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PUBLIC

To: Members of Audit Committee

Monday, 2 December 2019

Dear Councillor,

Please attend a meeting of the **Audit Committee** to be held at **2.00 pm** on **Tuesday, 10 December 2019** in Committee Room 3, County Hall, Matlock, Derbyshire DE4 3AG, the agenda for which is set out below.

Yours faithfully,

Simon Hobbs
Director of Legal and Democratic Services

A G E N D A

Part I - NON-EXEMPT ITEMS

1. Apologies for Absence
2. Declarations of Members and Officers' Interests
3. Minutes of the meeting held on 24 September 2019 (Pages 1 - 8)
4. Budget Monitoring 2019-20 (as at 31 August 2019) (Pages 9 - 26)
5. Anti-Money Laundering Policy (Pages 27 - 56)
6. Audit Services Unit - progress against Audit Plan 2019-20 (Pages 57 - 68)

7. External Review of Audit Services (Pages 69 - 88)
8. Annual Review of the County Council's Regulatory Framework (Pages 89 - 94)
9. National Fraud Initiative (Pages 95 - 98)
10. To consider External Auditor reports (if any)

PUBLIC

MINUTES of a meeting of the **AUDIT COMMITTEE** held on 24 September 2019 at County Hall, Matlock

PRESENT

Councillor K S Athwal (in the Chair)

Councillors S Brittain, L M Chilton, J A Coyle (substitute Member), A Griffiths and S Swann (substitute Member)

Officers in attendance – D Ashcroft, C Hardman and P Handford (representing Derbyshire County Council), J Pressley and M Surridge (representing Mazars)

Apologies for absence were received on behalf of Councillors N Barker and P Murray

Declarations of Interest

Councillor K S Athwal disclosed a personal interest in Minute No.29/19 as he was a Director of Derbyshire Developments Limited.

27/19 **MINUTES RESOLVED** that the minutes of the meeting held on 23 July 2019 be confirmed as a correct record and signed by the Chairman.

28/19 **STRATEGIC RISK REVIEW** Members were presented with the latest update to the Strategic Risk Register. The Council undertook regular review of risks and the latest detailed assessment of the highest ranking risks formed the Council's Strategic Risk Register which was attached at Appendix 3 to the report. As agreed previously, the report has been changed so that only those risks that had changed were detailed in Appendix 1. New risks were detailed in Appendix 2.

It was reported that Corporate Management Team had attended a workshop on 25 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.

The Risk Strategy had been re-written to reflect the Council Plan and the need to include opportunity risks within the Strategy. This had been circulated and Councillor Foster had requested that an implementation plan be included.

The Strategy incorporating the Implementation plan was due to be put to Councillor Foster in October 2019.

It was vital that risk management policies and procedures supported 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 had 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 EDRM system will be in operation in by the end of 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 was envisaged that the system could also be used for project and procurement risks if required to ensure that all risks were recorded in one central repository allowing a global overview of all risks to the Council.

It had been acknowledged that a number of departments had 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 had been flagged at the Risk Group, the Risk Champions were currently reviewing the plans that were in place and what departments needed plans or needed to review the plans that had been written to ensure that we could continue to deliver services should any emergency situation arise.

As part preparations for exiting the EU on 31 October 2019, workshops would be held across all departments in the forthcoming weeks to identify the key business areas that would 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.

The risk of transporting Children and Vulnerable Adults was 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 had been holding a number of workshops to fully consider the risks that were posed and to identify any means of further mitigating these significant risks and increasing costs to the Council.

As background, the Council outsourced this provision to individual companies from small taxi companies to larger providers; however this

presented a logistical and now safeguarding issue, details of which, were provided.

The review had 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. A number of Strategic Risks were on the horizon that may require a long term approach and consideration, and the Risk and Insurance Manager felt that further discussion was given to both risks and opportunities that presented from:

- Climate Change
- The Internet of Things
- Artificial Intelligence

RESOLVED that the report be noted.

29/19 ANNUAL AUDIT LETTERS 2018-19 The Council's external auditor, Mazars, was required to present an Annual Audit Letter to Members and officers of the Council. The letter described the scope of the audit work for the financial year and reported on matters of significance arising from that work. It was a summary of its conclusions and provided an external assessment of the Council's overall financial position.

The letter was a means by which the appointed auditor fulfilled its statutory requirements, which were derived from the Audit Commission Act 1998 and the Audit Commission's Code of Audit Practice. The external auditor was 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, marked the end of the audit process for 2018-19. The Council had published on its website that the audit had been concluded in accordance with the Accounts and Audit Regulations 2015. The letters issued for the Council and the Pension Fund were attached at Appendix 1A and Appendix 1B to the report. The details contained within the letter had been reported to the Audit Committee previously.

RESOLVED to note the details of the Annual Audit Letters 2018-19

30/19 TREASURY MANAGEMENT ANNUAL REPORT 2018-19 The treasury risk management at the Council was 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 required 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 fulfilled 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 had borrowed and invested substantial sums of money and was 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 was therefore central to the Council's Treasury Management Strategy.

RESOLVED to note the Treasury Management Annual Report 2018-19 and note 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.

31/19 BUDGET MONITORING 2019-20 (AS AT 30 JUNE 2019) The report summarised the controllable budget position by Cabinet Member Portfolio as at 30 June 2019. Further reports would be considered at Cabinet and Council in accordance with the Budget Monitoring Policy and Financial Regulations.

The projected outturn compared to controllable budget was summarised. This included the use of one-off funding to support the Highways, Transport and Infrastructure portfolio. A summary of the individual portfolio positions was detailed with adult care predicting the largest underspend of £4.628m. The Young People portfolio was predicted the largest overspend that could be as high as £4.000m to £6.000m depending on the continued trend in the rate of placements for children in care.

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

RESOLVED to (1) note the 2019-20 budget monitoring position as at 30 June 2019; and

(2) note the virement of £5.000m base budget from Adult Care to the Risk Management budget approved by Cabinet.

32/19 CAPITAL BUDGET MONITORING TO MONTH 3 2019-20 The report reflected those schemes that were currently under way and have had previous Cabinet approval. Each scheme had a nominated budget holder who was responsible for ensuring the scheme stayed within budget, and who had verified the projected spend against their allocated schemes. The report

contained some schemes that were open at 1 April 2019 but had been completed and closed in year.

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

A summary of the individual portfolio positions was detailed with Children's Services having the highest amount with 648 open schemes with a budget value of £189.872m.

RESOLVED to note the current position on the monitoring of Capital schemes.

33/19 AUDIT SERVICES UNIT – PROGRESS AGAINST AUDIT PLAN 2019-20

At the meeting of this Committee held on 27 March 2019 Members approved the Audit Plan for 2019-20 which had been formulated from the 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 for 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 updated Members on progress against the Plan for the five months to 31 August 2019 and represented work undertaken during that period which was detailed in Appendix 1. An analysis of the priority criteria for Audit recommendations and assurance levels was provided in Appendix 2.

As previously reported, most recently in the last Audit Services Annual Report, the Unit's staffing resources continued to be under considerable pressure. Although, two Senior Auditor posts had now been filled, recruitment exercises were currently underway to fill one Auditor and one Trainee Auditor posts.

RESOLVED to note the information on progress to date against the approved Audit plan.

34/19 AUDIT CHARTER 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 had now been subject to further revision.

The Audit Charter drew together existing practice and formalised procedures which were 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 embodied those requirements specified in the PSIAS.

The Charter was 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 continued to reflect the requirements of the regulatory framework and key legislation on which it was based. The revised Charter was attached at Appendix 1 to the report.

The PSIAS required that the Audit Charter was approved by Cabinet and the purpose of this report was 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.

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

35/19 ROLE OF THE HEAD OF INTERNAL AUDIT IN PUBLIC SERVICE ORGANISATIONS The Audit Committee had been 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 had recently revised the Statement which was attached to the report as Appendix 1. This document together with the Public Sector Internal Audit Standards (PSIAS) provided comprehensive guidance regarding the requirements for an effective internal audit service.

The Statement confirmed that the Head of Internal Audit (HIA) occupied 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 was to set out the role of the HIA and to help ensure organisations engaged with and supported the role effectively.

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

- 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 was resourced appropriately, sufficiently and effectively;
- being professionally qualified and suitably experienced.

RESOLVED to note 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.

36/19 LOCAL GOVERNMENT GOVERNANCE AND
ACCOUNTABILITY

The Comptroller and Auditor General produced his report on 14 January 2019 and noted that while elements of the local governance arrangements were locally defined, core components were 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 meant that proper arrangements were in place to ensure that an authority's intended objectives were achieved. Key elements of the statutory framework which ensured that authorities remained financially stable included:-

- 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 took the budget decision;
- a statutory process (section 114 notice) by which the section 151 officer could 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 provided local taxpayers and Parliament with assurance that local authority spending achieved value for money and that authorities were financially stable. The report made several recommendations addressed to the Department in order that it could be assured that an effective local governance system was in place.

RESOLVED to note the content of this report and recent developments regarding local authority governance and accountability.

Agenda Item No**DERBYSHIRE COUNTY COUNCIL****AUDIT COMMITTEE****10 December 2019****Report of the Director of Finance & ICT****BUDGET MONITORING 2019-20 (as at 31 August 2019)****1 Purpose of the Report**

To provide Members with the Revenue Budget position for 2019-20 as at 31 August 2019.

2 Information and Analysis

The report summarises the controllable budget position by Cabinet Member Portfolio as at 31 August 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 and Young People portfolios.

	Budget	Forecast Actuals	Projected Outturn
	£m	£m	£m
Adult Care	248.266	247.189	(1.077)
Corporate Services	48.044	46.418	(1.626)
Economic Development and Regeneration	0.701	0.549	(0.152)
Health and Communities (exc. Public Health)	3.657	3.343	(0.314)
Highways, Transport and Infrastructure	79.316	78.467	(0.849)
Strategic Leadership, Culture and Tourism	12.746	12.491	(0.255)
Young People	111.086	114.836	3.750
Total Portfolio Outturn	503.816	503.293	(0.523)
Interest and Dividend Income			(0.597)
Debt Charges			(0.563)

Risk Management	(9.366)
Levies and Precepts	0.000
Corporate Adjustments	0.665
Total	(10.384)

A summary of the individual portfolio positions is detailed below.

Adult Care

There is a projected year-end underspend of £1.077m. The main variances are:

Purchased Services, £4.950m overspend – relates to an increase in the cost of complex care packages and a reduction in Continuing Health Care funding.

Health Funding, £1.386m underspend – relates to Winter Pressures grant funding which has now been allocated and had not been budgeted for originally.

Assistive Technology and Equipment, £1.385m 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, £1.694m underspend – relates to budgets awaiting allocation during the year.

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

The budget savings target for 2019-20 is £5.732m. Of this target, £5.832m 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, the pay award relating to staff working in Adult Care and to address the equitable allocation of budgets across the eight districts.
- 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 £1.626m. The main variances are:

Human Resources, £0.612m 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.

Finance and ICT, £0.601m 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.

Strategic Management, £0.357m underspend - relates to savings arising from previous restructures of senior management.

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 if 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 £0.152m. The main variances are:

Economic Development, £0.185m 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, £0.075m 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 £0.220m. However, excluding Public Health, the portfolio is forecast to underspend by £0.314m. The main variances are:

Trading Standards, £0.176m underspend – reduced staffing costs following a restructure in December 2018 and one-off funding yet to be committed to support older people in respect of scams and doorstep crime.

A budget savings target of £0.157m has been allocated for 2019-20. £0.206m of savings initiatives have been identified, of which it is anticipated that £0.206m 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 £1.151m, against a total budget of £77.316m. However, after the allocation of £2.000m of one-off funding from the Budget Management Earmarked Reserve, the portfolio is projected to underspend by £0.849m. Funding has been set aside in the Budget Management Earmarked Reserve for the purpose of meeting the shortfall in the Economy, Transport and Environment department's identified savings target. The intention is to allocate £2.000m of

savings to Highways Maintenance in a future financial year, but the 2019-20 Highways budget remains the same as last financial year because of the use of this funding from reserves. Use of the reserve for this purpose was approved in the Revenue Budget reported to Council on 6 February 2019.

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, £2.186m 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, £1.777m overspend – of the £1.473m budget for the winter service, £0.976m had already been spent by the end of August 2019. Further expenditure of £2.250m is forecast for the remainder of the year.

Highways Maintenance, £1.489m underspend – due to staff costs being allocated to capital budgets rather than revenue. Also, due to vacancies; however, these will reduce as the new Highways staff structure is filled.

Waste Management, £1.319m underspend – lower than expected waste tonnages and savings under the waste continuity arrangements.

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 Budget Management earmarked reserve, the Economy, Transport and Environment Prior Year underspends 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 £0.255m is projected. The main variances are:

Policy and Research, £0.148m underspend – due to vacancy control and reduced running costs.

Call Derbyshire, £0.085m underspend – due to vacancy control and staff turnover.

Tourism and Twinning, £0.083m underspend – reduced expenditure on tourism related activities.

Heritage, £0.071m overspend – the Environmental Studies Service has been allocated a savings target which has yet to be achieved.

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 Young People portfolio is forecast to overspend by £5.132m, against a total budget of £109.704m. However, after the allocation of £1.382m of one-off funding from the Budget Management Earmarked Reserve, the portfolio is projected to overspend by £3.750m. Funding has been set aside in the Budget Management Earmarked Reserve for the purpose of meeting the shortfall in the Children's Services department's identified savings target. The intention is to allocate £1.382m of savings to Children's Services budgets in a future financial year, but the 2019-20 budgets have not been reduced by this amount because of the use of this funding from reserves. Use of the reserve for this purpose was approved in the revenue budget reported to Council on 6 February 2019.

However, it should be noted that the eventual overspend could be as high as £5.000m to £6.000m depending on the continued trend in the rate of placements for children in care.

The 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.

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

Placements for Children in Care, £3.898m 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. The forecast overspend has increased since June due to new placements.

Unallocated Budget, £2.015m 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.

Education Support Services, £1.185m 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.

Home to School Transport, £0.836m 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.

Support to Children with Disabilities, £0.809m overspend – increasing demand for support and complexity of some individuals' needs.

Early Help and Preventative Services, £0.499m 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, £0.210m overspend – enhanced pension obligations payable to staff who left during the early 1990s.

A savings target of £3.013m has been allocated for 2019-20. Savings initiatives totalling £3.013m have been identified, of which £2.264m 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 was anticipated that 2019-20 HNB expenditure would exceed the allocated grant income by £0.281m. These deficits accumulate in the DSG reserve, but would have to be funded by earmarking £0.281m from the General Reserve. It was forecast that HNB overspends would total £9.222m 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	0.281	2.504	2.660	3.777	9.222

£9.222m represents the cumulative pressure on the General Reserve over the four year period.

However, on 4 September 2019, in the Spending Review 2019, the Government announced an additional £700m of High Needs Funding for special educational needs. The Department for Education intends to distribute this between authorities based on the High Needs Block within the DSG over the coming three years. Initial calculations suggest this additional funding will be sufficient to mitigate this pressure on the General Reserve in its entirety.

Summary

A Council portfolio underspend of £0.523m is forecast, after the use of £3.382m of Earmarked Reserves to support the Highways, Transport and

Infrastructure and Young People portfolios. Any underspends in 2019-20 will be used to manage the budget in 2020-21.

Interest and Dividends received on balances is estimated to underspend by £0.597m, assuming that returns on the Council's investments in pooled funds remain robust and that these investments are held for all of the financial year. The interest base rate is currently 0.75%, however, the Council utilises a range of investments to maximise its income.

The Debt Charges budget is projected to underspend by £0.563m. 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 a £4.500m one-off reduction in the Council's Capital Adjustment Account Reserve. 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. An £8.000m one-off reduction for 2019-20 was reported to Council on 7 February 2018, however it is now proposed to delay some of the one-off reductions in 2019-20 and 2020-21 until 2021-22, in order to smooth the profile of the budget savings required in those years. The change to the profile of these reductions, compared to the profile previously reported in the Council's Five Year Financial Plan, is as follows:

	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	Total £m
Original Profile of Reductions	10.000	8.000	7.000	0.000	25.000
Revised Profile of Reductions	10.000	4.500	3.500	7.000	25.000

The Risk Management Budget is forecast to underspend by £9.366m. This includes an additional £5.117m of Business Rates Relief grant funding and a virement of £5.000m of budget from the Adult Care portfolio. It is proposed to use £5.000m of additional Business Rates Relief funding to establish a Business Rates Relief Earmarked Reserve, the purpose of which will be subject to further consideration by Members.

Corporate Adjustments are forecast to overspend by £0.665m. This is based on a prudent allowance for potential credit losses on the Council's non-rated investments.

Details of the Council's Earmarked Reserves balances as at 31 August 2019 are set out in Appendix One. A review of the Council's reserves balances were reported to Cabinet on 21 November 2019.

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 £5.289m, 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, £10.835m is expected to be achieved by the end of the financial year. Therefore, there is a £6.038m 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:

- 8.1 Notes the 2019-20 budget monitoring position as at 31 August 2019.
- 8.2 Notes the revision to the profile of the one-off reductions to the Capital Adjustment Account Reserve from 2019-20 to 2021-22.
- 8.3 Notes the establishment of a Business Rates Relief Earmarked Reserve and a contribution of £5.000m from additional Business Rates Relief Grant into this reserve, the purpose of which will be subject to further consideration by Members.

PETER HANDFORD

Director of Finance & ICT

Earmarked Reserves as at 31 August 2019

Adult Care	£m
Older People's Housing Strategy	30.000
Other reserves	1.763
Total Adult Care	31.763
 Corporate Services	
Loan Modification Gains/Losses	28.440
Insurance and Risk Management	20.069
Budget Management	19.626
Revenue Contributions to Capital	16.591
Planned Building Maintenance	5.932
Business Rates Strategic Investment Fund	4.889
Computer Purchasing	3.615
Uninsured Financial Loss	3.500
Property Insurance Maintenance Pool	2.837
Prior Year Underspends	2.561
Property DLO	2.503
Change Management	2.311
PFI Reserves	1.981
Community Priorities Programme	1.025
Other reserves	4.529
Total Corporate Services	120.409
 Economic Development and Regeneration	
D2 Growth Fund	0.200
Markham Environment Centre	0.114
Skills Training	0.101
Other reserves	0.417
Total Economic Development and Regeneration	0.832
 Health and Communities	
Domestic Abuse	2.060
S256/External Funding	0.254
Other reserves	0.349
Total Health and Communities	2.663
 Highways, Transport and Infrastructure	
Prior Year Underspends	10.640
Winter Maintenance	2.000
Road Safety Public Service Agreement (PSA)	1.182
Waste Recycling Initiatives	0.598
IT Reserve	0.559

APPENDIX 1**Public**

Derby and Derbyshire Road Safety Partnership Reserve	0.500
Other reserves	1.494
Total Highways, Transport and Infrastructure	16.973

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	0.590
Total Strategic Leadership, Culture and Tourism	4.377

Young People

Tackling Troubled Families	4.083
Standards Fund (Schools)	1.170
Childrens Services IT Systems	0.746
School Rates Refunds	0.600
Youth Activity Grants	0.330
Foster Carer Adaptations	0.326
Other reserves	0.703
Total Young People	7.958

Total Portfolio Earmarked Reserves	184.975
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Schools

Schools Balances	25.776
Dedicated Schools Grant (DSG)	3.649

Total balances held for and on behalf of schools	29.425
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Public Health Grant	7.601
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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.			
Debt Charges			
Interest Payments	<p>If the Council needed to take out extra borrowing to fund additional capital expenditure, such as that associated with the purchase of the Waste Treatment Plant at Sinfin, this would impact on its annual interest payments.</p> <p>For example, an additional £30.000m of borrowing, from the Public Works Loans Board, repayable on maturity in 40 years, would cost an additional £0.918m each year at the current rate of 3.06%. If this borrowing were taken out in November 2019, the 5 month impact on the budget would be £0.383m.</p> <p>The Public Works Loans Board recently announced a 1% rise in its rates. The impact of this would be an additional annual cost of £0.300m on £30.000m of new borrowing (included above).</p>	0.380	4
Minimum Revenue Provision	<p>An additional £30.000m of borrowing, from the Public Works Loans Board, repayable on maturity in 40 years would require an additional £0.750m to be provided each year for repayment of the debt.</p> <p>If this borrowing were taken out in November 2019, the 5 month impact on the budget would be £0.313m.</p>	0.310	4

Service	Risk	Sensitivity* £m	Likelihood (1 = Low, 5 = High)
Adult Care			
None	No single risks over £0.500m	-	-
Corporate Services			
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
Health and Communities			
Coroners	National shortage of Pathologists may impact by increasing fees	0.100	5
Highways, Transport and Infrastructure			
Highways and Countryside	Failure of assets such as roads, pavements, bridges, retaining walls, street lighting columns, safety fencing, gullies, countryside assets, canals, reservoirs.	1.500	4
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
Flooding and/or extreme weather	Emergency response procedures are in place to minimise the impacts of these emergencies. However there is the potential subsequent costs of remedial activities.	1.000	3
Waste Management	Costs associated with resolving the future of the Waste Treatment Plant at Sinfin, including the possibility that some of these costs may not be considered capital in nature.	3.000	5
Young People			
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**

Service	Risk	Sensitivity* £m	Likelihood (1 = Low, 5 = High)
	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	5.732	0.000	5.832	5.832	0.100	5.832	0.100
CS	0.000	1.340	1.340	0.000	1.152	1.152	(0.188)	1.152	(0.188)
EDR	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
HC	0.000	0.157	0.157	0.000	0.206	0.206	0.049	0.206	0.049
HTI	3.321	2.609	5.930	0.000	0.680	0.680	(5.250)	0.680	(5.250)
SLCT	0.159	0.542	0.701	0.159	0.542	0.701	0.000	0.701	0.000
YP	0.000	3.013	3.013	0.000	3.013	3.013	0.000	2.264	(0.749)
Total	3.480	13.393	16.873	0.159	11.425	11.584	(5.289)	10.835	(6.038)

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 31 August 2019

0 - 30 Days £m	31 - 365 Days £m	1 - 2 Years £m	2 - 3 Years £m	3 - 4 Years £m	Over 4 Years £m	Total £m
Adult Care						
0.948	6.566	1.041	0.903	0.256	0.639	10.353
9.2%	63.4%	10.1%	8.7%	2.5%	6.2%	100.0%
Children's Services						
0.361	1.296	0.065	0.052	0.011	0.016	1.801
20.0%	72.0%	3.6%	2.9%	0.6%	0.9%	100.0%
Economy, Transport and Environment						
0.634	3.871	0.642	0.051	0.023	0.010	5.231
12.1%	74.0%	12.3%	1.0%	0.4%	0.2%	100.0%
Commissioning, Communities and Policy						
0.809	1.822	0.262	0.087	0.026	0.175	3.181
25.4%	57.3%	8.2%	2.7%	0.8%	5.5%	100.0%
All Departments						
2.752	13.555	2.010	1.093	0.316	0.840	20.566
13.4%	65.9%	9.8%	5.3%	1.5%	4.1%	100.0%

The value of debt written off in the 12 months up to 31 August 2019

Department	£m
Adult Care	0.794
Children's Services	0.036
Economy, Transport and Environment	0.014
Commissioning, Communities and Policy	0.060
All Departments	0.904

Agenda Item No

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

10 December 2019

Report of the Director of Finance & ICT and the Director of Legal Services

ANTI-MONEY LAUNDERING POLICY

1 Purpose of the Report

The purpose of this report is to advise Members of the latest review and update of the Council's Anti-Money Laundering Policy.

2 Information and Analysis

The consequence of any public authority or its employees becoming involved in money laundering, without policies and procedures in place to help prevent it, may be very serious. It may result in criminal prosecutions, if organisations and individuals are not fulfilling their duty under the law. It would reflect poorly not only on the Council but potentially on the public sector as a whole.

It is, therefore, prudent and responsible practice for the Council to put in place and to keep up to date a policy, which includes appropriate and proportionate anti-money laundering safeguards and reporting arrangements. Such arrangements are designed to detect and avoid involvement in the crimes described in the legislation and regulations.

The requirement to ensure that appropriate arrangements are in place is contained within the Council's Financial Regulations.

The Council's Anti-Money Laundering Policy (the "Policy") was most recently presented to the Audit Committee at its meeting on 13 December 2018, following a review of the Policy in November 2018, when the following changes were made:

- The nominated deputy Money Laundering Reporting Officer post of Finance Manager (Accountancy) was replaced by the post of Finance Manager (Financial Management & Exchequer), after the post holder left the Council.

- The nominated deputy Money Laundering Reporting Officer post of Head of Investments was replaced by the post of Head of Pension Fund, after the post holder moved to this new post.

Following a further review of the Policy in November 2019, the following changes have been made:

- Reference to UK legislation and regulations on money laundering has been changed to refer to The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, as amended by the Money Laundering and Terrorist Financing (Miscellaneous Amendments) Regulations 2018, which came into force on 10 January 2019. No changes were required to the Council's Anti-Money Laundering Policy, other than to update the legislation reference.
- Inclusion of a new requirement for Money Laundering Reporting Officers to log instances where they have been consulted and they have concluded that acceptance of the cash is appropriate.
- The post of one deputy Money Laundering Reporting Officer has been changed, after recruitment to the new post of Assistant Director of Finance (Financial Management) and removal of the post of Finance Manager (Financial Management & Exchequer).

The Policy, which takes account of the Council's exposure to money laundering, along with guidance notes and supporting documentation, is attached in the Appendix to this report.

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

Papers are available from Technical Section, Finance & ICT Division.

5 Officers' Recommendation

That Audit Committee notes that a review and update of the Anti-Money Laundering Policy has taken place.

PETER HANDFORD
Director of Finance & ICT

SIMON HOBBS
Director of Legal and Democratic
Services

Derbyshire County Council

Anti-Money Laundering Policy



Version History			
Version	Date	Detail	Author
1.0	31 03 2010	Council's first Anti-Money Laundering Policy noted and approved by Members of Audit Committee on 31 Mar 2010.	E Scriven
2.0	17 10 2011	Members of Audit Committee noted and approved update at meeting 17 Oct 2011.	E Scriven
3.0	29 01 2013	Members of Audit Committee advised of latest review at meeting 29 Jan 2013.	E Scriven
4.0	07 10 2014	Reviewed by Members of Audit Committee at meeting 7 Oct 2014.	E Scriven
5.0	06 10 2015	Members of Audit Committee advised of latest review at meeting 6 Oct 2015.	E Scriven
6.0	04 08 2016	Policy reviewed for presentation to Audit Committee Members at meeting 4 Oct 2016 - updated for changes to UK legislation and regulations amendments on money laundering; to include references to the National Crime Agency (NCA), which replaced the Serious Crime Agency (SOCA) and took over its responsibilities for investigating money laundering; update job titles of deputy MLROs; version control and information classification added.	E Scriven
7.0	05 07 2017	Policy reviewed for presentation to Audit Committee Members at meeting 22 Nov 2017 – updated for new legislation Money Laundering Regulations 2017, effective 26 June 2017 and other changes to the post of one deputy MLRO after retirement and removal of the post of the previous holder; change of job title of MLRO to include ICT; old DCC logo removed.	E Scriven
8.0	01 06 2018- 14 11 2018	Policy reviewed. Change to nominated deputy MLRO following departure of previous holder.	S Holmes
9.0	22 11 2018	Tracked changes from Legal	Simon Macdonald-Preston
10.0	18 11 2019	Policy reviewed. Changes to posts of nominated deputy MLROs. Update to refer to updated Legislation (<i>no change required to Policy except to reference new legislation</i>). New requirement for Money Laundering Reporting Officers to log instances where they have been consulted and they have concluded that acceptance of the cash is appropriate.	E Scriven
This document has been prepared using the following ISO27001:2013 standard controls as reference:			
ISO Control		Description	
A.8.2		Information classification	
A.7.2.2		Information security awareness, education and training	
A.18.1.1		Identification of applicable legislation and contractual requirements	
A.18.1.3		Protection of records	
A.18.1.4		Privacy and protection of personally identifiable information	

Introduction

This policy establishes a framework within which the requirements of the Terrorism Act 2000 (as amended by the Anti-Terrorism, Crime and Security Act 2001, the Terrorism Act 2006 and the Terrorism Act 2000 and Proceeds of Crime Act 2002 (Amendment) Regulations 2007), the Proceeds of Crime Act 2002 (as amended by the Crime and Courts Act 2013 and the Serious Crime Act 2015) and The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, as amended by the Money Laundering and Terrorist Financing (Miscellaneous Amendments) Regulations 2018, as applicable to public authorities, will be adhered to by the Council (the “Legislation”).

It sets out appropriate and proportionate anti-money laundering safeguards and reporting arrangements, designed to detect and avoid involvement in the crimes described in the Legislation. It is the Council’s responsibility to take all reasonable steps to minimise the likelihood of money laundering occurring.

Failure to adhere to the requirements of the Legislation may result in criminal prosecutions, if the Council and its officers and members are not fulfilling their duty under the law.

Scope

This policy applies to all officers and members (the “employees”) and aims to maintain the high standards of conduct which currently exist within the Council, by preventing criminal activity through money laundering. The policy sets out the procedures which must be followed to enable the Council to meet its legal obligations under the Legislation.

It is designed to help employees familiarise themselves with the legal and regulatory requirements relating to money laundering, as they affect both the Council and employees personally.

Whilst the policy particularly applies to employees involved with monetary transactions, it is everyone’s responsibility to be vigilant.

Purpose

The legislative requirements concerning anti-money laundering procedures are extensive and complex. This policy has been written so as to enable the Council to meet the Legislation in a way which is proportionate to the low risk to the Council of contravening the law.

Any employee could potentially be caught by the money laundering provisions if they suspect money laundering and either become involved with it in some way, or do nothing about it. Whilst the risk to the Council of contravening the Legislation is low, it is extremely important that all employees are familiar with their legal responsibilities.

The objectives of this policy are to:

- ensure that all employees are aware of the Legislation and money laundering offences within it, their responsibilities regarding the Legislation and the consequences of non-compliance;
- document the Council's client identification procedures;
- establish the Council's internal reporting procedures;
- define the Council's expectations in respect of employee awareness and targeted training;
- establish the Council's requirements for the appointment of an officer responsible for anti-money laundering; and
- document certain procedures of internal control and communication for activities which are restricted or regulated.

Legislation and Offences

The Legislation, as applicable to public authorities, will be adhered to by the Council.

Under the Legislation, money laundering is interpreted very widely and includes possessing, or in any way dealing with, or concealing, the proceeds of any crime. In summary, the main money laundering offences are:

- concealing, disguising, converting, transferring or removing criminal property from the UK;
- being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property;
- acquiring, using or possessing criminal property; and
- doing something that might prejudice an investigation, for example, falsifying a document.

It is an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of criminal activity, or resulting from acts of criminal activity. All individuals and businesses in the UK, including employees and the Council, have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, criminal activity or its laundering, where it relates to information that comes to them in the course of their business or employment.

Employee Responsibilities

Whilst money laundering may most commonly be associated with organised crime, employees of the Council could be exposed to it in the ongoing pursuit of their everyday activities. Guidance for employees on their possible exposure to money laundering, along with examples of warning signs of money laundering, is attached at Appendix A ("Money Laundering - Warning Signs") to this policy.

Employees should follow this policy in respect of all crimes, however small. The regime under which money laundering is monitored operates on an "all crimes" basis and sets no lower limit below which suspected crimes should not be internally reported.

It is essential that employees rigorously apply the internal procedures set out in this policy to prevent money laundering.

Non-Compliance

Failure by an employee to comply with the procedures set out in this policy may lead to disciplinary action being taken against them, in accordance with the Council's Disciplinary and Dismissal Procedure Policy.

Offences may be tried at a Magistrate's Court or in the Crown Court, depending on the severity of the suspected offence. Trials at the former can attract fines of up to £5,000, up to six months in prison, or both. In a Crown Court, fines are unlimited and sentences up to fourteen years in prison may be handed out.

Client Identification Procedures

Although it may not be a legal requirement to put in place formal procedures for evidencing the identity of those the Council does business with, in practice, prudence dictates that employees are alert to potentially suspicious circumstances.

Examples include situations where funds flow through the Council from a source with which it is unfamiliar. There is a greater risk if the parties concerned are not physically present, or may be acting for absent third parties.

In particular, if the Council is forming a new business relationship and/or is considering undertaking a significant one-off transaction, it is required that identification procedures are set up and maintained in respect of the parties involved. If the client acts, or appears to act, for another person, reasonable measures must be taken for the purposes of identifying that person. These may already be part of the Council's procedures in some areas.

In this situation, the client should provide satisfactory evidence of their identity either personally, through passport/photo driving license plus one other document with their name and address, for instance a utility bill (not a mobile bill), mortgage/building society/bank documents, credit card documents, a pension/benefit book; or their corporate identity, which can be through company formation or business rates documents. This evidence should then be retained. If satisfactory evidence is not obtained, the relationship or the transaction must not proceed.

Internal Reporting Procedures

Staff concerns should be reported to the Council's nominated anti-money laundering officer ("the Officer"), or in his or her absence, their deputies. All suspicious transactions, irrespective of their values, should be reported to the Officer.

Employees should first have an initial discussion with the Officer, which should be recorded on an internal form if the Officer decides that the matter is serious enough to warrant this. The Officer will then decide whether an external report is needed. The forms are attached at Appendix C to this policy.

If it is concluded that the matter is not suspicious, then the Officer should complete a log which records instances where they have been consulted and they have concluded that acceptance of the cash is appropriate.

All forms and logs will be retained for five years from the date on which the matter is satisfactorily concluded.

Once an employee has reported their suspicions to the Officer, they have fully satisfied their own statutory obligation.

The Council will monitor the types of transactions and circumstances that give rise to suspicious transaction reports, with a view to updating internal instructions and guidelines from time to time.

At no time and under no circumstances should an employee voice any suspicions to the persons suspected of money laundering. This is known as “tipping off”. Whilst this is not an offence for a public authority which does not operate in the regulated sector (which is avoided by ensuring that undertaking investment activities for a third party and structuring agreements for certain activities, if undertaken for third parties, are restricted), it is best practice. No reference should be made on a client file to the Officer having been contacted, or a report having been made to the Officer. Should the client exercise their right to see the file, then such a note would obviously tip them off as to the report having been made. The Officer should keep the appropriate records in a confidential manner.

Employee Awareness and Training

It is not necessary for all staff to have a detailed knowledge of what constitutes criminal offences under the Legislation. Those who are most likely to encounter money laundering should read this policy, as it documents what procedures are in place to help prevent money laundering and informs them of their personal responsibilities and possible liabilities as individuals. Suggested notes for managers to distribute to these and other employees are attached at Appendix B (“Anti-Money Laundering – Notes for Employees”).

The Council does not have any areas of activity that are considered to be especially vulnerable to money laundering. This is supported by the fact that local authorities are not included as a “relevant person” in The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, as amended by the Money Laundering and Terrorist Financing (Miscellaneous Amendments) Regulations 2018 and are therefore not covered by those regulations.

Any managers who believe they have identified any especially vulnerable areas should first consult with the Officer. If it is then agreed that this is the case, then the manager of the employees involved should request the Officer to arrange to deliver more targeted training to the employees.

Appointment of an Officer Responsible for Anti-Money Laundering

Whilst the Council is not obliged to have a formally appointed Money Laundering Reporting Officer (“MLRO”) under the POCA, it is good practice for an officer to be nominated as being responsible for the Council’s anti-money laundering activities. The Council should therefore always have a nominated anti-money laundering officer (“the Officer”), along with two nominated deputies, who are authorised to act in their absence.

These anti-money laundering appointees should already hold a senior position at the Council so that they can access relevant information (even if it is sensitive) and have the authority to make the decision not to externally report, without having to refer to anyone else in the Council. This policy, therefore, requires that the Officer and deputies should occupy the following senior positions at the Council:

Role	Name	Position
Officer	Peter Handford	Director of Finance & ICT
Deputies	Paul Stone	Assistant Director of Finance (Financial Management)
	Dawn Kinley	Head of Pension Fund

The Council's appointed Officer and deputies should:

- maintain the Council's policies and procedures in respect of money laundering;
- receive and manage the concerns of employees about money laundering and their suspicion of it;
- document internal money laundering reports in conjunction with the employee concerned, where warranted;
- make internal enquiries to follow up concerns; and
- make external reports to NCA (see below), where necessary.

The Officer and deputies must follow the current requirements of the National Crime Agency ("NCA"), which has taken over the responsibilities of the Serious Organised Crime Agency ("SOCA") for investigating money laundering and terrorist financing, in enforcing the legislation. However, the Officer and deputies should not allow the role to consume a disproportionately large amount of time and resources, relative to the risks.

Restricted Activities

This policy requires certain activities to be regulated or restricted as follows:

a) Undertaking Investment Activities for a Third Party

In making investment arrangements, the Council should not act as a principal or agent in, or an arranger of, investment activities for a third party, without prior authority from the Officer, as such activities might be interpreted as being a regulated activity and expose the Council to additional money laundering regulations.

This excludes the investments of trust and charitable funds and the placing of cash deposits for other local authorities, as such activities, in CIPFA's view, would not be interpreted as being "by way of business".

b) Receiving High Value Cash Receipts

For the purpose of preventing money laundering:

- Cash receipts of £10,000 or more should not be accepted. "Cash" includes notes, coins or travellers' cheques in any currency. It is not appropriate for payment of a balance owed to the Council to be sub-divided into smaller cash receipts to circumvent this limit, whatever the purpose of the payment. Any attempts to do this should be reported to the Officer as suspicious activity.
- If money offered in cash is £2,500 or more, then the payment must not be accepted until the employee has received guidance from the Officer or his/her deputies.
- The Council, in the normal operation of its services, accepts payments from individuals and organisations, for example in relation to property rental and sundry debtors. For all transactions under £2,500, no action is required, unless the employee has reasonable grounds to suspect money laundering activities, proceeds of crime or is simply suspicious, at which stage the matter should be reported to the Officer.

c) Refunds

A significant overpayment of an amount owed, which results in a repayment, should be properly investigated and authorised as not suspicious, before repayment is made.

d) Structuring of Agreements

Advice from the Officer should be sought in structuring agreements relating to the following activities, if undertaken on behalf of third parties, as such activities might be interpreted as being a regulated activity and expose the Council to additional money laundering regulations:

- advice about tax affairs;
- accountancy services;
- audit services;
- legal services which involve participation in a financial or real property transaction; and
- services which involve the formation, operation or management of a company.

CIPFA's Treasury Management Code

Treasury management activities and the legal and best practice requirements relating to them (including money laundering), are subject to the provisions of CIPFA's Treasury Management: Code of Practice ("the TM Code"). The TM Code is legally enforceable in local authorities.

Conclusion

The legislative requirements concerning anti-money laundering procedures are lengthy and complex. This policy and the guidance notes and supporting documentation in the Appendices have been written so as to enable the Council to meet the legal requirements in a way that is proportionate to the Council's risk of contravening the legislation.

Anti-Money Laundering

Money Laundering - Warning Signs

Those involved in the handling of criminal property look for ways to secure and safeguard the proceeds of their criminal activities. Although other ways exist, cash is the mainstay of criminal transactions, being the most reliable and flexible, and having little or no audit trail.

In the UK, the most popular method of laundering money is thought to be the purchase of property, followed by investment in front companies or high cash turnover businesses (frequently legitimate businesses), or funding a lifestyle.

The following examples, which employees could encounter at the Council, may indicate that money laundering is taking place:

- Transactions or trade that appear to make no commercial or economic sense from the perspective of the other party. A money launderer's objective is to disguise the origin of criminal funds and not necessarily to make a profit. A launderer may therefore enter in to transactions at a financial loss if it will assist in disguising the source of the funds and allow the funds to enter the financial system.
- Large volume/large cash transactions. All large cash payments should be subject to extra care and should cause questions to be asked about the source. This will particularly be the case where the cash paid exceeds the amount necessary to settle a transaction and the persons concerned request a non-cash refund of the excess. This will include double payments. The Council's Anti-Money Laundering Policy includes procedures which must be followed when encountering high value cash receipts. The cash receipts limit is £10,000; cash payments may not be sub-divided to circumvent this limit. Cash payments over £2,500 must not be accepted without approval from the Council's Officer responsible for anti-money laundering activities and his/her deputies.
- Payments received from third parties. Money launderers will often look to legitimate business activity in order to assist in "cleaning" criminal funds and making payments on behalf of a legitimate company can be attractive to both parties. For the legitimate company it can be a useful source of funding and for the launderer the funds can be repaid through a banking system.

Examples of warning signs which could point to money laundering are:

- use of cash where other means of payment are normal;
- unusual transactions or ways of conducting business, including where third party intermediaries becomes involved in a transaction;
- unwillingness to answer questions / secretiveness generally;
- difficulties in establishing the identity of a party, or where the identity is not disclosed;
- use of overseas companies;
- evasiveness as to the source or destiny of funds; and
- overpayment of property rental income where refunds are needed.

The money laundering regime adopts an “all crimes” approach. It should be noted that the money laundering offences described in the Council’s policy may apply to a very wide range of more everyday activities. Examples include:

- being complicit in crimes involving the falsification of claims;
- benefiting from non-compliance with the conditions attaching to a grant;
- retaining customer overpayments on a ledger; and
- facilitating employment on which tax is not paid.

Anti-Money Laundering

Notes for Employees

Derbyshire County Council's and Your Own Personal Responsibilities

Purpose

These notes are important. They are designed to help you familiarise yourself with the legal and regulatory requirements relating to money laundering, as they affect both the Council and you personally.

What is Money Laundering?

Money laundering is the term used for a number of offences involving the proceeds of crime or terrorist funds. The following constitute the act of money laundering:

- concealing, disguising, converting, transferring, or removing criminal property from the United Kingdom;
- becoming concerned in an arrangement in which someone, knowingly or suspecting, facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person;
- acquiring, using or possessing criminal property; and
- doing something that might prejudice an investigation, for example, falsifying a document.

Whilst the risk to the Council of contravening the legislation is perceived to be low, you may be used unknowingly in laundering money from criminal activities.

Although the term “money laundering” is generally used when describing the activities of organised crime – for which the legislation and regulations were first and foremost introduced – to most people who are likely to come across or be affected by it, it involves a suspicion that someone they know, or know of, is benefiting financially from dishonest activities.

The money laundering regime adopts an “all crimes” approach. The offences may apply to a very wide range of more everyday activities within the Council. This could include, for example, being complicit in crimes involving the falsification of claims, benefiting from non-compliance with the conditions attaching to a grant, retaining customer overpayments on a ledger, or facilitating employment on which tax is not paid.

What Laws Exist to Control Money Laundering?

In recent years, new laws have been passed which significantly shift the burden of identifying acts of money laundering away from government agencies and more towards organisations and their employees. They prescribe potentially very heavy penalties, including imprisonment, for those who are convicted of breaking the law. These laws are important. A list of the laws and relevant papers appears at the end of these notes.

What is the Council’s Policy on Money Laundering?

The Council aims to maintain its high standards of conduct, by preventing criminal activity through money laundering.

The Council’s policy is to do all that it can to prevent, wherever possible, the Council and its officers and members being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases. We cannot stress too strongly, however, that it is everyone’s responsibility to be vigilant.

Peter Handford, whose contact details appear in the box later in this note, has been nominated as being the Council’s Officer Responsible for Anti-Money Laundering (“the Officer”).

What are the Main Money Laundering Offences?

There are three principal offences – concealing, arranging and acquisition/use/ possession.

Concealing is where someone knows, or suspects, a case of money laundering but conceals or disguises its existence. **Arranging** is where someone involves themselves in an arrangement to assist in money laundering. **Acquisition/use/ possession** are where someone seeks to benefit from money laundering by acquiring, using or possessing the property concerned.

There are also two “third party” offences - failure to disclose one of the three principal offences, and “tipping off”. **Tipping off** is where someone informs a person or people who are, or are suspected of being, involved in money

laundering, in such a way as to reduce the likelihood of their being investigated, or prejudicing an investigation. Provided the Council does not involve itself in certain regulated activities, then these two offences do not apply to it. However, the Council's policy is still to apply best practice and therefore all suspicions should be reported to the Officer and no tipping off should occur.

All the main money laundering offences may be committed by the Council or its staff and members (the "employees").

What are the Implications for the Council and its Employees?

The Council has accepted the responsibility to ensure that those of its employees who are the most likely to be exposed to money laundering can make themselves fully aware of the law and where necessary, are suitably trained. The Council has also implemented procedures for reporting suspicious transactions and if necessary, making an appropriate report to the National Crime Agency.

The consequences for employees of committing an offence are potentially very serious. Whilst it is considered most unlikely that an employee would commit one of the three principal offences, the failure to disclose a suspicion of a case of money laundering is a serious offence in itself, and there are only limited grounds in law for not reporting a suspicion.

Whilst stressing the importance of reporting your suspicions, however, you should understand that failure to do so is only an offence if your suspicion relates, in the event, to an actual crime.

What are the Penalties?

Money laundering offences may be tried at a Magistrate's Court or in the Crown Court, depending on the severity of the suspected offence. Trials at the former can attract fines of up to £5,000, up to six months in prison, or both. In a Crown Court, fines are unlimited and sentences up to fourteen years in prison may be handed out.

Failure by an employee to comply with the procedures set out in this policy may lead to disciplinary action being taken against them. Any disciplinary action will be dealt with in accordance with the Council's Disciplinary and Dismissal Procedure Policy.

What are the Warning Signs?

Examples of warning signs which you could encounter and may point to money laundering are attached at Appendix A (“Warning Signs”) to these notes. You should ensure that you familiarise yourself with these examples.

What Should I do if I Suspect a Case of Money Laundering?

You should report the case **immediately** to Peter Handford (the Council’s Officer Responsible for Anti-Money Laundering, “the Officer”), either using a form he will give to you or, if you prefer, in a discussion.

Peter can be contacted as follows:

<p>Peter Handford Director of Finance & ICT Derbyshire County Council County Hall MATLOCK Derbyshire DE4 3AH</p> <p>Telephone: 01629 538 700 E-mail: peter.handford@derbyshire.gov.uk</p>

In the absence of the Officer, Paul Stone and Dawn Kinley (or the officers in these posts at the relevant time) are authorised to deputise for him.

He will decide whether the information or transaction is suspicious and whether to make an external report based on all other relevant evidence (information) available to the Council concerning the person or business to which the initial report relates.

If the Officer concludes that the matter is not suspicious, then a log will be completed, which records instances where consultation has taken place and it has been concluded that acceptance of the cash is appropriate.

There is no clear definition of what constitutes suspicion – common sense will be needed. If you are considered likely to be exposed to particularly suspicious situations, which are especially vulnerable to money laundering, you will be made aware of these by your senior officer and, where appropriate, training will be provided.

Should you have any concerns whatsoever regarding any transactions then you should contact the Officer or one of his deputies.

Summary

Robust money laundering procedures are essential if the Council and its employees are to comply with our responsibilities and legal obligations. It falls to you as an employee, as well as to the Council itself, to follow these procedures rigorously.

Legislation, Regulations and Guidance Relating to Money Laundering

The Proceeds of Crime Act 2002 (as amended by the Crime and Courts Act 2013 and the Serious Crime Act 2015)

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, as amended by the Money Laundering and Terrorist Financing (Miscellaneous Amendments) Regulations 2018

Explanatory Memorandum to the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017

The Terrorism Act 2000 (as amended by the Anti-Terrorism, Crime and Security Act 2001, the Terrorism Act 2006 and the Terrorism Act 2000 and Proceeds of Crime Act 2002 (Amendment) Regulations 2007)

Combating Financial Crime – CIPFA 2009

Proceeds Of Crime (Anti-Money Laundering) – Practical Guidance For Public Service Organisations – CIPFA 2005

Reviewed and updated November 2019

(Original February 2010; updated August 2011; reviewed December 2012; reviewed September 2014; reviewed June 2015, reviewed and updated August 2016, reviewed and updated July 2017, reviewed November 2018)

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Internal Suspicion of Money Laundering Activity Form

STRICTLY CONFIDENTIAL

**Report to: Officer Responsible for Anti-Money Laundering
("the Officer")**
Regarding: Suspicion of Money Laundering Activity

To:
 (Derbyshire County Council (Deputy) Officer Responsible for Anti-Money
 Laundering)

From:

Department:

Job title:

Details of Suspected Offence**Name(s) and address(es) of persons involved:**

[If a company/public body please include details of nature of business]

[Please continue on to a separate sheet if necessary]

Nature, value and timing of activity involved:

[Please include full details eg what, when, where, how]

[Please continue on to a separate sheet if necessary]

Nature of suspicions regarding such activity:

[Please continue on to a separate sheet if necessary]

Have you discussed your suspicions with anyone else?

Yes/No *(please select the relevant option)*

If yes, please specify below, explaining why such discussion was necessary:

[Please continue on to a separate sheet if necessary]

Has any investigation been undertaken (as far as you are aware)?

Yes/No *(please select the relevant option)*

If yes, please include details below:

[Please continue on to a separate sheet if necessary]

Have you consulted any supervisory body guidance on money laundering (eg the Law Society?)

Yes/No *(please select the relevant option)*

If yes, please specify below:

[Please continue on to a separate sheet if necessary]

Do you feel you have a reasonable excuse for not disclosing the matter to the NCA (eg are you a lawyer and wish to claim legal professional privilege)?

Yes/No *(please select the relevant option)*

If yes, please set out full details below:

[Please continue on to a separate sheet if necessary]

Are you involved in a transaction which might be a prohibited act under sections 327-329 of the Act which requires appropriate consent?

Yes/No *(please select the relevant option)*

If yes, please enclose details in the box below:

[Please continue on to a separate sheet if necessary]

Please set out below any other information you believe is relevant:

[Please continue on to a separate sheet if necessary]

DECLARATION:

Signed:

Dated:

Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence, which carries a maximum penalty of 5 years' imprisonment.

THE FOLLOWING PART OF THIS FORM IS FOR COMPLETION BY THE OFFICER

Date report received:

Date receipt of report acknowledged:

CONSIDERATION OF DISCLOSURE:

Action Plan:

OUTCOME OF CONSIDERATION OF DISCLOSURE:

Are there reasonable grounds for suspecting money laundering activity:

If there are reasonable grounds for suspicion, will a report be made to NCA?

Yes/No (*please select the relevant option*)

If yes, please confirm date of report to NCA:
and complete the box below:

Details of liaison with NCA regarding the report:

Notice Period: **To**

Moratorium Period: **To**

Is consent required from NCA to any ongoing or imminent transactions which would otherwise be prohibited acts?

Yes/No (please select the relevant option)

If yes, please enter full details in the box below:

Date consent received from NCA:

Date consent given by you to employee:

If there are reasonable grounds to suspect money laundering but you do not intend to report the matter to NCA, please set out below the reason(s) for non-disclosure:

[Please set out reasons for non-disclosure.]

Date consent given by you to employee for any prohibited act transactions to proceed:

.....

Other relevant information:

Signed:

Dated:

THIS REPORT IS TO BE RETAINED FOR AT LEAST FIVE YEARS

DERBYSHIRE COUNTY COUNCIL**AUDIT COMMITTEE MEETING****10 December 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 October 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 seven months to 31 October 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

The Audit Committee has been regularly informed of the considerable, continuing pressures placed on the Unit's staffing resources. Despite continued efforts to achieve a full establishment, which have extended over the past eighteen months, the Unit currently has four vacancies (1 Senior Auditor, 2 Auditors and 1 Trainee Auditor) which equates to approximately 25% of its resource. This lack of resource has been exacerbated by higher than estimated levels of sickness.

As previously reported to the Audit Committee at its meeting in September 2019 the ongoing lack of resources will impact on the delivery of the current Audit Plan. I continue to constantly monitor this situation but it is clear that a number of planned projects will not be delivered and will need to be reconsidered during the formulation of the Audit Plan for 2020-21.

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

At the Audit Committee's last meeting Members were informed that the Chartered Institute of Public Finance and Accountancy's consultancy service, C.Co, had been selected to undertake the external review of Audit Services.

The review is now complete and Audit Services are judged as compliant with the Public Sector Internal Audit Standards (PSIAS) overall and in each of the four areas of focus assessed.

A separate report providing more detail on the review is on the agenda for this meeting and Mr Ian Kirby, C.Co Programme Director, will present the report arising from the review to Members.

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 October 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	-	1	-	-	-	-	-	-	-	-	-
• 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	-	32	4	Other	-	-	-	-	-	-	-
• emPSN (SCo & ICo)	M	8	-	1	-	-	-	-	-	-	-	-	-
• Grants Administration	M	15	-	-	-	-	-	-	-	-	-	-	-
Corporate Governance including:-													
• Embedding Corporate Governance	H	40	-	29	-	-	-	-	-	-	-	-	-
• Business Continuity Planning	H	20	10	1	1	Limited	-	13	4	3	-	4H,2M	Memo relates to 2018/19.

Key to Level of Risk: H – High, M – Medium, L – Low

Key to Recommendations: C – Critical, H – High, M – Medium, L - Low 2

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	11	-	-	-	-	-	-	-	-	-
• Services to Members	H	25	-	-	-	-	-	-	-	-	-	-	-
Corporate Fraud Prevention	H	460	146	103	2	-	-	-	-	-	-	-	This includes work on <ul style="list-style-type: none"> • NFI; • publication of NAFN alerts; • surveillance and data communications compliance; • liaison with external audit; 7 investigations 5 of which relate to previous years including liaison with the Police. Special Investigation Report recommendations are not categorized.
Audit Contingency	-	75	-	-	-	-	-	-	-	-	-	-	Original contingency was 150 days less transfers of 75 days.
TOTAL		943	157	180	8		-	15	4	4	-	6	

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 18-19 19-20		No of Reports	Level of Assurance	Analysis of Recommendations C H M L				Recs Not Acceptd	Recs Not Implmtd	Comments
Departmental Review - Management & Administration	M	60	3	13	1	Qualified	-	3	15	16	4M,1L	8M,2L	Memo relates to 2018/19. Issued as Final without all Management responses.
External Grants & Certifications	M/H	5	-	14	3	Other	-	-	-	-	-	-	-
Information Security Reviews	M/H	50	1	26	4	2 Qualified 2 Other	-	3	3	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.
Themed and Operational													
• Community Safety	M/H	20	-	-	-	-	-	-	-	-	-	-	-
• Trading Standards	M/H	20	-	18	-	-	-	-	-	-	-	-	-
• Public Library Service	M/L	5	-	2	-	-	-	-	-	-	-	-	-
Divisional Activity													
Corporate Finance													
Probity and Compliance	M/H	95	-	17	4	Qualified	-	4	10	6	1L	1M,4L	-
Major Systems	H	280	25	50	5	2 Substantial 3 Qualified	-	5	36	15	4M,1L	2H,10M,7L	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	90	30	34	3	1 Qualified 2 Limited	1	25	20	4	-	1C,7H,1M	Work includes assessments of new and existing IT systems together with specific reviews of the network infrastructure, BACSTEL-IP application, surveillance cameras, database and server management. <i>*10 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			
County Property	M/H	20	-	-	-	-	-	-	-	-	-	-	-
Regulatory Registration Service	M/L	20	-	-	-	-	-	-	-	-	-	-	-
TOTAL		665	59	174	20		1	40	84	42	11	43	

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	-	29	3	2 Qualified 1 Other	-	-	5	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.
Schools													
Primary & Special	M/H	224	11	217	25	23 Qualified 2 Limited	-	154	232	201	6H,7M,6L	61H,85M,30L	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	-	40	2	Qualified	-	11	16	14	1M	6H,5M,2L	-
Information Security Reviews	M/H	60	8	5	2	Qualified	-	4	6	-	1M	-	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	2	Qualified	-	9	5	2	-	1H,3M	-
Derbyshire Outdoors	M/L	10	-	-	-	-	-	-	-	-	-	-	-
Themed & Operational													
• Starting Point	H	20	-	18	-	-	-	-	-	-	-	-	-
• Early Years	H	25	-	6	-	-	-	-	-	-	-	-	-
• Catering Service	M/H	40	-	42	1	Qualified	-	11	9	7	-	4H,2M	<i>*15 days transferred from contingency.</i>

Key to Level of Risk: H – High, M – Medium, L – Low

Key to Recommendations: C – Critical, H – High, M – Medium, L - Low 6

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	29	4	Other	-	-	-	-	-	-	-
TOTAL		563	25	405	40		-	197	281	232	22	207	

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 Acceptd	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
Departmental Review - Management & Administration	M	45	1	48	1	Qualified	-	6	8	7	1L	2H,2M,3L	Memo relates to 2018/19.
Public Health	M/H	30	30	-	-	-	-	-	-	-	-	-	-
Information Security Reviews	M/H	70	39	18	5	4 Qualified 1 Other	-	8	11	-	-	-	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	10	20	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	-	20	-	-	-	-	-	-	-	-	-
• Transforming Care Plan	H	30	27	-	-	-	-	-	-	-	-	-	Relates to 2018/19. *30 days transferred from contingency.
• Deputyship	M/H	25	-	-	-	-	-	-	-	-	-	-	-
• Private Residential Care	M/H	25	-	3	-	-	-	-	-	-	-	-	-
TOTAL		363	107	117	11		-	37	42	21	2	33	

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	-	5	-	-	-	-	-	-	-	-	-
• Concessionary Fares	M/H	25	-	-	-	-	-	-	-	-	-	-	-
• Grants	M/H	15	-	25	6	Other	-	-	-	-	-	-	-
TOTAL		150	44	48	9		-	6	17	9	1	12	

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	Critical	Significant strategic, financial or reputational risks where immediate remedial action is considered essential.
2	High	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	Medium	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	Low	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****10 December 2019****Report of the Director of Finance & ICT and Assistant Director of Finance
(Audit)****EXTERNAL REVIEW OF AUDIT SERVICES****1. Purpose of Report**

To inform Members of the result of the external review of Audit Services and the Unit's compliance with the Public Sector Internal Audit Standards (PSIAS).

2. Information & Analysis

The PSIAS are based on the mandatory elements of the International Professional Practices Framework (IPPF) of the Global Institute of Internal Auditors (IIA), and intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. The Standards recognise that a professional, independent and objective internal audit service is one of the key elements of good governance.

The objectives of the PSIAS are to:-

- define the nature of internal auditing within the UK public sector;
- set basic principles for carrying out internal audit in the UK public sector;
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations;
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The PSIAS require that external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The last review was undertaken by PricewaterhouseCoopers and the result reported to Audit Committee on 25 March 2014.

Following a procurement process the Chartered Institute of Public Finance and Accountancy's (Cipfa) consultancy service (C.Co) was selected to undertake the external assessment. This assessment was carried out on the basis of a self-assessment with independent external validation.

Following the assessment Audit Services are judged as compliant with the PSIAS overall and in each of the four areas of focus assessed.

Mr Ian Kirby, C.Co Programme Director, will present the report arising from the review to Members attached as Appendix 1.

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 note the completion of the external assessment undertaken by C.Co and that Audit Services are judged compliant with the PSIAS overall and in each of the four areas of focus assessed.

Peter Handford
Director of Finance & ICT

Carl Hardman
Assistant Director of Finance (Audit)



External Review of Internal Audit

Compliance with Public Sector Internal Audit Standards

Final Report

Author: Ian Kirby

Date: 02 December 2019



Document Control

Document Title:	External Review of Internal Audit		
Date:	02.12.2019	Version:	04
Issue:			
Sponsor:	Peter Handford – Director of Finance & ICT		
SRO:	Carl Hardman – Assistant Director of Finance (Audit)		
Portfolio Holder	Councillor Angelique Foster, Cabinet Member for Corporate Services		
Authors	James Dean & Ian Kirby		

Date	Approval	Version	Signature

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Executive Summary

Introduction

- 1.1 Following an open procurement process, CIPFA C.Co Ltd (C.Co) was appointed by Derbyshire County Council (the Council) to undertake an 'external assessment of the Council's internal audit function' which is a key requirement of the mandatory Public Sector Internal Audit Standards (PSIAS).
- 1.2 PSIAS requires that external assessments are undertaken once every five years and can take the form of a full external assessment, or a self-assessment with independent external validation. C.Co's review was conducted as a 'self-assessment with independent external validation'. This approach:
 - Conforms with the requirements of the PSIAS;
 - Minimises cost and disruption to the Council;
 - Identifies good/best practice; and
 - Supports improvement planning.
- 1.3 The methodology for self-assessment with independent validation was undertaken in three distinct phases: **pre-review** which consisted of a detailed document review together with the capture and analysis of questionnaire responses; **on-site review** that involved the further review of documentation and one to one interviews with members of the Internal Audit team and key officers of the Council; and **post-review** which involves the collation of all evidence and the drawing down of conclusions and recommendations.
- 1.4 C.Co is a subsidiary of the Chartered Institute of Public Finance & Accountancy the lead professional body for Local Government finance, accountancy and audit and one of the standard setters of the PSIAS. Although C.Co is a CIPFA company, it is a wholly independent entity providing a range of support and consultancy services to the wider public sector and has delivered these services to over 40 organisations across the UK. C.Co is well placed to deliver independent assurance and an opinion on the Council's conformance, or not, to the Standards. C.Co's employees are former public sector and local government employees, including those with relevant internal audit experience and knowledge of the PSIAS. Details of the reviewers' relevant experience and qualifications are included at Appendix 1.
- 1.5 The Internal Audit team, the Council as a whole, questionnaire respondents and the Chair of the Audit Committee were fully supportive of the process and review methodology and the C.Co team would like to place on record its gratitude to everyone who contributed to a positive process.

Overall Assessment

- 2.1 Introduced in 2014, the Public Sector Internal Audit Standards (PSIAS) require that an external assessment of an organisation's internal audit function is carried out once every five years by a qualified, independent assessor or assessment team from outside of the organisation. The Local Government Application Note (LGAN) sets out requirements for local government internal audit to inform the application of the PSIAS. An integral part of the PSIAS is the requirement that each authority completes the PSIAS self-evaluation contained within the LGAN. The LGAN outlines the "sector-specific requirements for local government organisations" (para 1.13) and "has been developed to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments". This review was commissioned to satisfy the requirement for an external validation of the Derbyshire self-assessment.
- 2.2 Upon conclusion of the assessment, the review team offers a judgement on the validity of the self-assessment and provides an overall assessment as follows: **Conforms, Partially Conforms** or **Does Not Conform** against each thematic area of the LGAN, from which an aggregation of the themed scores gives an overall Authority score.
- 2.3 Following a detailed moderation process, C.Co has assessed Derbyshire County Council as follows:

Area of Focus	Judgement
Purpose and Positioning	Conforms
Structure & Resources	Conforms
Audit Execution	Conforms
Impact	Conforms
Overall Assessment	Conforms

- 2.4 In reaching its evidence-based judgement, the C.Co team has identified a number of areas of positive practice that include:
- A recognition of an improved service since the last external review of Audit Services in 2014;
 - Regular and transparent discussion between the Chief Audit Executive and those charged with governance;
 - A multi-skilled and multi-disciplinary Internal Audit team;
 - An Internal Audit team who support good governance and information security control frameworks; and

- The positive support and advocacy for Internal Audit from the Chair of Audit Committee.

Although C.Co did not identify any areas for improvement that materially and negatively impacted their view of the Internal Audit Service's conformance with the PSIAS, it did identify a number of areas where, in its view, the level of conformance or the wider value added delivery of audit could be enhanced. These enhancements include:

- Although the annual audit plan takes account of organisational risk, there is an opportunity to more explicitly align it to corporate and directorate risk registers. This will be particularly relevant in light of the proposals to develop the Council's risk management processes and awareness;
- A refinement and strengthening of Internal Audit's current approach to the issue and follow up of recommendations;
- The development of the current suite of key performance indicators to more comprehensively cover the performance of Internal Audit and its contribution to the Council's wider control environment; and
- The use of alternative sources of assurance to supplement the work of Internal Audit and provide opportunities to 'de-risk' some Council activity and support the delivery of the Plan.

Our detailed findings are set out on page 9 of this report.

Detailed Methodology

Approach

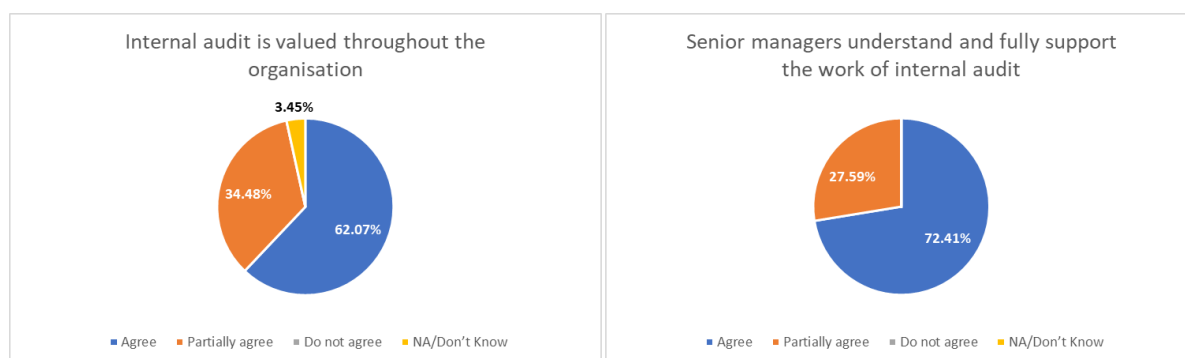
3.1 The Public Sector Internal Audit Standards (PSIAS) require that an external assessment of an organisation's internal audit function is carried out once every five years by a qualified, independent assessor or assessment team from outside of the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation. The Council commissioned a 'self-assessment with independent external validation'. The methodology that was deployed for this review is set out below and covers its three principal stages of review: pre-review; on-site review; post-review.

3.2 Pre-review

The Council was requested to complete and/or provide its self-evaluation of the Internal Audit Service against the CIPFA Local Government Application Note (LGAN) together with relevant supporting evidence/documentation in advance of the agreed on-site period. The review team requested a number of documents including the Internal Audit Plan & Charter, the Head of Internal Audit's Annual Report & Opinion and the Quality Assurance & Improvement Programme.

To support the on-site review, a customer survey form was issued to key personnel within the Council. Although the questionnaire was issued by the Internal Audit team, replies were

sent direct to C.Co to encourage a more open and frank response. A total of 30 responses were received which was significantly greater than our experience of other reviews of this nature. The actual responses were largely encouraging in nature with the majority being 'positive' or 'mostly positive' about all aspects of Internal Audit activity. All responses were analysed and, alongside the key document review, enabled the review team to determine 'key lines of enquiry' to shape the on-site activity and particularly the one to one discussions. By way of illustration, the responses to two of the questions are presented as follows:



3.3 On-site Review

The review itself comprises a combination of 'desktop' and 'actual on-site' review. The review cannot reasonably consider all elements of the LGAN self-assessment and the review team needed to use the 'desktop' period to determine strengths, weaknesses and subsequent key lines of enquiry in order that the review itself is risk-based, timely and adds real value. The Council's Internal Audit Service was assessed against the four broad themes of: Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.

The focus of the four themes is as follows:

- Purpose and positioning – Does the internal audit service have the appropriate status, clarity of role and independence to fulfil its professional remit?
- Structure and resources – Does the internal audit service have the appropriate structure and resources to deliver the expected service?
- Audit execution – Does the internal audit service have the processes to deliver an effective and efficient internal audit service?
- Impact – Has the internal audit service had a positive impact on the governance, risk and control environment within the organisation?

The key considerations under each theme together with an alignment against each theme of the self-assessment checklist is detailed in Appendix 2. C.Co's judgement is based upon a 'true and fair' assessment and appraises the Service as Conforms, Partially Conforms or Does Not Conform against each thematic area of the LGAN and its overall score is an aggregation of the four themed scores. For clarity, the score descriptors are detailed below:

- Conforms – indicates that the Internal Audit service complies with all fundamental elements of the PSIAS and the majority of individual statements of good practice in all material respects.

- Partially Conforms – indicates that the Internal Audit service falls short of achieving some elements of good practice but is aware of the areas for development or opportunities for improvement in delivering effective internal audit.
- Does Not Conform – indicates that the Internal Audit service is not aware of, is not making efforts to comply with, or is failing to achieve many or all of the objectives and good practice statements. Such deficiencies would usually have a significant negative impact on the Internal Audit service’s effectiveness, its potential to add value to the organisation and would also represent significant opportunities for change.

3.4 Post Review

The post review period, based upon all of the evidence gathered reviewed and analysed during the pre and on-site phases, enables the compilation of key findings, elements of good practice and areas for improvement or enhancement in a summary report that includes the theme and overall scores. The report, its findings and the supporting evidence was internally quality assured (QA) by C.Co to ensure that the review is consistent with the methodology, that the assessments are evidence based, even-handed and fair.

The report was initially issued, as draft, to the Council to allow the correction of any factual inaccuracies and, with appropriate evidence, to challenge any of the key findings. This version of the report represents our ‘Final Report’.

It is for the Chief Audit Executive to determine the most appropriate means of communicating the results of the review to their officers and elected Members. However, C.Co has agreed to present this report and its findings to the Audit Committee.

Detailed Findings

Areas of Positive Practice

- 4.1 Based upon a combination of questionnaire responses, detailed document review and on-site interviews the C.Co team is in agreement that the Council's Internal Team conforms in all material aspects with the requirements of the Public Sector Internal Audit Standards (PSIAS). In reaching this judgement the team has been able to identify a number of areas of positive practice that are highlighted below.
- 4.2 There is a clear perception, and evidence, that the performance and standing of Audit Services has improved since 2014 when the current Chief Audit Executive (Assistant Director of Finance (Audit)) was appointed to the role. Further, it is evident that the Chief Audit Executive engages regularly and openly with Executive Directors and the Council's senior managers to discuss the Audit Plan, its progress and any current risks and issues.
- 4.3 The Chief Audit Executive has a positive, but appropriate professional relationship with the Chair of Audit Committee. The Chair himself is a positive and enthusiastic advocate of Internal Audit, is clear about his own and the Committee's role and is keen that all opportunities to enhance the delivery of all aspects of governance within the Council are identified and taken.
- 4.4 Internal Audit is seen as independent and objective within the organisation and in its approach to the development of the Internal Audit Plan and its delivery. This is further supported and by the Chief Audit Executive's 'unfettered' access, when appropriate and usually by exception, to Executive Directors, the Chair of the Audit Committee and the Leader of the Council.
- 4.5 The work of Internal Audit is supported by a comprehensive and compliant Audit Manual that is regularly reviewed, updated where appropriate and outputs of the review presented to Audit Committee. The Manual was last reviewed in September of this year.
- 4.6 Our survey of a range of Internal Audit clients identifies and recognises a team who engage in the promotion of good governance and information security control frameworks for the benefit of the wider organisation.
- 4.7 A detailed review of the Internal Audit team's core audit management system, MK Insight, and associated working papers has identified a good standard of documentation to support audit findings with clear evidence of review and challenge of findings and assumptions where appropriate. There was also evidence of time recording and monitoring of the time expended on individual audits. Prior to the commencement of any audit assignment, a detailed (internal

to the Service) project brief is prepared detailing the scope, timescales and testing strategy for the audit, the review team were keen to identify this brief as an example of positive practice.

- 4.8 The PSIAS defines internal audit as “an independent, objective assurance and consulting activity”. It is clear that Internal Audit at the Council undertake a number of consulting activities, such as training, on behalf of the Council, its schools and partner organisations. This work is clearly valued across this review’s consultees with its work on new ICT systems particularly valued by the Director of Finance & ICT.
- 4.9 The Internal Audit team is made up of officers with a wide range of skills and experience able to cover a broad range of audit assignments without the need to bring in additional, specialist support to deliver the Plan. The continuing development of individuals within the team is evidently supported through the Council’s ‘MyPlan’ appraisal process with continuing professional development identified, supported, planned and recorded.
- 4.10 The team has an understanding of the Code of Ethics requirements within the PSIAS and annually complete a declaration of interests acknowledging the Audit Manual requirements incumbent upon them.

Advisory Opportunities to Enhance the Internal Audit Service

- 5.1 As previously stated, the C.Co review team has judged Derbyshire’s Internal Audit service as conforming in all material aspects to the requirements of the Standards. However, during the course of its review activity, the review team has identified a number of opportunities that it believes would enhance not only the level of conformance with the Standards but the added value it offers the Council in improving the overall control environment. These ‘advisory’ opportunities are detailed within the narrative below and summarised in the table that follows.
- 5.2 The PSIAS state that the “chief audit executive is responsible for the development of a risk-based (annual) plan”. Our review of the 2018-19 and 2019-20 Internal Audit Plans alongside the corporate and service risk registers and our discussions with the Chief Audit Executive has identified only partial compliance with this requirement. Although the Plan is informed by both corporate and directorate risks, the Chief Audit Executive is clear that the Plan is not wholly risk based. He believes that to move toward a fully risk-based Plan would mean that some parts of the Council would never be audited, representing a risk in itself. Our discussion with the Executive Director of Adult Social Care revealed that she has now volunteered on behalf of the corporate management team to be the ‘risk champion’ and is keen to increase the wider Council’s risk awareness and maturity.

1 PSIAS Ref: 2050

It is our view that Internal Audit Service's approach to risk-based audit planning and its ability to respond to the organisation's emerging risks is reviewed alongside the development of the organisation's developing risk maturity.

- 5.3 The Chief Audit Executive has identified that the team will be unable to deliver, in full, the current year's Audit Plan and is planning to report as such to senior managers and the Audit Committee. The principal reason for the inability to deliver the Plan is the lack of capacity within the team owing to a number of unforeseen vacancies and difficulty in recruiting to those vacancies in year. It is the C.Co team's view that the formulation and delivery of the Plan would benefit from a formal and coordinated 'assurance mapping exercise' that would, initially, provide clarity on what opportunities exist to take assurance on the control environment from third parties.. Having completed this, to then consider which, if any, third party assurance upon which reliance could be placed. Third party assurance may allow the reduction in resource allocation, from the Plan, in certain areas and potentially negate the impacts of staff shortage/recruitment issues without impacting on Plan delivery. Alongside this and relying on its own work and assurance, the Plan might benefit in a similar way from more 'bite-size' audits rather than annual whole systems review. For example, an annual audit of the whole system of 'Payroll' appears unnecessary when a risk-based approach is applied and a 'dechunking' of the system into Starters – Transfers – Leavers, perhaps rotating on a risk-assessed basis appears more appropriate. Essentially Internal Audit should consider the strength of the control environment based on previous audits/ inspections to de-risk and better focus the approach for the system under review.

2 PSIAS Ref: 2010

It is our view that Internal Audit Plan development and delivery would benefit from a formal assurance mapping exercise and subsequent evaluation of which, if any, other forms of assurance the Service would place reliance on to reduce their own coverage in particular service areas.

- 5.4 The Plan currently operates with a 5% contingency. C.Co is not in a position to state whether this is the right or wrong amount. However, given the current difficulties faced regarding delivery of the Plan because of unforeseen vacancies, a review of the contingency element is worth consideration.

3 PSIAS Ref: 2050

In reviewing the approach to the development and delivery of the Audit Plan, the Chief Audit Executive should review the level of contingency within it.

- 5.5 The final audit reports issued by the Service contain recommendations that are classified as high, medium or low priority. Our discussions with senior managers suggest that the volume of these latter type of recommendations is perceived as high and their materiality low. This, C.Co believes has the potential to ‘water down’ the impact of the more material high and medium recommendations whose impact on control and risk management is, by definition, much higher. C.Co accepts that the Service would want to record all findings and their recommendations, there is an opportunity to define low recommendations as more advisory, to be raised on an informal basis and not included as formal recommendations within the report.

4 PSIAS Ref: 2400

It is suggested that the current practice of including low value recommendations within final audit reports is reviewed.

- 5.6 Although Internal Audit recommendations are ‘tracked’ through the core audit system, it is our understanding that recommendations are only followed up when the next cycle of audits takes place in the area concerned. This, C.Co believes, increases the risk of control improvements not being implemented and exposes the Council to the very risks that the initial audit identified. Although the implementation of recommendations will never be the responsibility of Internal Audit, their implementation is a measure of the positive impact and value that the Service has on the organisation.

5 PSIAS Ref: 2500

The Service should undertake a review of its process/approach for following up audit recommendations.

- 5.7 C.Co has identified the development of an internal project brief as an area of good practice. It is our view that there is an opportunity to utilise the project brief to increase the clarity and purpose of activity with auditees. C.Co suggest that developing some form of ‘terms of reference’ document outlining the purpose, scope, risks, key personnel and timescales of the audit will enhance the current communication at the start of the audit assignment and enhance the quality of the audit and the experience of the auditee.

6 PSIAS Ref: 2200

Consider the development of an appropriate terms of reference, utilising the current project brief, as a means of enhancing the audit process overall.

- 5.8 Our review of the self-assessment, key documentation and discussions with key officers within the Council has led us to the opinion that although Internal Audit is well-regarded and valued, it undersells its ability to proactively support, provide advice and guidance to further enhance its reputation, improve controls and reduce risk on major projects and other initiatives.

7 PSIAS Ref: 2010

The Service should clearly define its approach and ability to deliver internal consultancy and undertake an awareness campaign utilising internal communications or an e-brochure to raise the positive profile of the Service and alert the rest of the organisation to where and how the Service can support.

- 5.9 During the course of the review, C.Co were advised that the Service's current suite of key performance indicators is under review. C.Co support this review and suggest that a more comprehensive suite of measures is developed to highlight the delivery of Internal Audit's work and its impact on the wider organisation.

It is also worth pointing out that the Chair of Audit Committee is keen to see a wider suite of indicators moving forward – again, C.Co sees this as positive.

8 PSIAS Ref: 1230

In reviewing its key performance indicators, it is suggested that the following indicators should be retained or developed as part of this review:

- **Elapsed time** – this is start and finish time of the audit assignment overall and reflects the value of an audit being completed within an appropriate timescale.
- **Implementation of recommendations** – although the implementation of recommendations is not the responsibility of Internal Audit, this measure is more reflective of the impact of Internal Audit on the control environment, the quality of its recommendations and highlights where managers have failed to implement. It also links into our suggestion of the review of the 'follow up' of recommendations
- **Plan delivery** – a measure of progress that enables regular discussion about factors such as resourcing that impact on the delivery of Plan
- **Delivery within planned days** – a measure that highlights the ability to plan and deliver the time allocation for audits appropriately
- **Draft to Final Report turnaround** – again not all in the gift of Internal Audit but a useful measure to highlight where any 'sign-off' blocks exist and that the Final report is the key audit 'product'.

- 5.10 Although we have identified that the team is completing annual declarations of interest, the declaration forms could be further improved by clarifying the following within the document:

- The nature of a declared relationships (spouse, mother, father, sibling etc);
- The mitigating actions taken by Internal Audit to reduce the risks associated with any interest; and
- A more explicit statement for the individual related to their knowledge of and conformance to the CIPFA Code of Ethics, a key requirement of the PSIAS.

9 PSIAS Ref: 1130

Review and revise the Internal Audit declaration of interest form in advance of the next round of completion.

- 5.11 Within the Standards there is an underlying principle that the independence of the Chief Audit Executive is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. “In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee”. There is no evidence to suggest that the Chair of Audit Committee currently contributes to the annual appraisal of the Chief Audit Executive.

10 PSIAS Ref: 1110

In order to inform the annual appraisal of the Chief Audit Executive a formal process should be established to obtain appropriate feedback from the Audit Committee Chair.

Summary Table of 'Advisory' Actions

Action Ref:	PSIAS Ref:	Paragraph Ref:	Action
Audit Planning			
1	2050	5.2	Review the Service's approach to risk-based audit planning
2	2010	5.3	Undertake an 'assurance mapping' exercise and develop a process for determining whether any elements of third-party assurance can be relied upon
3	2050	5.4	Review the current level (5%) of contingency within the Plan
7	2010	5.8	The Service should clearly define its approach and ability to deliver internal consultancy and undertake an awareness campaign utilising internal communications or an e-brochure to raise the positive profile of the Service and alerting the rest of the organisation to where and how the Service can support.
9	1130	5.10	Review and revise the Internal Audit declaration of interest form in advance of the next round of completion.
10	1110	5.11	Develop a formal process to obtain appropriate feedback from the Audit Committee Chair to inform the appraisal of the Chief Audit Executive.
Audit Reporting & Delivery			
4	2400	5.5	Review the current practice of including low value recommendations within final audit reports.
5	2500	5.6	Review the process/approach for following up audit recommendations.
6	2200	5.7	Consider the development of an appropriate terms of reference, utilising the current project brief, as a means of enhancing the audit process overall.

Action Ref:	PSIAS Ref:	Paragraph Ref:	Action
Performance Management			
8	1230	5.9	<p>In undertaking the review of key performance indicators have consideration to:</p> <ul style="list-style-type: none"> • Elapsed time • Implementation of recommendations • Plan delivery • Delivery within days • Draft to Final report turnaround

Appendix 1

The CIPFA C.Co Review Team

Ian Kirby – C.Co Programme Director



Ian is MBA and CIPFA public audit qualified and has over 20 years of local government experience across a range of roles and responsibilities from front line social housing to Head of Internal Audit. He has consistently operated at a senior strategic level and has led a number of transformation projects in corporate and operational services and specialises in governance, performance management and transformational change. Ian was the principal author and lead for the development of the North West Chief Audit Executive's PSIAS peer review methodology.

James Dean – Operation Team & Subject Matter Expert



James is a CIPFA qualified career auditor with over 30 years' experience in internal audit, having commenced his career with the National Audit Office in 1987. He has built upon this experience and has latterly undertaken an Audit Manager role at a large unitary authority. In this capacity James has co-ordinated this authority's PSIAS review and has undertaken reviews on behalf of two other authorities in the same region.

Natalie Abraham – C.Co Operations Director



A CIPFA qualified Accountant, Natalie has in depth experience and knowledge of internal audit having operated in senior roles within local government. A former Head of Service, Natalie advised on governance, commercial models, contracts, procurements and service reviews. Most recently Natalie has led the development of a methodology and financial model for COSLA to calculate the actual cost of residential care. Natalie provided overall project management and subject matter expertise for this commission.

Appendix 2

Detailed Assessment Table

		Conforms	Partially Conforms	Does Not Conform	Comments
PSIAS Ref:	Purpose & Positioning				
1000	• Remit	X			
1000	• Reporting lines	X			
1110	• Independence	X			Action 9; Para 5.10 Action 10; Para 5.11
1230	• Continuing Professional Development	X			
2010	• Other assurance providers		X		Action 2; Para 5.3 Action 7; Para 5.8
2050	• Risk based plan		X		Action 1; Para 5.2 Action 3; Para 5.4
PSIAS Ref:	Structure & Resources				
1200	• Competencies	X			
1210	• Technical training & development	X			
1220	• Resourcing	X			
1230	• Performance management		X		Action 8; Para 5.9
1230	• Knowledge management	X			
PSIAS Ref:	Audit Execution				
1300	• Quality Assurance & Improvement Planning	X			
2000	• Management of the IA function	X			
2200	• Engagement planning		X		Action 6; Para 5.7
2300	• Engagement delivery	X			
2400	• Reporting		X		Action 4; Para 5.5
2450	• Overall Opinion	X			
2500	• Follow Up Procedures		X		Action 5; Para 5.6
	Impact				
	• Standing and reputation of internal audit	X			
	• Impact on organisational delivery	X			
	• Impact on Governance, Risk, and Control	X			

Conforms	X	Partially Conforms	Does Not Conform
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DERBYSHIRE COUNTY COUNCIL**AUDIT COMMITTEE MEETING****10 December 2019****Report of the Assistant Director of Finance (Audit)****ANNUAL REVIEW OF THE COUNTY COUNCIL'S REGULATORY FRAMEWORK****1. Purpose of Report**

The Audit Committee has been designated by the Council as the committee charged with ensuring the on-going effectiveness of the Authority's overall governance arrangements.

This report updates Members on the continued effectiveness of the Council's Constitution, Financial Regulations and Standing Orders relating to Contracts, Anti Fraud and Anti Corruption Strategy, Fraud Response Plan, Confidential Reporting Code and Codes of Conduct for Members and Employees.

2. Information & Analysis

The Council's Constitution, Financial Regulations and Standing Orders relating to Contracts, Anti Fraud and Anti Corruption Strategy, Fraud Response Plan, Confidential Reporting Code and Codes of Conduct for Members and Employees form a key part of the overall governance framework of the Authority.

Members have previously decided that officers should provide an annual report on:

- the continued relevance of these documents;
- the extent of any noted non-compliance with the requirements detailed which had been disclosed during the year;
- the need for any potential review or amendment of their contents; and
- those measures taken to ensure that the requirements contained within these regulations were made known to staff.

It had been identified that there was a need to strengthen the role and raise the profile of the Council's Governance Group which takes the lead on such arrangements. Consequently a report was presented to Corporate Management Team on 3 September 2019 proposing how this could be achieved along with proposed Terms of Reference for the Group which are attached at Appendix 1.

In future the Governance Group will be chaired by Ms Emma Alexander (Head of Paid Service and Executive Director – Commissioning, Communities and Policy) and include the Director of Finance & ICT, Director of Legal and Democratic Services, Director of Organisation Development and Policy, Assistant Director of Finance (Audit) and senior managers from each Department. The Head of Paid Service (HoPS) has also determined that HoPS meetings will take place chaired by her and involving the Director of Finance & ICT, Acting Director of Legal Services, Director of Organisation Development and Policy, and Assistant Director of Finance (Audit); such meetings will be timed to coincide with those of the Governance Group.

The Governance Group will be supported by a working group to progress issues considered by the Group.

The previous Director of Legal and Democratic Services undertook a significant review and refresh of the Constitution which was approved by Council on 15 May 2019. Similarly Financial Regulations and Standing Orders relating to Contracts were reviewed, refreshed and approved by Council on 6 February 2019.

The Anti Fraud and Anti Corruption Strategy, Fraud Response Plan, Confidential Reporting Code and Codes of Conduct for Members and Employees require review, which will be undertaken as part of the work scheduled for the Governance Group.

Any revisions to the Code of Conduct for Members is the responsibility of Council, oversight of the Confidential Reporting Code is the responsibility of the Governance, Standards and Ethics Committee, whilst the Code of Conduct for Employees is the responsibility of the Appointments and Conditions of Service Committee.

These key documents underpin the Council's governance framework and compliance will continue to be assessed by Audit Services as part of our work.

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 current status of, and arrangements for the review of those key policies underpinning the Council's governance framework

Carl Hardman
Assistant Director of Finance (Audit)

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Derbyshire County Council Governance Group - Terms of Reference

Membership: (to include all Departments of the Council)

Janie Berry – Director of Legal and Democratic Services (Chair/Vice Chair?)

Peter Handford – Director of Finance & ICT (Chair/Vice Chair?)

Carl Hardman – Assistant Director of Finance (Audit) (Chair/Vice Chair?)

Emma Crapper – Director of Organisation Development & Policy

ETE Representative: Angela Glithero – Assistant Director, Resources and
Improvement

Children's Services Representative: Ali Noble – Service Director (Early Help and
Safeguarding)

Adult Care and Public Health Representative: Julie Vollar - (Service Director
Commissioning & Performance)

Frequency of meetings: every 6/8 weeks. The initial meeting will be convened by the Director of Legal and Democratic Services and thereafter by the appointed Chair of the Group.

Purpose:

To promote and enhance a robust governance and assurance framework which supports the global functions of Derbyshire County Council and the continuous development of the Council's Annual Governance Statement.

To support the work of the Council's Audit Committee and the Governance, Ethics and Standards Committee.

Key activities:

Considering the CIPFA/Solace Delivering Good Governance Principles and the associated Code of Corporate Governance and the Council's Constitution:

- Develop, implement, promote and embed a Derbyshire County Council Local Code of Corporate Governance;

- Conduct a six monthly review and annual fitness for purpose test of the Local Code of Corporate Governance;
- To receive details of and undertake lessons learned from governance and assurance issues which may arise across the Council and to provide observations on the said learning where necessary;
- To support the Council's assurance framework via the recommendations received from Audit Services;
- To undertake any related governance and assurance activities which from time to time may be referred to this Governance Group.

To support the work of the Audit Committee particularly in relation to its promotion of good governance, risk management and internal control, and review of the Council's Regulatory Framework and associated Policies.

To support the work of the Governance, Standards and Ethics Committee particularly in relation to its promotion of openness, accountability and probity in order to ensure the highest standards of conduct of Councillors and employees, and review of associated Codes of Conduct and Policies.

To monitor agreed recommendations and actions relating to relevant reports provided by the External Auditor.

The terms of reference of the Governance Group will be reviewed on an annual basis to ensure they remain fit for purpose.

Reporting Mechanisms

The outcomes and findings of the Governance Group will be reported (at appropriate intervals to be agreed) to:

- CMT;
- Audit Committee;
- Governance, Standards and Ethics Committee;
- External Audit where appropriate.

Prepared: August 2019

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DERBYSHIRE COUNTY COUNCIL**AUDIT COMMITTEE MEETING****10 December 2019****Report of the Director of Finance & ICT, Director of Legal and Democratic Services and Assistant Director of Finance (Audit)****NATIONAL FRAUD INITIATIVE****1. Purpose of Report**

To inform Members of the Council's progress in scrutinizing the data matches arising from participation in the National Fraud Initiative (NFI) 2018-19.

2. Information and Analysis

The National Fraud Initiative (NFI) is managed by the Cabinet Office and matches electronic data within and between public and private sector organizations for the purposes of the prevention and detection of crime. Participating organizations include police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.

In order to ensure the NFI is a transparent process both Members and staff were notified of the Council's participation in the initiative by Fair Processing Notices which were included in the September 2018 payslips. Pensioners were also notified of the NFI exercise by a similar inclusion in May 2018. The results of the matching exercise arising from the Authority's data being submitted to the Cabinet Office in October 2018 were made available to individual, participating organizations from 31 January 2019.

Audit Services act as the central coordinator for the Council's NFI data matching exercise ensuring that the data matches provided by the Cabinet Office are investigated, and liaises with Departments within the Council and other external organizations as necessary.

The 2018-2019 NFI data matching exercise resulted in thirty-eight distinct reports being made available for investigation. The NFI exercise thus far has resulted in the investigation of 3,010 individual records culminating in the identification of 264 errors totalling £34,422.63. Analysis of the instances where investigation has resulted in a financial outcome are detailed below.

Report Title	Total Number of Records Cleared	Number of Instances requiring financial recovery	Value (£) of financial recovery
Pensions/Pension Gratuity to DWP* Deceased	326	14	14,907.70
Private Residential Care Homes to DWP* Deceased	153	3	19,514.93
Total	479	17	34,422.63

*Department of Work and Pensions

3. Financial Considerations

The cost of the Council's participation in NFI 2018-19 remained at £3,750 and the exercise is a significant contribution to the Authority's responsibility for the prevention and detection of fraud.

4. Legal Considerations

The NFI is conducted using the data matching powers bestowed on the Minister for the Cabinet Office by Part 6 of the Local Audit and Accountability Act 2014 (the Act).

There are certain public sector bodies that are required to provide data for the NFI on a mandatory basis. In addition, bodies can provide data to the Cabinet Office for matching on a voluntary basis under schedule 9, 3 of the Act.

It does not require the consent of the individuals concerned under data protection legislation or the GDPR.

5. HR and Equalities Considerations

The Audit Commission advised authorities to inform Members, staff and pensioners of the requirement to participate in such exercises. Members, staff and pensioners have been notified by means of a fair processing notice included in pay slips. Trade Unions are also consulted through CJC.

The Council has ensured that the principles of the Data Protection Act 2018 are observed in providing the data for this exercise, and takes every precaution to ensure that data submitted is accurate and up to date.

6. Other Considerations

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

7. Background Papers

Files held by the Assistant Director of Finance (Audit).

8. Officers' Recommendation

That the Audit Committee notes progress made by the Council in respect of the NFI 2018-19 exercise.

Peter Handford
Director of Finance
& ICT

Simon Hobbs
Director of Legal and
Democratic Services

Carl Hardman
Assistant Director of
Finance (Audit)

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