been identified in numerous key areas rendering the overall system of internal control ineffective and leaving the system/audit area open to a significant risk of error, loss, misappropriation or abuse.



**DERBYSHIRE COUNTY COUNCIL****AUDIT COMMITTEE MEETING****24 September 2019****Report of the Assistant Director of Finance (Audit)****AUDIT CHARTER****1. Purpose of Report**

To inform Members of the review and update of the Audit Charter which is a specific requirement of the Public Sector Internal Audit Standards (PSIAS).

**2. Information & Analysis**

At the meeting of this Committee held on 19 March 2013 Members were made aware of the implementation of the PSIAS and the need, as part of this implementation, to formally approve an Audit Charter. The Charter was subsequently revised and reported to the Audit Committee at its meeting on 26 September 2018 and has now been subject to further revision.

The Audit Charter draws together existing practice and formalizes procedures which are already embedded in the Council's governance framework (eg the provisions of Financial Regulations and Standing Orders relating to Contracts, the Anti Fraud and Anti Corruption Strategy, Fraud Response Plan, the requirements of the Confidential Reporting Code (Whistleblowing Policy) etc.) into a single reference document which embodies those requirements specified in the PSIAS.

The Charter is reviewed by the Assistant Director of Finance (Audit) in consultation with the Head of Paid Service, other appropriate officers and the Audit Committee to ensure it continues to reflect the requirements of the regulatory framework and key legislation on which it is based. The revised Charter is attached at Appendix 1.

The PSIAS requires that the Audit Charter is approved by Cabinet and the purpose of this Report is to allow the Audit Committee, acting in its role as "those charged with governance", to review and endorse the revised Charter prior to its formal recommendation for approval as Council policy.

**3. Legal Considerations**

The Audit Services Unit discharges the Council's statutory responsibilities under Regulation 5 of the Accounts and Audit Regulations 2015 and significant aspects of the Director of Finance & ICT's statutory duties under Section 151,

Local Government Act 1972.

**4. Other Considerations**

In preparing this report the relevance of the following factors has been considered: financial, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

**5. Background Papers**

A file held by the Assistant Director of Finance (Audit).

**6. Officer's Recommendation**

That the Committee consider the content of the revised Audit Charter and recommend to Cabinet its approval as Council policy.

**Carl Hardman**  
**Assistant Director of Finance (Audit)**

# **DERBYSHIRE COUNTY COUNCIL**

## **AUDIT SERVICES**

### **AUDIT CHARTER**



**CARL HARDMAN**  
Assistant Director of Finance (Audit)



**DERBYSHIRE**  
County Council

## Introduction

The Relevant Internal Audit Standard Setters, which includes the Chartered Institute of Public Finance and Accountancy (Cipfa) in respect of local government across the United Kingdom, adopted a common set of Public Sector Internal Audit Standards (PSIAS) supplemented by a Local Government Application Note (LGAN) with effect from the 1<sup>st</sup> April 2013; the PSIAS were subsequently updated in March 2017. The PSIAS requires the Council to adopt an Internal Audit Charter as part of the requirements of the Standards, this is fundamental to the effective delivery of internal audit within the Council.

## Definitions

For the purposes of this Charter the following definitions of PSIAS terms apply at the Council:-

'Board'	The Council's Audit Committee
'Senior Management'	Executive Directors and Directors
'Chief Audit Executive'	Assistant Director of Finance (Audit)

## Legislative/Regulatory Basis of Operation

The Council's statutory responsibilities under Regulation 5 of the Accounts and Audit Regulations 2015, as amplified by the PSIAS, are discharged by the Audit Services Unit. It also discharges significant aspects of the Director of Finance & ICT's statutory duties under Section 151 of the Local Government Act 1972 on his behalf. The Unit works closely with the Director of Legal and Democratic Services particularly in relation to promoting and maintaining good governance arrangements.

The Unit works in partnership with the Council's appointed auditors, Mazars, in accordance with the agreed External and Internal Audit Protocol which clarifies the working relationship between Mazars and Audit Services and seeks to formalize areas of co-operation and assistance. The role and responsibilities under the PSIAS of the Unit are further clarified and reinforced in the Council's Constitution, Financial Regulations and Standing Orders relating to Contracts, Anti Fraud and Anti Corruption Strategy, Fraud Response Plan, the requirements of the Confidential Reporting Code (Whistleblowing Policy) and the Unit's Audit Manual.

## Mission of Internal Audit

The Council recognises the mission of Audit Services as set out in the PSIAS:-

*To aspire to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.*

## Definition of Internal Audit

The Council recognises the definition of internal audit formally set out in the PSIAS:-

*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.*

## Position of Audit Services within the County Council

The Council has a responsibility for ensuring that an effective system of internal control is maintained and operated in respect of the resources under its control.

The system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or should be detected within a timely period.

The system of internal control is based upon a framework which embraces regular management information, Financial Regulations and Standing Orders relating to Contracts, administrative procedures (including segregation of duties), Management supervision and a structure of delegation and accountability. Managers within the Council undertake development and maintenance of the system. In particular, the system includes:

- comprehensive budgeting systems;
- the preparation and regular review of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital expenditure guidelines;
- as appropriate, formal project management disciplines;
- clearly defined and adequately documented, approved procedural and operational guidance.

The internal control framework of the Council is subject to regular review by both Management and the Council's Audit Services Unit.

The Council's Audit Services is an assurance function which provides an independent and objective opinion to the Council on its framework of governance, risk management and control. This framework is subject to regular review by the Unit who, through a structured plan of operational and financial reviews, provide Management with assistance, advice and insight on systems, processes and risks and through this work form a view on the strength of individual aspects of control and the overall control framework.

Audit Services operates in compliance with the requirements of the Accounts and Audit Regulations and the PSIAS. This requires that the Council '*must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.*' These Regulations also require full assistance from officers and Members in the provision of access to documents and records and the supply of information and explanations to enable the proper fulfilment of those Audit responsibilities. The Unit's work conforms with the requirements of the PSIAS, professional best practice and locally by the policies, procedures, rules and regulations established by the Council.

### **Audit Services' Methodology**

In assisting the Council to maintain and develop its control environment Audit Services' staff appraise and review the:

- completeness, reliability and integrity of information, both financial and operational;
- effectiveness of systems established to ensure compliance with policies, plans, procedures, laws and regulations, e.g. control/regulatory frameworks specified by the Members and Management of the Council, and externally by statute or regulatory bodies;
- means employed by the Council to safeguard its assets and recognize risks;
- effectiveness, efficiency and economy with which resources are employed;
- management and security of the Council's information assets including contractual arrangements with third parties;
- operations being carried out to determine whether planned objectives and goals are achieved.

The Audit Services' Manual contains procedures and Professional Standards, the requirements of Professional Best Practice, the Quality Assurance and Improvement Programme and guidance relevant to the work of the Unit. The Manual is held electronically and is available to all members of the Unit's staff.

### **Scope of Audit Services**

Audit Services' remit covers all functions and services for which the Council is responsible. It has unrestricted access to all records, personnel (both Members and officers) and physical properties necessary for the purposes of its work, however and wherever these are held, in accordance with the requirements of the PSIAS. This includes Council information which is held or managed by third parties on the Authority's behalf.

Due to its detailed knowledge of the Council's systems and processes, Audit Services may undertake consultancy work in addition to its primary assurance role. Examples of this may include advice, facilitation and training. The scope of any consultancy work will be agreed with Management and will only be undertaken where resources permit without impacting on the annual assurance process. In

accordance with the PSIAS, approval will be sought from the Audit Committee before any significant, unplanned consultancy work is accepted.

The Director of Finance & ICT is the designated Section 151 Officer and also has line management responsibility for the Assistant Director of Finance (Audit). The Assistant Director of Finance (Audit) has direct access, as appropriate, to:

- all levels of management, including the Head of Paid Service, Director of Finance & ICT (Section 151 Officer), Director of Legal and Democratic Services (Monitoring Officer), Executive Directors/Directors;
- the Audit Committee, all Elected Members, including the Leader and the Chair of the Council;
- all employees of the Council;
- all agents, partners, suppliers and contractors of the Council and their staff.

The Assistant Director of Finance (Audit) reports directly to the Head of Paid Service and the Audit Committee.

### **Planning and Performing Audit Work**

The Audit Services Unit has an Internal Audit Strategy supported by an annual plan of areas to be examined. This is based upon an assessment of risks and a determination of critical areas for opinion and assurance purposes. The Plan, which is approved by the Audit Committee, is reported to Cabinet and Council and is managed by the Assistant Director of Finance (Audit) throughout the year to ensure delivery of all key aspects of work and the requirement to produce an annual internal opinion on the Council's framework of governance, risk management and control. The performance of Audit Services and the outputs from its work are reviewed on an on-going basis by the Audit Committee which receives regular reports throughout the year on progress against the Audit Plan, assurance levels and recommendations made, accepted and implemented; the format of these reports is reviewed by the Audit Committee to ensure their continued relevance.

Further reviews of Audit Services' performance are undertaken by the Head of Paid Service as part of normal management arrangements and the Director of Finance & ICT as part of the review of the effectiveness of the system of internal control. External assessments of internal audit must be carried out at least once every five years by a qualified, independent assessor or assessment team.

Audit work encompasses both operational systems and those in development and through this work Audit Services:

- assist in formulating, promoting and maintaining sound governance arrangements;
- facilitate good practice in managing risks;
- contribute to ensuring sound resource management;
- recommend improvements in control, performance and productivity;
- provide reassurance and challenge to Managers;

- encourage development of consistent policies and high standards;
- ensure the impartial investigation of irregularities and policy breaches;
- support the achievement of statutory and best practice requirements.

The Constitution gives the Audit Committee overall responsibility for internal and external audit and Audit Services produce Annual Reports to that Committee outlining future planned work and reporting on delivery of the Audit product. The latter report includes the Assistant Director of Finance (Audit)'s opinion on the level of assurance which can be drawn from the work undertaken on the Council's framework of governance, risk management and control.

The assessment of the adequacy of the control environment rests upon the work of managers within the Council. It is informed by the work of Audit Services as described above and also by the work of External Audit as communicated in their annual audit letter and other reports.

Principle 2 of the published Statement on the Role of the Head of Internal Audit (HIA) in Public Service Organisations issued by Cipfa as a best practice requirement states *'The annual HIA opinion .... is the most important output from the HIA and is one of the main sources of objective assurance that Chief Executives and the leadership team have for their annual governance statement'*. Audit Services' Memoranda and Reports are issued throughout the year and addressed to appropriate Senior Management including Executive Directors/Directors in accordance with the PSIAS. Audit Services routinely monitor and follow up actions taken to implement agreed recommendations.

### **Staff of the Audit Services Unit**

The Assistant Director of Finance (Audit) must be professionally qualified and have wide experience of internal audit and management.

Audit Services must be appropriately staffed in terms of number, grade, qualification levels and experience to enable the Council's Audit Plan to be delivered effectively. Internal auditors must possess the knowledge (especially of Council activities), skills and other competencies needed to perform their individual responsibilities. Knowledge, skills and other competencies is a collective term which refers to the professional proficiency required of internal auditors to effectively discharge their professional responsibilities. Where the Assistant Director of Finance (Audit) believes that insufficient resources will impact on the provision of the annual audit opinion this will be reported to the Audit Committee.

Audit Services' staff are encouraged to demonstrate their proficiency by obtaining appropriate, relevant professional certifications and qualifications.

### **Code of Ethics**

A Code of Ethics is a mandatory element of the PSIAS which applies to both individual auditors and to the Unit. This Code includes principles of integrity,



objectivity, confidentiality and competence, and rules of conduct attached to each of these principles.

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Accordingly, internal auditors are required to perform their work with honesty, diligence and responsibility, to exhibit the highest levels of professional objectivity, to make balanced judgements and not to be unduly influenced by their own interests, and that of others, in forming judgements.

All internal auditors in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life – the Nolan principles.

Audit Services' staff are required by the PSIAS Code of Ethics to be sufficiently independent of the activities they audit so as to ensure that they are able to make impartial and effective professional judgements and recommendations. All staff are required, on an annual basis, to complete and submit to the Assistant Director of Finance (Audit) a return identifying any potential conflicts of interests or confirming that no such conflicts of interests exist.

Independence in the Council is achieved through the organizational status of Audit Services, the objectivity of Audit staff and the Assistant Director of Finance (Audit)'s freedom to report unedited, in their own name, directly to the Head of Paid Service and the Audit Committee.

## **Core Principles**

Audit Services, individual auditors and the internal audit activity, comply with the following principles in delivering and achieving its mission:

- demonstrates integrity;
- demonstrates competence and due professional care;
- is objective and free from undue influence (independent);
- aligns with the strategies, objectives, and risks of the Council;
- is appropriately positioned and adequately resourced;
- demonstrates quality and continuous improvement;
- communicates effectively;
- provides risk-based assurance;
- is insightful, proactive, and future-focused;
- promotes organisational improvement.

## **Fraud and Irregularities**

The Council takes a firm and positive approach to combatting fraud and corruption whether it is attempted on or from within the Authority, and is committed to an effective Anti Fraud and Anti Corruption Strategy which is supported by a Fraud Response Plan. These interrelated procedures are designed to frustrate any attempted fraudulent or corrupt act and cover:

- culture;
- deter and prevent;
- detection and investigation;
- training.

The investigation of alleged fraud and/or corruption centres on the Audit Services Unit and the Council's Financial Regulations and Standing Orders relating to Contracts require that all cases of suspected fraud, misappropriation or misuse of money, materials or equipment, or any mismanagement of money or other assets, or any other irregularities, must be reported immediately to the Assistant Director of Finance (Audit) who will investigate all such cases. The Unit will involve the relevant Executive Director/Director as appropriate and will undertake joint investigations if necessary.

The Council also has a Confidential Reporting Code (Whistleblowing Policy) which is intended to enable individuals or organisations to disclose information about malpractice internally and to provide them with protection from subsequent victimisation, discrimination or disadvantage. This Code requires that where a concern is regarding financial irregularities or fraud then the Assistant Director of Finance (Audit) should be contacted.

### **Responsibilities of Management to Facilitate the Audit**

All levels of Management have a role to identify key risks to their service and to ensure these risks are effectively mitigated to an adequate degree. Management is also responsible for ensuring that staff are aware of the processes and procedures required to operate the internal control systems.

Managers should assist Audit Services to discharge their duties by:

- the prompt provision of information and explanations that are sought by Audit Services' staff in the course of their work;
- providing input to the Audit Plan to ensure attention is focused on areas of greatest risk;
- providing early notification to Audit Services of plans for change, including new operational systems and processes;
- implementing agreed actions arising from Audit recommendations in a timely and effective manner;
- ensuring that all members of their staff are aware of the requirement to notify any suspicions of fraud, theft, or other irregularity, promptly to the Assistant Director of Finance (Audit) in accordance with the requirements of the Council's Financial Regulations and Standing Orders relating to Contracts. In such instances the relevant Executive Director/Director should, in consultation with the Assistant Director of Finance (Audit), take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration;
- ensuring that, in consultation with the Assistant Director of Finance (Audit), where Council services are provided under contract by an external

organisation, contractual documentation identifies the internal audit arrangements for those key systems including explicit rights of access.

### **Responsibilities of Audit**

Under the Code of Ethics internal auditors are required to respect and contribute to the legitimate and ethical objectives of the organisation.

Internal auditors are required to continually improve their proficiency and effectiveness and the quality of their services.

In seeking to undertake their duties Audit Services will have regard to the resource requirements on Departments, respect information provided and protect its security.

Any concerns about how Audit Services are undertaking their duties should be addressed to the Director of Finance & ICT and the Head of Paid Service.

### **Arrangements to ensure the continuing relevance of the Audit Charter**

The contents of this Charter will be reviewed by the Assistant Director of Finance (Audit) in consultation with the Head of Paid Service, other appropriate officers and the Audit Committee to ensure that it continues to reflect the requirements of the regulatory frameworks and key legislation on which it is based and will, in any event, be subject to a three yearly review on an on-going basis.

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**DERBYSHIRE COUNTY COUNCIL****AUDIT COMMITTEE MEETING****24 September 2019****Report of the Assistant Director of Finance (Audit)****ROLE OF THE HEAD OF INTERNAL AUDIT IN PUBLIC SERVICE ORGANISATIONS****1. Purpose of Report**

To inform Members of the update to the Chartered Institute of Public Finance and Accountancy's (Cipfa) Statement on the Role of the Head of Internal Audit in Public Service Organisations.

**2. Information & Analysis**

The Audit Committee was informed of the publication of the Cipfa Statement on the Role of the Head of Internal Audit in Public Service Organisations at its meeting on 10 July 2012. Cipfa have recently revised the Statement which is attached to this report as Appendix 1. This document together with the Public Sector Internal Audit Standards (PSIAS) provides comprehensive guidance regarding the requirements for an effective internal audit service.

The Statement confirms that the Head of Internal Audit (HIA) occupies a critical position in any organisation, helping it to achieve its objectives by evaluating the effectiveness of governance, risk management and internal control arrangements and playing a key role in promoting good corporate governance. The aim of the Statement is to set out the role of the HIA and to help ensure organisations engage with and support the role effectively.

The Statement is principle-based and should be relevant to all public service organisations and their HIA. It is intended to be helpful to a wide audience including leadership teams, chief executives, audit committees and other stakeholders as well as HIAs themselves.

The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations and the organisational arrangements needed to support them.

For each principle the Statement sets out the organisation's responsibilities to ensure the HIA is able to operate effectively and perform their core duties.

The five principles relating to the role of the HIA are:-

- objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and control;

- championing best practice in governance and commenting on responses to emerging risks and proposed developments;
- being a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee;
- lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively;
- being professionally qualified and suitably experienced.

Summaries of personal skills and professional standards detail the leadership competencies and technical expertise organisations can expect from their HIA. These include the requirements of Cipfa and the other professional bodies' codes of ethics and the PSIAS Code of Ethics to which the HIA is bound.

For each of the Statement's principles reference is made to the relevant core principles contained in the PSIAS.

### **3. Legal Considerations**

The Audit Services Unit discharges the Council's statutory responsibilities under Regulation 5 of the Accounts & Audit Regulations 2015, and significant aspects of the Director of Finance & ICT's statutory duties under Section 151 of the Local Government Act 1972.

### **4. Other Considerations**

In preparing this report the relevance of the following factors has been considered: financial, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

### **5. Background Papers**

A file held by the Assistant Director of Finance (Audit).

### **6. Officer's Recommendation**

That the Committee notes the update of the Cipfa Statement on the Role of the Head of Internal Audit in Public Service Organisations and recommend to Cabinet its approval as Council policy.

**Carl Hardman**  
**Assistant Director of Finance (Audit)**

CIPFA Statement on

# \ the role of the head of internal audit

in Public Service Organisations  
(2019 edition)

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

### **Head of internal audit**

The executive responsible for the organisation's internal audit service, including drawing up the internal audit strategy and annual plan and giving the annual audit opinion. This could be someone from another organisation where internal audit is contracted out or shared with others. In PSIAS this role is referred to as the chief audit executive.

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# \ introduction

The head of internal audit (HIA) occupies a critical position in any organisation, helping it to achieve its objectives by evaluating the effectiveness of governance, risk management and internal control arrangements and playing a key role in promoting good corporate governance. The aim of this Statement is to set out the role of the HIA in public service organisations and to help ensure organisations engage with and support the role effectively.

The UK Public Sector Internal Audit Standards (PSIAS) provide clear standards for internal audit but heads of internal audit in the public services face challenges ensuring professional standards are maintained and their internal audit teams remain effective. One key reason for this is that the organisation in which they operate has a direct impact on the resources, scope and authority given to internal audit. While HIAs must step up and deliver a professional service to the best of their ability, it is important to recognise this responsibility does not lie solely with the HIA. As one of the setters of the PSIAS, CIPFA considers it essential that public service organisations properly support their internal auditors to enable them to meet the standards.

For this reason it is critical that the CIPFA statement sets out not only the responsibilities of the HIA but also those of the organisation. CIPFA champions good governance and strong public financial management in public services and believes internal audit has an essential role to play in supporting those objectives. CIPFA considers that HIAs need recognition for their contributions, together with support and encouragement. For these reasons we believe the time is right for an updated CIPFA Statement.

Many heads of internal audit have already risen to the challenges and so alongside the updated CIPFA Statement we are publishing examples of how they are putting principles into practice, providing excellent support and assurance to their organisations and clients. We hope the Statement and this resource will both inspire and support internal audit going forward.

This edition ensures there is alignment to the PSIAS 2017. It explicitly links to the Core Principles for the Professional Practice of Internal Auditing, helping to demonstrate how the HIA role supports internal audit effectiveness.

The intended audience for this statement is not just HIAs in the public services. It should be read by all those with a leadership role in public bodies and by members of audit committees. CIPFA recommends those bodies evaluate their organisational arrangements for internal audit and consider the extent to which they align to the principles. We hope it will be the basis of conversations between the HIA, the leadership team and the audit committee and that the vital role of the HIA is given its due recognition and support.

Let's create the conditions in which heads of internal audit and their teams can thrive.

**Rob Whiteman**  
Chief Executive, CIPFA

# \ status of the CIPFA Statement

The Statement is principle-based and should be relevant to all public service organisations and their HIAs. It is intended to be helpful to a wide audience including leadership teams, chief executives, audit committees and other stakeholders as well as HIAs themselves.

We believe organisations should see the Statement as best practice and use it to support their HIA arrangements and drive up audit quality and governance arrangements.

We also commend the Statement to individual internal audit professionals. It articulates the core responsibilities of the HIA, as well as the personal and professional skills that they need.

## **The CIPFA Statement and the Public Sector Internal Audit Standards**

The Relevant Internal Audit Standard Setters (RIASS)<sup>1</sup> mandate the PSIAS for their respective areas of responsibility in the public services. They work together to agree standards taking advice from the Internal Audit Standards Advisory Board.

In PSIAS, as in the International Professional Practices Framework, the term chief audit executive is used to describe the role of the person responsible for managing internal audit. CIPFA has decided to use the more familiar term head of internal audit for the benefit of the wider readership of this Statement.

## **Statement approach and structure**

The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right ingredients in terms of:

- the organisation
- the role
- the individual.

For each principle the Statement sets out the organisation's responsibilities to ensure HIAs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the HIA, consistent with PSIAS. Where responsibilities are delegated the nominated HIA retains overall accountability.

Summaries of personal skills and professional standards then detail the leadership competencies and technical expertise organisations can expect from their HIA. These include the requirements of CIPFA and the other professional bodies' codes of ethics and the PSIAS Code of Ethics to which the HIA is bound. The personal skills support all five principles and are shown together, providing a handy reference for the person specification of the HIA.

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<sup>1</sup> The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

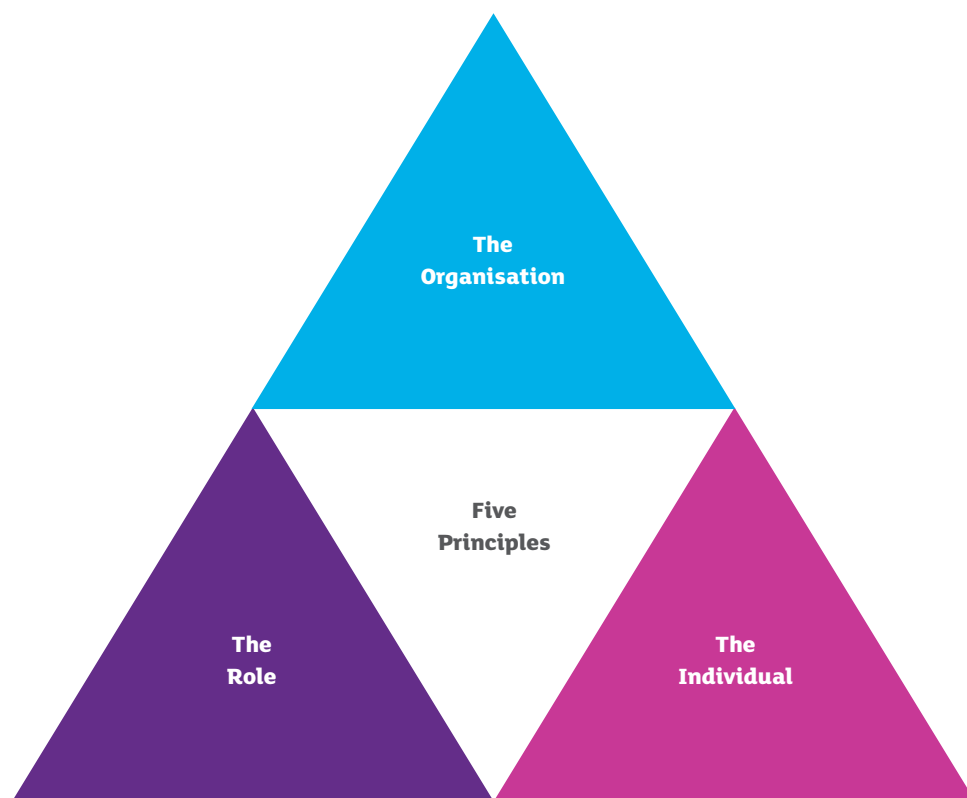
## The Principles

The head of internal audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:

- 1 objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control
- 2 championing best practice in governance and commenting on responses to emerging risks and proposed developments.

To perform this role the head of internal audit must:

- 3 be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee
- 4 lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively
- 5 be professionally qualified and suitably experienced.



# \ principle 1



The head of internal audit (HIA) plays a critical role in delivering the organisation's strategic objectives by objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control.

The UK Public Sector Internal Audit Standards (PSIAS) set out the mission of internal audit which is to 'enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'. They also set out Core Principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness.

The following core principles are of particular relevance for Principle 1 of the CIPFA Statement:

- Provides risk based assurance.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.



## Organisational responsibilities

**To enable the HIA to fulfil their role the leadership team should ensure they:**

- set out the responsibilities of the leadership team for internal audit
- establish an internal accountability and assurance framework including how internal audit works with other providers of assurance
- set out how the framework of assurance supports the annual governance statement and identify internal audit's role within it. The HIA should not be responsible for the statement
- set out the responsibilities of the HIA and ensure the independence of the role is preserved. If additional responsibilities are taken on then appropriate safeguards should be put in place
- ensure internal audit is independent of external audit
- establish clear lines of reporting of the HIA to the leadership team and to the audit committee
- ensure the HIA reports in their own right and that the annual internal audit opinion and report are issued in the name of the HIA
- ensure the internal audit charter and plan are approved by the audit committee in accordance with the PSIAS.



## Core HIA responsibilities

### To fulfil Principle 1 the HIA should:

- ensure that internal audit's work is risk-based and aligned to the organisation's strategic objectives and will support the annual internal audit opinion
- identify where internal audit assurance will add the most value or do most to facilitate improvement
- produce an evidence-based annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

## Commentary

### Independence and objectivity

The leadership team is responsible for the organisation achieving its objectives and for the underlying governance arrangements and effective frameworks of risk management and internal control. The HIA's unique role is to evaluate these arrangements and provide independent assurance on their effectiveness. So it is important that the HIA is independent of operational management and is seen to provide objective views and opinions. Where the HIA has responsibilities beyond internal audit the risks to independence must be recognised and adequate safeguards need to be approved by the audit committee and put in place to protect independence and objectivity.

### Broad scope of assurance

The leadership team needs regular assurance that the organisation has good governance arrangements and is effectively managing its risks. The assurance framework that provides this will have a number of sources including a clearly defined management accountability framework, performance management and risk management, together with internal compliance functions such as legal, HR and health and safety. Assurance is also available from external inspectors and agencies and external auditors. Some organisations use the 'three lines of defence' model to explain these relationships. Setting out this framework of assurance should also help in explaining to others how internal audit fits into the wider governance picture.

The annual HIA opinion is on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control in accordance with PSIAS. It is the most important output from the HIA and is one of the main sources of objective assurance that chief executives and the leadership team have for their annual governance statement. The HIA opinion is unique within the wider assurance framework in that it is independent and objective and in accordance with professional standards. This opinion must reflect the work done during the year and it must summarise the main findings and conclusions together with any specific concerns the HIA has. To build a robust opinion on the adequacy of the governance, risk and control framework the HIA will need to review and if appropriate place reliance on the work of others.

### Evidence-based assurance

The HIA's opinion must be well founded if it is to give proper assurance to the organisation and improve governance and control arrangements. This means internal audit planning must be well focused and in accordance with professional standards.

The HIA may look to the work of other functions, partner organisations and other agencies as evidence for their assurance. Here the HIA must understand the basis for their assurances and its adequacy and whether the HIA needs to carry out any additional review work. A summary of assurances given and relied upon should be included in the HIA's annual report.

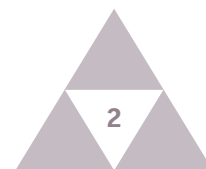
One of the HIA's key relationships must be with the external auditor. The role of the external auditor is to provide an opinion on the financial statements of the organisation together with wider reporting on value for money or best value. The external auditor will share internal audit's interest in the governance risk and control environment and both auditors should share their plans and findings on a regular basis.

### **Develop and implement a risk-based audit approach**

Risk management is key to the effective delivery of public services. Organisations are becoming more mature in how they identify, evaluate and manage risks and opportunities. The HIA should encourage the organisation to improve its approach to risk management and the HIA opinion on the adequacy and effectiveness of risk management will provide assurance on an annual basis.

The audit plan must identify the priorities for internal audit based on an assessment of the key risks to organisational objectives and the extent of alternative sources of assurance, as well as the resources and skills needed to deliver it. Responsibility for effective governance, risk management and control arrangements remains with the organisation; the HIA cannot be expected to prevent or detect all weaknesses or failures in internal control nor can the internal audit plan cover all areas of risk across the organisation.

# \ principle 2



The head of internal audit (HIA) in a public service organisation plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance and commenting on responses to emerging risks and proposed developments.

The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 2 of the CIPFA Statement:

- Aligns with the strategies, objectives, and risks of the organisation.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.



## Organisational responsibilities

**To enable the HIA to fulfil their role the leadership team should ensure that they:**

- establish top level commitment to the principles of good governance, recognising its importance for achieving strategic objectives
- set out the HIA's role in good governance and how this fits with the role of others
- recognise and support the role internal audit can play in providing advice and consultancy internally
- ensure that the HIA has the opportunity to advise on or provide assurance on all major projects, programmes and policy initiatives
- take account of the HIA's advice in new and developing systems.



## Core HIA responsibilities

### To fulfil Principle 2 the HIA should:

- work with others in the organisation to promote and support good governance
- help the organisation understand the risks to good governance
- give advice to the leadership team and others on the control arrangements and risks relating to proposed policies, programmes and projects
- promote the highest standards of ethics and standards across the organisation based on the principles of integrity, objectivity, competence and confidentiality
- demonstrate the benefits of good governance for effective public service delivery and how the HIA can help
- offer advisory or consulting services where appropriate
- give advice on risk and internal control arrangements for new and developing systems, including major projects, programmes and policy initiatives whilst maintaining safeguards over independence.

## Commentary

### Promoting good governance

Good governance is fundamental to establishing confidence in public services. All managers have a responsibility for exercising good governance but the HIA can promote the principles of good governance across the organisation through their assurance and advisory work, encouraging good practice. This is consistent with the Core Principles for the Professional Practice of Internal Auditing. The internal audit charter sets out the scope of internal audit activities and provides the opportunity to outline how the HIA will fulfil this role.

Good governance is core to achieving strategic aims and demonstrating that public money is used well. The HIA can support the leadership team in establishing, maintaining and improving governance by promoting the benefits of good governance, interpreting and advising on the application of governance principles as well as reporting on governance risks. There are also benefits for the HIA in taking such an approach as this helps staff and the audit committee see the wider purpose of internal audit's work and the support they can provide. While the HIA is not responsible for the organisation's public report on governance, the HIA can

provide support to ensure the assessment is robust and the statement itself is effective.

The HIA should understand the range of risks to good governance the organisation faces, such as entering into new collaborative arrangements, managing resource pressures or taking on new statutory responsibilities. The HIA should then assess how best to support good governance and organisational improvement.

### Advising on proposed developments

The HIA will seek to ensure the work of internal audit is aligned to the organisation's strategic goals and governance responsibilities. To facilitate this HIAs must be asked to consider the impact of proposed policy initiatives, programmes and projects as well as responses to emerging risks. HIAs should be made aware of major new systems and proposed initiatives such as new collaborative or commercial arrangements to help ensure risks are properly identified and evaluated and appropriate controls built in. Managers and the HIA must therefore be clear on the scope of any internal audit work here and of the kind of advice that is given to ensure the independence of other audit work and the HIA annual opinion is not compromised.



# \ principle 3



The HIA must be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee.

The UK Public Sector Internal Audit Standards set out core principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 3 of the CIPFA Statement:

- Is objective and free from undue influence (independent).
- Is appropriately positioned and adequately resourced.



## Organisational responsibilities

**To enable the HIA to fulfil their role the leadership team should:**

- designate a named individual as HIA in line with the principles in this Statement. The individual could be someone from another organisation where internal audit is contracted out or shared. Where this is the case then the roles of the HIA and the client manager must be clearly set out in the contract or agreement
- ensure that where the HIA is an employee they report functionally to a member of the leadership team. The HIA should be sufficiently senior and independent within the organisation's structure to allow them to carry out their role effectively and be able to provide credibly constructive challenge to management
- engage constructively with the HIA and facilitate their role throughout the organisation
- ensure the audit committee terms of reference<sup>2</sup> includes oversight of internal audit including the monitoring of adherence to professional standards
- ensure the HIA's reporting relationship with the audit committee and its chair as set out in the internal audit charter is applied
- ensure the organisation's governance arrangements give the HIA:
  - direct access to the chief executive, other leadership team members, the audit committee and external audit; and
  - attendance at meetings of the leadership team and management team when the HIA considers this to be appropriate
- set out unfettered rights of access for internal audit to all papers and all people in the organisation, as well as appropriate access in arms-length bodies
- set out the HIA's responsibilities relating to organisational partners including collaborations and outsourced and shared services.

<sup>2</sup> In Local Government and Police CIPFA's Position Statement and supporting guidance include examples of audit committee terms of reference, including the committee's responsibilities for internal audit. [Audit Committee Practical Guidance for Local Government and Police](#), CIPFA, 2018



## Core HIA responsibilities

### To fulfil Principle 3 the HIA should:

- ensure the internal audit charter clearly establishes appropriate reporting lines that facilitate engagement with the leadership team and audit committee
- escalate any concerns about maintaining independence through the line manager, chief executive, audit committee and leadership team or external auditor as appropriate
- contribute to the review of audit committee effectiveness, advising the chair and relevant managers of any suggested improvements
- consult stakeholders, including senior managers and non-executive directors/elected representatives on internal audit plans.

## Commentary

### Senior manager

Heads of internal audit face increasing challenges and higher expectations from stakeholders, especially in helping organisations look forward. Regardless of how the internal audit is provided the HIA must be able to operate at the heart of the organisation, challenging and supporting the leadership team with authority and credibility. They should also be seen as a leader, promoting improvement and good governance. To do this effectively, make an impact and add value, the HIA position must be at a senior management level.

The HIA must also have unfettered access to key people across the organisation, especially to the chief executive, leadership team and audit committee chair.

The HIA role must be filled by a named individual so that all are clear about lines of responsibility. Where the service is provided in-house this should be straightforward. Where the service is contracted out or shared with others then the organisation must decide whether the HIA should come from within the organisation or from the supplier of the audit service. In the latter case the relationship between the HIA and the organisation, including the audit committee, must be clearly set out and arrangements made to ensure there is adequate access and visibility of the HIA to the leadership team. In practice it is likely that the HIA will be the person who is responsible for drawing up the internal audit charter

and plan, issuing the HIA annual internal audit opinion and engaging with the audit committee.

### Engagement with the leadership team

The leadership team in public service organisations takes many forms, with different mixes of executive and non-executive members, as well as elected representatives. Collectively the leadership team is responsible for setting the strategic direction for the organisation, its implementation and the delivery of public services. The HIA must also have a right of access to individual members of the leadership team and should expect the support of the team consistent with reporting relationships set out in PSIAS.

Wherever the HIA is in the organisational structure the HIA will need to ensure and demonstrate adequate independence and objectivity. A senior position supports this, alongside appropriate safeguards if they have other management responsibilities.

### Engagement with the audit committee

The HIA's relationship with the audit committee, and especially the chair, is crucial. They should be mutually supportive in their aim to be objective and to provide challenge and support across the organisation and improve governance, risk management and internal control. The HIA must work closely with the audit committee chair so that they are clear about their respective roles and make best use of internal audit.

# \ principle 4



The HIA must lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively.

The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 4 of the CIPFA Statement:

- Demonstrates integrity.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.



## Organisational responsibilities

**To enable the HIA to fulfil their role the leadership team should:**

- provide the HIA with the status, resources, expertise and systems necessary to perform their role effectively
- ensure the audit committee contributes to a performance framework for the HIA and the internal audit service and takes action as appropriate
- ensure an external review of internal audit quality is carried out at least once every five years in accordance with PSIAS
- ensure the audit committee provides support for and participates in the quality assurance and improvement programme as set out in PSIAS.



## Core HIA responsibilities

### To fulfil Principle 4 the HIA should:

- lead and direct the internal audit service so that it meets the needs of the organisation and external stakeholders and fulfils professional standards
- demonstrate how internal audit adds value to the organisation
- determine the resources, expertise, qualifications and systems for the internal audit service that are required to meet internal audit's objectives
- inform the leadership team and audit committee as soon as they become aware of insufficient resources to carry out a satisfactory level of internal audit, and the consequence for the level of assurance that may be given
- ensure the professional and personal training needs for staff are assessed and that these needs are met
- establish a quality assurance and improvement programme that includes:
  - ensuring professional internal audit standards are complied with
  - reviewing the performance of internal audit and ensuring the service provided is in line with the expectations and needs of its stakeholders
  - providing an efficient and effective internal audit service – demonstrating this by agreeing key performance indicators and targets with the line manager and audit committee; annually reporting achievements against targets
  - putting in place adequate ongoing monitoring and periodic review of internal audit work and supervision and review of files, to ensure that audit plans, work and reports are evidence-based and of good quality
  - seeking continuous improvement in the internal audit service
- keep up to date with developments in governance, risk management, control and internal auditing, including networking with other HIAs and learning from them, implementing improvements where appropriate.

## Commentary

### Meeting the needs of the business

Effective governance is critical in public service organisations and internal audit needs to play its part. The HIA must have a firm grasp and understanding of the organisation's business as well as its control environment. This will allow HIAs to give an opinion to the leadership team on how well these arrangements are working.

Whether internal audit is provided in-house, through a shared service or outsourced, the internal audit resources available must be proportionate to the size, complexity and risk profile of the organisation and must be enough for the HIA to give a reliable annual internal audit opinion on the organisation's framework of governance, risk management and control. Responsibility for ensuring that an effective and appropriately resourced internal audit service is in place rests with the organisation.

The HIA must set out the audit coverage and audit resources needed to give a sound, evidence-based annual audit opinion and must advise the audit committee and the leadership team where the available resources are inadequate and the consequences for the level of assurance that the HIA is able to give. Where concerns are raised by the HIA it is vital that they are listened to and the consequences understood.

### Appropriately developed internal audit skills

A great deal of reliance is placed on the work of internal audit and the HIA must ensure all the work, including planning and individual assignments, is consistently of a high quality and in line with professional standards. The HIA must also ensure that all staff demonstrate the highest ethical standards. The HIA therefore has a responsibility to ensure that internal audit staff have appropriate qualifications, knowledge, skills and competencies and have access to development opportunities.

The HIA must provide clear guidance for internal audit staff with appropriate quality assurance for internal audit as a whole and for each audit assignment. The HIA has a duty to ensure their staff comply with the PSIAS and must have systems to verify this. More widely the HIA should ensure they and the team are up to date on current issues affecting their organisation and on internal audit techniques and developments.

# \ principle 5



The HIA must be professionally qualified and suitably experienced.

The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 5 of the CIPFA Statement:

- Demonstrates competence and due professional care.
- Communicates effectively.



## Organisational responsibilities

To enable the HIA to fulfil their role the leadership team should:

- appoint a professionally qualified HIA<sup>3</sup> whose core responsibilities include those set out in the PSIAS as well as under the other principles in this statement and ensure that these are properly understood throughout the organisation
- ensure the HIA has the skills, knowledge and internal audit experience, together with sufficient resources to perform effectively in the role
- support continuing professional development of the HIA.



## Core HIA responsibilities

To fulfil Principle 5 the HIA should:

- be a full member of an appropriate professional body and have an active programme for personal professional development
- adhere to professional internal audit and ethical standards (and where appropriate accounting and auditing standards).

<sup>3</sup> PSIAS requires that the HIA must hold a professional qualification (CCAB, CMIIA or equivalent).

## Commentary

### Demonstrating professional and interpersonal skills

The HIA must be able to demonstrate their own professional credibility to exercise influence throughout the organisation. The HIA must be professionally qualified.

The HIA must adhere to the professional values of accuracy, honesty, integrity, objectivity, impartiality, transparency, confidentiality, competence and reliability and promote these throughout the internal audit service.

The HIA must be able to operate effectively in different modes including directing, influencing, evaluating and informing. The HIA must be able to give objective opinions and advice even if this may be unwelcome and to intervene with authority where necessary. The HIA must be able to challenge the status quo and be a catalyst for change, achieving results through influence, without direct authority.

The HIA must be sensitive to the complexities and pressures facing organisations.

### Applying business and professional experience

The HIA must have an understanding and commitment to the organisation's wider business and its delivery objectives, to inspire respect, confidence and trust amongst colleagues, with the leadership team, audit committee and other stakeholders.

The HIA must have a good understanding of business processes and governance including strategic planning and performance, financial and risk management.

The HIA should be seen as a catalyst to improving governance and internal control and also supporting the organisation in its wider business objectives. The HIA's leadership must set the tone that good governance, risk management, and internal control matter to everyone in the organisation.

# personal skills and professional standards



This section sets out the personal skills and professional standards of the HIA that are necessary to support the five principles in practice.

## Principle 1

- Give clear, professional and objective advice.
- Report on what is found, without fear or favour.
- Demonstrate integrity to staff and others in the organisation.
- Exercise sound judgement in identifying weaknesses in the organisation's control environment and a balanced view on how significant these are.
- Work well with others with specific responsibilities for internal control, risk management and governance including (as appropriate to the sector) the chief executive, chief legal officer, chief financial officer, audit committee, non-executive directors and elected representatives.
- Work positively and constructively, influencing the leadership team, audit committee and others to ensure the HIA's recommendations are implemented.
- Be a role model – dynamic, determined, positive and robust. They should demonstrate resilient leadership and the ability to inspire confidence and exemplify high standards of conduct.

## Principle 2

- Provide leadership by giving practical examples of good governance that will inspire others.
- Deploy effective facilitating and negotiating skills.
- Build and demonstrate commitment to supporting continuous improvement of the organisation.

## Principle 3

- Network effectively to raise the profile and status of internal audit.
- Adopt a flexible style, being able to collaborate, advise and challenge as appropriate.
- Build productive professional relationships both internally and externally.
- Work effectively with the leadership team and audit committee, showing political awareness and sensitivity.
- Be seen to be objective and independent but also pragmatic where appropriate.



#### Principle 4

- Demonstrate leadership and be an ambassador for internal audit.
- Create, communicate and implement a vision for the internal audit service.
- Create a customer-focused internal audit service.
- Establish an open culture, built on effective coaching and a constructive approach.
- Promote effective communication within internal audit, across the broader organisation and with external stakeholders.
- Manage and coach staff effectively.
- Comply with professional standards and ethics.
- Require the highest standards of ethics and standards within internal audit based on the principles of integrity, objectivity, competence and confidentiality.

#### Principle 5

- Demonstrate a range of skills including communicating, managing and influencing, as well as an understanding of IT and consulting services.
- Understand and have experience of strategic objective setting and management.
- Understand the internal audit and regulatory environment applicable to public service organisations.
- Demonstrate a comprehensive understanding of governance, risk management and internal control.
- Undertake appropriate development or obtain relevant experience in order to demonstrate an understanding of the full range of the organisation's activities and processes.

# definitions used throughout the document

The public services have a wide variety of organisational structures and governance arrangements. The definitions used in this document are primarily based on those used in CIPFA's Role of the Chief Financial Officer Statement and in the Public Sector Internal Audit Standards (PSIAS).

## **Annual governance report**

The mechanism by which an organisation publicly reports on its governance arrangements each year.

## **Assurance**

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation.

Assurance can come from a variety of sources and internal audit can be seen as the 'third line of defence' with the first line being the organisation's policies, processes and controls and the second being managers' own checks of this first line.

## **Assurance framework**

This is the primary tool used by a board to ensure that it is properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.

## **Audit committee**

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

## **Board**

The group of people charged with setting the strategic direction for the organisation and responsible for its achievement.

## **Chief financial officer**

The organisation's most senior executive role charged with leading and directing financial strategy and operations.

## **Control environment**

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

## **Governance<sup>4</sup>**

The arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

## **Head of internal audit opinion**

The opinion issued each year by the HIA on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The opinion is used by the chief executive in some public service organisations as a key source in drafting the annual governance report.

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<sup>4</sup> The International Framework: Good Governance in the Public Services (CIPFA/IFAC, 2014)

### **Internal audit**

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.

### **Leadership team**

Comprises the board and management team.

### **Managers**

The staff responsible for the achievement of the organisation's purpose through services/ businesses and delivery to its clients/customers.

### **Management team**

The group of executive staff comprising the senior management charged with the execution of strategy.

### **Public service organisation**

One or more legal bodies managed as a coherent operational entity with the primary objective of providing goods or services that deliver social benefits for civic society, are not privately owned and receive public and/or charitable funding.

### **Risk management**

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.



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**DERBYSHIRE COUNTY COUNCIL****AUDIT COMMITTEE MEETING****24 September 2019****Report of the Director of Finance & ICT, Director of Legal & Democratic Services and Assistant Director of Finance (Audit)****LOCAL GOVERNMENT GOVERNANCE AND ACCOUNTABILITY****1. Purpose of Report**

To inform Members of the publication of the House of Commons Committee of Public Accounts (PAC) report 'Local Government Governance and Accountability'. This report follows the production of the Comptroller and Auditor General's report 'Local authority governance'.

**2. Information & Analysis**

The Comptroller and Auditor General produced his report on 14 January 2019 and noted that while elements of the local governance arrangements are locally defined, core components are set out in a statutory framework of legal duties and financial controls overseen by the Ministry of Housing, Communities & Local Government (the Department). He stated that good governance means that proper arrangements are in place to ensure that an authority's intended objectives are achieved. Key elements of the statutory framework which ensure that authorities remain financially stable include:-

- a statutory requirement for a balanced annual budget;
- a statutory requirement for there to be a chief finance officer (section 151 officer) to advise on the robustness of estimates and the adequacy of reserves, which members must consider as they take the budget decision;
- a statutory process (section 114 notice) by which the section 151 officer can cause the council to pause and reconsider spending decisions or budgets;
- legal requirements for councils to have a sound system of internal control, proper arrangements for managing their financial affairs and to have their statement of accounts and arrangements for value for money subject to external audit annually.

The report examined whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially stable. The report made several recommendations addressed to the Department in order that it can be assured that an effective local governance system is in place (Appendix 1).

On the basis of the report by the Comptroller and Auditor General the PAC took evidence from the Department and key stakeholders regarding local authority governance and the Department's accountability for it.

The PAC report notes that local politicians and council officers operate within a governance framework which includes officers with statutory powers and responsibilities; internal checks and balances such as audit committees and internal audit; and external checks and balances such as external audit and sector led improvement overseen by the Local Government Association. This report states that there has been a significant reduction in central oversight following the government's decision to abolish the Audit Commission and the Standards Board for England. The report also notes that spend on services other than social care fell by a third in real terms from 2010-11 to 2017-18 and, whilst authorities are innovating in response to financial pressures, shared services, outsourcing and commercial activities can all add complexity to council governance arrangements.

The PAC report acknowledges that three key officers have been given legal responsibilities and protect good governance under the legal framework that the Department is responsible for overseeing; these are the head of paid service, the section 151 officer and the monitoring officer. However, the Department informed the PAC that information to assess the status and capacity of the statutory officers is not collected.

The Department recognises that concerns about external audit have been expressed reflecting a comment in the Comptroller and Auditor General's report that 'heads of paid service, section 151 officers and internal auditors raised concerns that the contribution of external audit to local governance has been reduced recently. Frequently, they linked this to the reduction in the audit fee paid by authorities.' The Department has committed to carrying out a post-implementation review of the new audit regime in 2019.

The PAC report reaches five conclusions and makes a number of associated recommendations for improvement (Appendix 2).

On 10 July 2019 the Secretary of State for Housing, Communities and Local Government announced that the government is to examine local authority financial reporting and auditing and stated that the government "was working towards improving its approach to local government oversight and support".

### **3. Considerations**

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

### **4. Background Papers**

A file held by the Assistant Director of Finance (Audit).

## **5. Officers' Recommendation**

That the Committee notes the content of this report and recent developments regarding local authority governance and accountability.

**Peter Handford**  
**Director of Finance & ICT**

**Janie Berry**  
**Director of Legal &  
Democratic Services**

**Carl Hardman**  
**Assistant Director of  
Finance (Audit)**

## Extract from the Comptroller and Auditor General's Report – Local Authority Governance

### Recommendations

23 As steward of the system the Department has a responsibility for assuring itself that there is an effective local governance system in place.

- a The Department should work with local authorities and stakeholders to assess the implications of, and possible responses to, the various governance issues we have identified, including:
  - the status of section 151 officers and the efficacy of their statutory reporting arrangements;
  - the effectiveness of audit committees, and how to increase the use of independent members;
  - the effectiveness of overview and scrutiny functions and ways to enhance their impact; and
  - the sustainability and future role of internal audit.
- b The Department should address the system-wide gaps in its evidence base on governance.
- c The Department should set out its expectations of network partners and how they will work together to address the current weaknesses in local governance arrangements.
- d The Department, working with relevant organisations and delegating where appropriate, should lead the sector in considering the issues and concerns raised about external audit in this report to establish whether concerns in certain parts of the sector over the contribution of audit genuinely relate to audit:
  - Where concerns genuinely relate to audit the Department should work with bodies with responsibility for external audit within the governance framework, taking into account their ongoing or planned activity, to address any substantive issues.
  - Where concerns do not in fact relate to audit the Department should work with local authorities and other bodies in the governance system to identify how these needs and requirements can be addressed.
- e The Department should examine ways of introducing greater transparency and openness in relation to its formal and informal interventions in local authorities.
- f The Department should adopt a stronger leadership role in relation to overseeing and coordinating the network of organisations managing key aspects of the governance framework.



## Conclusions and recommendations

### 1. **The Department is not yet providing effective leadership of the local governance system.**

Local authority governance arrangements have, in general, coped effectively with the significant challenges the sector has faced since 2010–11. However, there is still significant room for improvement. Existing weaknesses need to be addressed, and the framework's effectiveness needs to be maintained in the context of the rapidly changing local governance landscape. We are particularly concerned about the gap between substantial intervention powers of the Secretary of State and the daily operation of a largely unregulated sector. Rather than simply waiting until things have gone wrong locally and resorting to statutory intervention, the Department should be a system leader to ensure that the whole system is effective and that the key organisations involved in the framework are working in an effective and co-ordinated manner. The Department acknowledges that it has been too reactive in its oversight and leadership role. We therefore welcome the Department's commitment to improve its oversight and leadership of the local governance system. However, meaningful change must be delivered by the Department rather than just warm words. The Department still makes confusing statements that do not express clearly enough its overall ownership of the governance system. It needs to assure Parliament and the public that the promised local governance panel will be more than a talking shop. We are yet to be convinced: the Department has been unable to describe any new concrete actions that will flow from its new approach.

**Recommendation:** *The Department should write us within the next six months, setting out:*

- *its overall plan for improving its oversight;*
- *its progress in working more effectively with other government departments to understand overall pressures on service sustainability;*
- *its objectives for the promised local governance panel and the means by which the panel's effectiveness will be assessed;*
- *progress in setting up the new panel, including its work programme, the concrete actions the panel will take; the timetable and intended outcomes the panel will be working towards.*

### 2. **The Department does not know why some local authorities are raising concerns that external audit is not meeting their needs.**

The Department places great reliance on the work of external auditors, particularly in relation to value for money arrangements. It recognises that the importance of this work is heightened as council activities become more varied, complicated and commercial. However, a number of key representative organisations and councils told us that they had concerns about external audit. For instance, a quarter of finance directors at councils with responsibility for social care services for vulnerable people would like more value for money work from external audit, and the same proportion feel that audit fees are too low relative to the risk faced by their local authority. The Department believes the focus of external audit on whether arrangements are in place means that some local authorities are concerned that they no longer have sufficient assurance that their organisations are working effectively or that value for money decisions are being made. It has committed to addressing this 'expectations gap' as part of its review of external audit. The Department has not yet decided whether this will be an independent review or carried out by the Department itself.

**Recommendation:** *The Department's proposed review of the work of independent auditors should be conducted independently and should ensure that concerns from some local authorities over current fee levels and the contribution of external audit are examined fully and rigorously. The review should make an assessment of whether external audit is providing an effective service and meeting the needs of local authorities.*

**Recommendation:** *If the review identifies an 'expectation gap' as a factor underlying local authorities' concerns with external audit, then the Department should identify how these unmet expectations can be met.*

Extract from House of Commons Committee of Public Accounts Report – Local  
Government Governance and Accountability

3. **The Department lacks reliable information on key governance risks, or relies on weak sources of information, meaning it has no way of pinpointing the at-risk councils.** The Department does not systematically collect detailed information on how well local governance is working. This is a remarkable oversight. Of the monitoring it does carry out, we were unimpressed with the Department's description of the information it holds on weaknesses and risks within local government governance. We are not confident that the current arrangements are enough to identify struggling councils that try to keep their problems to themselves, or to spot emerging wider weaknesses across the sector. The Department acknowledges that statutory officers play a vital role in local governance but does not collect or otherwise have access to information about the status and capacity of statutory officers across the sector. The Department is open about its reliance on 'soft intelligence' for information on the ways in which authorities may be seeking to circumvent rules, for instance through the creation of innovative delivery and investment vehicles. It accepts, however, that to some extent this information is akin to gossip. The Department also relies on journalism to identify issues, although the Government has recently said that it accepts that local newspapers can often struggle to dedicate journalists to investigative work. We welcome the Department's new commitment to 'thematic health checks' but need assurance about what this will mean in practice.

**Recommendation:** *The Department should assess the governance evidence base available to it currently and write to us by November 2019 setting out how it will address gaps it has identified.*

4. **The Department's monitoring is not focused on long-term risks to council finances and therefore to services.** The Local Government Association told us that reductions in central government funding to local authorities has meant that they need to increase their income and have taken on more risky commercial activities as a result. Some councils are borrowing very large amounts to fund commercial investment, creating long-term financial risks if investments do not deliver as expected. Councils need sound finances, now and in the future, to ensure they are able to deliver the services that local people expect. Our previous work has repeatedly shown that demand for local authority services is increasing, particularly within the adult social care and children's services sector, putting local authority finances under strain. The Department's risk monitoring is primarily aimed at identifying immediate financial concerns rather than the longer-term exposure of councils to financial risk. The Department's data on council debt levels does not allow it to assess the level of risk councils are exposed to as a result of that debt. The Department does not formally monitor council's commercial activities or non-traditional operating models.

**Recommendation:** *The Department should assess and monitor the scale of long-term risk that authorities might have exposed themselves to through their commercial investments and ventures.*

5. **There is a complete lack of transparency over both the Department's informal interventions in local authorities with financial or governance problems and the results of its formal interventions.** Residents and taxpayers have a right to know if there are serious problems, but current arrangements mean that if there is a problem with the finances of a local authority or how it is being run, then that information may not be available on a timely basis. We were told that the scale of Northamptonshire County Council's recent problems was 'an open secret' within the sector. But awareness only for those 'in the know' is not good enough. Peer reviews are an important source of information for the Department but these do not have to be published, unlike Ofsted reports, reducing the transparency about local authorities' performance to the public. We accept that there may be short critical periods where transparency is not appropriate but much more can be done than is at present. This is particularly true in instances where the Department itself has felt the need to engage informally with a particular authority. The Department accepts that greater transparency is desirable and is exploring options for enhancing it. However, the Department has previously said that it would explore publishing lessons from formal interventions but has yet to commit to doing so.

Extract from House of Commons Committee of Public Accounts Report – Local  
Government Governance and Accountability

**Recommendation:** *The Department should set out how it will improve transparency over its engagement on governance issues with individual local authorities, including:*

- *a review of the information the LGA is required to publish under its sector-led improvement work funded by the Department.*
- *the steps the Department will take to publish information and learning following formal interventions.*

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