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PUBLIC

To: Members of Audit Committee

Monday, 14 September 2020

Dear Councillor,

Please attend a meeting of the **Audit Committee** to be held at **2.00 pm** on **Tuesday, 22 September 2020**. This meeting will be held virtually. As a member of the public you can view the virtual meeting via the County Council's website. The website will provide details of how to access the meeting, the agenda for which is set out below.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'S Hobbs', written over a light blue horizontal line.

Simon Hobbs
Director of Legal and Democratic Services

A G E N D A

1. Apologies for Absence
2. To receive declarations of interest (if any)
3. To confirm the Minutes of the meeting held on 21 July 2020 (Pages 1 - 4)
4. Review of the Effectiveness of the System of Internal Control (Pages 5 - 10)
5. Annual Strategic Risk Register Review (Pages 11 - 32)

6. Annual Audit Report 2019-20 (Pages 33 - 104)
7. Audit Services Unit progress against Audit Plan 2020-21 (Pages 105 - 126)
8. National Fraud Initiative (Pages 127 - 170)
9. External Audit Update Report (Pages 171 - 188)

PUBLIC

MINUTES of a meeting of the **AUDIT COMMITTEE** held on 21 July 2020.

PRESENT

Councillor K S Athwal (in the Chair)

Councillors N Barker, S Brittain, L M Chilton, P Murray and S Swann (substitute Member)

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

Apologies for absence were received on behalf of Councillor A Griffiths

Declarations of Interest

There were no declarations of interest

24/20 **MINUTES RESOLVED** that the minutes of the meeting held on 27 May 2020 be confirmed as a correct record.

25/20 **MATTERS ARISING (a) Minute No.10/20 - Budget Monitoring 2019-20 (as at 31 October 2019)** The Director of Finance & ICT informed the committee that funding towards the damage caused by the floods that took place late in the year in 2019 and early 2020 was still awaited from central government.

26/20 **PRE-AUDIT STATEMENT OF ACCOUNTS 2019-20** The Director of Finance & ICT presented the pre-audit Statement of Accounts 2019-20 to the Audit Committee.

In response to the Covid-19 pandemic, the Ministry of Housing, Communities and Local Government had issued revised Accounts and Audit Regulations in respect of 2019-20 local authority accounts. The requirement for the public inspection period to include the first ten working days of June had been removed. Instead, the unaudited accounts of local authorities must be certified by the Director of Finance & ICT and published no later than 31 August 2020, with the public inspection period of six weeks commencing on or before the first working day of September 2020. The publication date for audited accounts, approved by the Audit Committee, had moved from 31 July to 30 November 2020 for all local authority bodies.

The certified pre-audit Statement of Accounts had been submitted to the Council's external auditors, Mazars, on 8 June 2020, the date agreed with external audit and just eight days after the deadline in a normal year.

Under the Local Audit and Accountability Act 2014 (Sections 25 to 28), the Accounts and Audit Regulations 2015 (Regulations 10, 14 and 15) and the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, the Council's accounts for the year ended 31 March 2020 and certain related documents (comprising books, deeds, contracts, bills, vouchers and receipts) had been made available for public inspection from 9 June 2020 to 20 July 2020, Monday to Friday. It was reported that no queries had been received to date.

Mr Handford, Director of Finance & ICT provided an update on the impact that Covid-19 had had on the financial statements and in particular the implications relating to the Pension Fund and property valuations.

To date, no adjustments had been made to the numbers in the core financial statements presented in the pre-audit Statement of Accounts. It was anticipated that approval of the post-audit Statement of Accounts would be sought at the Audit Committee meeting on 22 September 2020. Should further adjustments be identified during the course of the continuing external audit, these would be included in the report presented at that meeting. A copy of the pre-audit Statement of Accounts was appended to this report at Appendix One.

Eleanor Scriven, the Finance Manager, went through the detail of the accounts with the Members and responded to their questions and points requiring clarification. Members were recommended to refer to the narrative report contained in the Accounts as this provided an ideal summary and overview.

On behalf of the Committee, the Chairman thanked Mr Handford and Ms Scriven for their very informative presentation and wished to thank all finance officers for the work they had undertaken, particularly under the current circumstances, in the production of the accounts.

RESOLVED that the Committee notes the content of the pre-audit Statement of Accounts 2019-20 prior to approval of the post-audit accounts at the Audit Committee meeting on 22 September 2020.

27/20 EXTERNAL AUDIT – AUDIT PROGRESS REPORT John Pressley and Mark Surridge from Mazars attended the meeting to provide Members with an update on their audit work.

Mr Pressley highlighted a few aspects for Members' attention:

- The deadline for the publication of the audited accounts had moved from 31 July to 30 November 2020 due to the Covid-19 pandemic;
- It was confirmed that the county and pension fund accounts had been received on 8 June 2020 and the audit work commenced from that date and is still on-going. Ms E Scriven and the Finance Team were thanked for their co-operation and support during this time;
- The Covid-19 pandemic had raised a couple of issues relating to the valuation uncertainty with regard to land and buildings and the impact on valuation required in relation to unquoted investments held by the Pension Fund;
- Due to the additional work relating to issues arising from the effect of Covid-19, there would be an additional audit fee pressure.

Mr Surridge highlighted national issues that would have implications on the audit of accounts:

- There were two items that were out of the external auditor's control which would impact on the conclusion of the accounts. Guidance had been issued which indicated that valuers were likely to conclude that there was a 'material uncertainty' over the valuation of land and buildings and an audit opinion would include reference to this;
- An additional guidance note was expected from Cipfa in the next 2/3 weeks relating to the financial implications from Covid-19 with regard to the medium term financial position.

On behalf of the Committee, the Chairman thanked Mr Pressley and Mr Surridge for their update.

RESOLVED that the progress report be noted.

28/20 INTERNAL AUDIT - STAFFING At the meeting of the Audit Committee in May, Mr Hardman the Assistant Director of Finance (Audit) informed Members that an appointment had been made to the role of Senior Auditor. However, since that meeting the candidate had accepted the offer of another job elsewhere and had therefore, decided to turn the position down. A further recruitment exercise for the job of Senior Auditor would be undertaken.

On an additional note, Mr Hardman informed Members that it was too early to be able to provide details of the potential impact Covid-19 had had on the Internal Audit work. Planned activity at schools would not have been carried out as initially planned for example, but Mr Hardman would be in a better position to update Members at the next meeting in September.

On behalf of the Committee, the Chairman thanked Mr Hardman for his update. He also wished to thank officers in the IT Department for their participation and assistance in enabling the meeting to take place virtually.

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DERBYSHIRE COUNTY COUNCIL**AUDIT COMMITTEE****22 September 2020****Report of the Director of Finance & ICT****REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL****1 Purpose of the Report**

To advise the Committee of the Accounts and Audit (England) Regulations 2015 and the requirement to review the system of internal control.

2 Information and Analysis

The Audit Committee is responsible for reviewing the Annual Governance Statement, reviewing and approving other aspects of the Council's governance framework and for approving, monitoring and reviewing the outcome of audit activity throughout the Authority. It is, therefore, the appropriate Committee of the County Council to consider the outcomes of this review of the effectiveness of the system of internal control.

The Council is required to have a sound system of internal control which:

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- (b) ensures the financial and operational management of the authority is effective; and
- (c) includes effective arrangements for the management of risk.

The Council must take two actions as part of the requirement to review the internal control system, they are:

- (i) conduct a review of the effectiveness of the system of internal control (described in bullet points (a) to (c) above);
- (ii) prepare an annual governance statement.

In order to provide members with the necessary assurances around the effectiveness of the system of internal control it is appropriate to consider and

reflect on the work of the Audit Committee, the assurances received from internal and external audit and evidence from the statement of accounts. In particular it is appropriate to refer members to the following:

- That the Council has thoroughly reviewed its Constitution, including Financial Regulations & Standing Orders Relating to Contracts during the past year;
- The Annual Governance Statement which will be considered at the November meeting;
- The evidence of compliance with International Auditing Standards usually presented alongside the Annual Governance Statement, but attached to this report as an appendix;
- The work of internal auditors culminating in the Annual Audit Report from the Assistant Director of Finance (Audit) presented to this meeting;
- The update report presented to this meeting by the Council's external auditor Mazars;
- The detail contained within the Strategic Risk Register which has been regularly presented to members;
- The standard and quality of the pre-audit Statement of Accounts for 2019-20 and in particular the transparency illustrated by the disclosures made and the opportunity given to the Committee to discuss its contents.
- The Council's spending against budget, reserves and achievement of budget reductions are monitored on a regular basis and reported to both management, portfolio holders, Cabinet, Audit Committee and Council. In addition the Audit Committee and Cabinet receive reports detailing the Council's significant Treasury management operations;
- Reviews of service delivery are planned and underway across the Council.

As members will be aware, a review of the Audit Services Unit was undertaken by C.Co, part of the Chartered Institute of Public Finance & Accountancy (reported to Committee 10 December 2019). The Public Sector Internal Audit Standards require an external review to be conducted at least once every five years. C.Co provided a positive view of the Unit's effectiveness and compliance with the PSIAS. Additionally, the External Auditor continues to use the work of Internal Audit to inform their assessment of the Council's significant risks.

Consequently I am satisfied that Audit Services achieved adherence to the standards set out in the PSIAS, and that this provides a sound basis from

which the Council can rely on the assurances provided by Audit Services in respect of the effectiveness of the internal control system.

The work of Audit Services is subject to the requirements of the Unit's Audit Manual. This Manual is regularly reviewed as part of consideration of the systems and procedures used by the Unit alongside the Quality Assessment and Improvement Programme. Cabinet approved the Council's "Audit Charter" as part of a review of that document.

If there is any change to this view by the time the accounts are formally approved post-audit there will be a further report on the effectiveness of the system of internal control at that meeting.

3 Legal Considerations

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

4 Other Considerations

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

5 Officer's Recommendation

That the Committee considers the information provided in this report as evidence of the effective operation of the internal control system.

PETER HANDFORD

Director of Finance & ICT

AUTHORITY'S PROCEDURES RELEVANT TO COMPLIANCE WITH INTERNATIONAL AUDITING STANDARDS

ISA 240

Objective

Management assessment of the risk that Financial Statements may be misstated due to fraud and the Council's processes for identifying and responding to these risks.

Procedures in Place

The County Council's control framework which includes:

- Financial Regulations and Procedures
- Standing Orders relating to Contracts
- Strategic Departmental Risk Registers supplemented by Project Risk Registers
- Project Management Toolkit
- Partnership Protocol
- Schemes of Delegation
- Ongoing activities of the Governance Group
- Continuous Internal Audit process driven by Strategic and Annual Audit Plans which are kept under continuous review to reflect changing risk profiles and emerging risks and overseen by the Audit Committee
- Audit Services Audit Manual
- Regular bank reconciliations
- Regular reconciliations of all feeder systems and interfaces
- Budget monitoring procedures
- Procurement controls

Objective

Communication to employees of business practice and ethical behaviour.

Procedures in Place

- Induction process
- Code of Conduct for Employees
- Anti-Fraud/Anti-Corruption Strategy
- Fraud Response Plan
- Confidential Reporting Code
- Workforce articles and payslip messages
- Financial Regulations and Standing Orders relating to Contracts
- Dnet

- Procedure notes and manuals

Objective

Communication to those charged with governance the processes for identifying and responding to fraud.

Procedures in Place

- Audit Committee Terms of Reference
- Audit Committee training
- Regular review by the Audit Committee of:
 - the Annual Governance Statement, Action Plan and work of the Governance Group
 - Financial Statements
 - detailed progress reports against Plan of the activity of Audit Services
 - Audit Services Annual Report and Audit Opinion
 - External Audit reports
 - the Authority's Strategic Risk Register
 - annual reports on the effectiveness of Internal Audit
 - annual reviews of Financial Regulations and Standing Orders, the Anti-Fraud Anti-Corruption Strategy, Fraud Response Plan, Confidential Reporting Code, Codes of Conduct for Officers and members
 - specific reports on the Authority's progress in relation to specific initiatives eg Schools Financial Value Standard and National Fraud Initiative
- Review and approval of Internal and External Audit Plans

Objective

Awareness of any actual or alleged instances of fraud.

Procedures in Place

- Specific requirements of Financial Regulations and Standing Orders relating to Contracts
- Anti-Fraud Anti-Corruption Strategy
- Fraud Response Plan
- Confidential Reporting Code
- Protocol for consideration of Audit Reports following Special Investigations
- Audit Services Audit Manual
- Membership of National Anti-Fraud Network
-
- Membership of national, regional and County Audit Groups and other professional groupings
- Role of the Monitoring Officer and the Standards Committee

- Audit Services distribute letters to Members, Strategic Directors/Directors on potential frauds, scams etc.

ISA 250

Objective

Requires that auditors understand how management gain assurance that all relevant laws and regulations are complied with.

Procedures in Place

All Member Reports must include legal considerations which reflect the impact of statutory/regulatory requirements. The Monitoring Officer (Director of Legal Services) has a specific responsibility to ensure that the Authority operates lawfully. Legal officers are present at Member meetings to provide advice and the inclusion in identified posts for office holders to maintain an up-to-date knowledge of appropriate legislation eg Strategic Directors, Director of Finance & ICT, Director of Legal Services (Monitoring Officer), Assistant Director of Finance (Audit).

ISA 501

Objective

Requires that auditors obtain confirmation from management around the potential for litigation and claims that would affect the Financial Statements.

Procedures in Place

- The Director of Finance & ICT seeks specific assurance from the Head of Paid Service and Director of Legal Services whether or not there are material claims or potential claims which would affect the Financial Statements.
- The Director of Legal Services also raises this as an item at his Departmental Management Team.
- Should the potential for any such claim be identified by Audit Services this would be raised directly with the Director of Finance & ICT.
- As part of Audit Services review of insurance the procedures for identifying potential claims/risk exposure and potential mitigation are reviewed.

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

22 September 2020

Report of the Director of Finance and ICT

Annual Strategic Risk Register Review

1 Purpose of the Report

To advise Members of the updated Strategic Risk Register.

2 Information and Analysis

Strategic Risk Register

The Strategic Risk Register is due to go before CMT on 6th October 2020 in order to allocate the identified risks to specific risk owners. The Strategic Risk Register is contained in Appendix A, whilst Appendix B summarises changes to the Strategic and Departmental Risk Registers.

This will enable the Executive Directors to have full oversight of the risks that could directly impact the ability of the Council to achieve its plans, whilst having an overview of the mitigations to be implemented.

The risks noted require a further workshop to identify the mitigations and owner of each risk. Unfortunately, COVID-19 has interrupted the initial timetable, however, it is hoped that this will resume in the coming months by the new Senior Risk Officer.

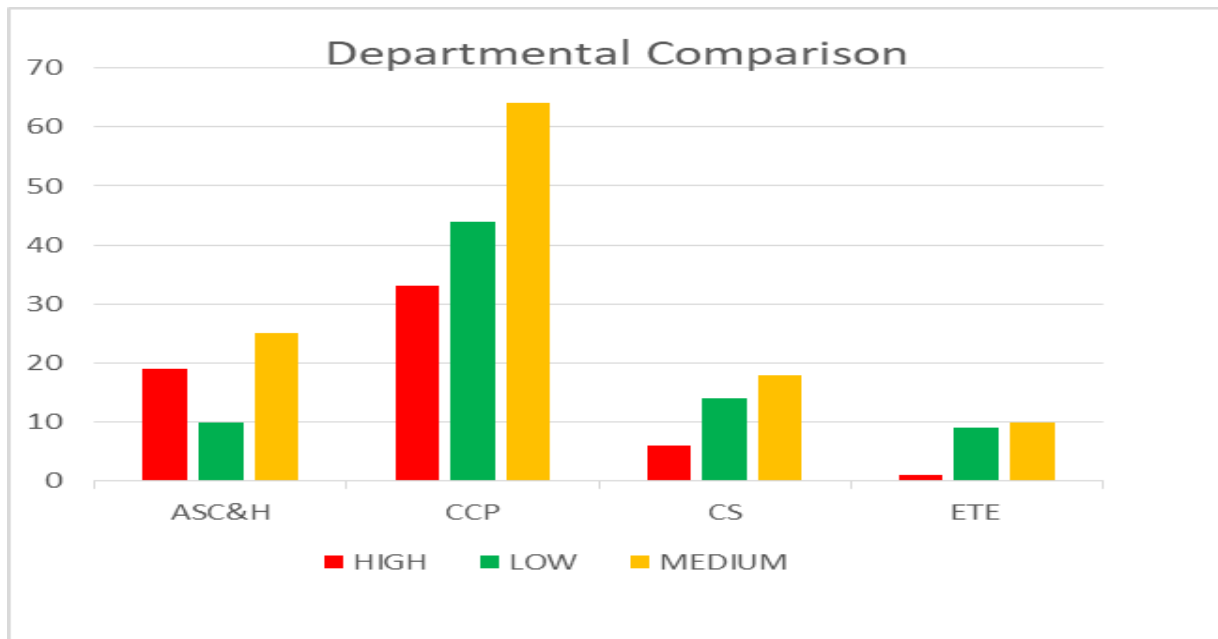
Upon finalisation of these details, the Strategic Risk Register will be linked to APEX to allow for live risk reporting, which will provide further assurance that risks are being actively managed within the Council. This will also link into performance monitoring.

COVID-19 Risk Register

The Council has compiled a risk register specific to the COVID-19 pandemic in order to actively manage the risks that this has presented. The COVID specific risk register is contained in Appendix C, however, a summary is detailed in the tables below.

In order to respond to the COVID-19 quickly, it was decided to reduce the risk rankings to three headings rather than the Council's usual four as is detailed in the Departmental Risk Register. Page 11

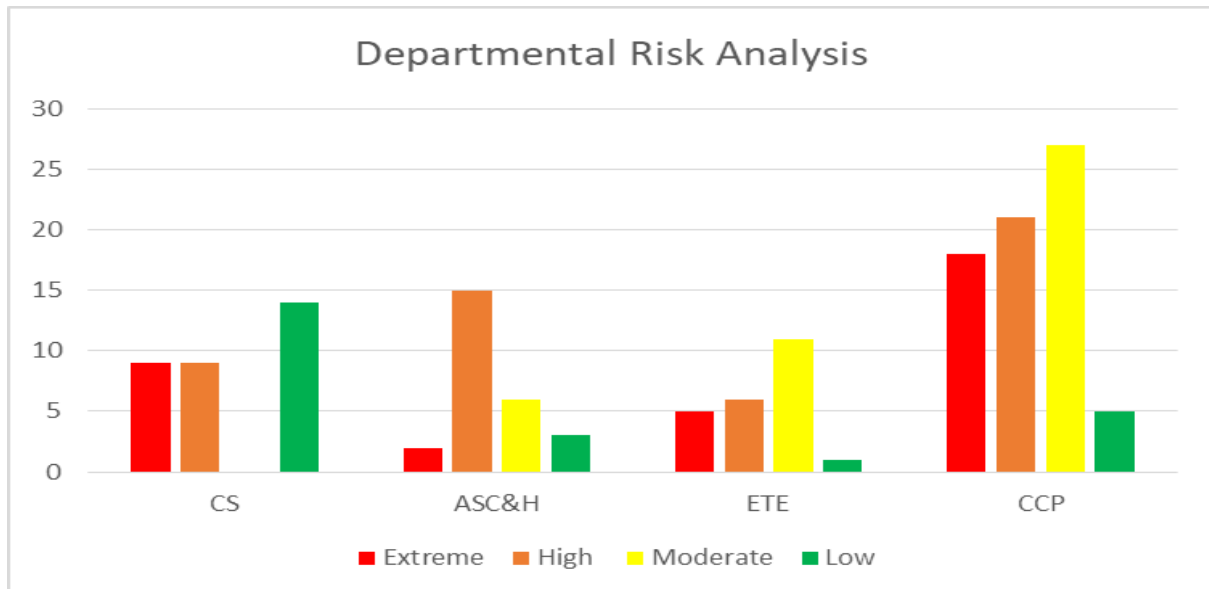
Rating	ASC&H	CCP	CS	ETE	Grand Total	Reported May 2020
HIGH	19	33	6	1	59	75
LOW	10	44	14	9	77	64
MEDIUM	23	64	18	10	115	128
Grand Total of Risks	52	141	34	20	251	267



Departmental Risk Register

An analysis of the Departmental registers is detailed below in risk ranking order.

Rating	ASC&H	CCP	CS	ETE	Grand Total
EXTREME	2	18	9	5	34
HIGH	15	21	9	6	51
MEDIUM	6	27	0	11	44
LOW	23	5	14	1	43
Grand Total of Risks	46	71	32	23	152



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 Officer's Recommendation

That Audit Committee:

- i) note the Strategic Risk Register
- ii) note the Covid-19 Risk Register

PETER HANDFORD

Director of Finance & ICT

Strategic Risk Movement Report:




Report Date: 16/09/2020


Date of Previous Risk Score: May 2020

Notes: References highlighted **Purple** have been added since the previous report.

Old Category is shown when there has been a change of category.




Previous Risk Score shows rating, probability and impact prior to the Current Risk Score

 No Change
  Downwards movement
  Upwards movement


Risk Ref: 2011/1 Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description Impact of a prolonged recovery and a funding gap In the event that the Authority does not develop sufficient and timely proposals to deal with the ongoing or further reductions in funding/resources, there is a risk that the need to close the funding gap may result in identifying measures for unplanned reductions in service spend leading to deterioration or interruption of front line service delivery.	Paul Stone Assistant Director Finance	The Council has updated its Five Year Financial Plan alongside the setting of the Revenue Budget 2020/21 in February 2020. The update reflects the outcomes of the Spending Round 2020 and the Local Government Finance Settlement 2020/21. The continuation of mainstream funding for local authorities at 2019/20 levels is welcome, together with the additional funding for social care including the implementation of the Adult Social Care precept. This additional funding has allowed the Council to invest in critical services, such as adults and children's social care. However, savings of £65m+ are still required over the medium in order to maintain a balanced annual budget.	<div>EXTREME</div> <div>25</div> <div> Probability Almost Certain 5 </div> <div> Impact Very High 5 </div>		<div>EXTREME</div> <div>25</div> <div> Probability Almost Certain 5 </div> <div> Impact Very High 5 </div>	<div>High</div> <div>12</div> <div> Probability Probable 4 </div> <div> Impact Medium 3 </div>

Page 15	Controls:	<u>REF:</u>	<u>Control Description</u>	<u>Status</u>	<u>Owner</u>
		2011/1 FIN001	Five Year Financial Plan is updated at least and following key Government announcements e.g. Spending Rounds.	In Place/Embedded	E Scriven
		2011/1 FIN002	Departmental budget reductions programmed developed together with a plan of lead-in times for consultation, where appropriate and the identification of workforce reductions.	In Place/Embedded	P Handford
		2011/1 FIN003	Budget Management Strategy Group established to ensure a cohesive approach to the monitoring of departmental budget saving targets, associated consultation activity and budget setting procedures. Departmental representatives following agreed terms of reference are meeting at least monthly with an expectation that the frequency of meetings will be more regular during the budget setting period.	In Place/Embedded	P Handford
		2011/1 FIN004	Budget Monitoring Policy ensures that there is regular reporting to SMTs and Members. The Director of Finance meets with Executive Directors and Cabinet Members to discuss the latest monitoring position. The position is reported to Cabinet and Council on a quarterly basis (effective from 1/4/2020).	In Place/Embedded	E Scriven
		2011/1 FIN005	The Reserves Policy stipulates that the Council's level of reserves will be reviewed at least annually. This includes a projection of the General Reserve balance to ensure that is maintained at an adequate risk assessed level.	In Place/Embedded	E Scriven
		2011/1 FIN006	Positive use of Better Care Fund and alignment of health and social care priorities for integrated working.	In progress/Taking effect	H Jones
				In progress/Taking effect	P Handford

Appendix A

	2011/1 FIN007 2011/1 FIN008	Lobby Government in ensuring fair funding for Derbyshire. The Council responds to all key Government consultations in respect of the Funding Review which is currently ongoing. Monitor the impact of the National Funding Formula for schools and closely monitor the implications of the High Needs Block level of funding ensuring compliance with the revised Government regulations.		In progress/Taking effect		C Allcock
Risk Ref: 2011/05 Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description Failure to have adequate business continuity plans in place   The Council's ability to respond to a major incident, such as severe weather (eg. climate change based flooding), fire damage, loss of power or pandemics, and to maintain its critical services to the public. The emerging risk environment, the number and type of emergency and the interdependencies of services is increasingly making continuity or "resilience" a significant focus for the Council. Budget cuts and rationalisation (including resourcing reductions) also challenge the Council in its ability to fulfil its Category 1 Responder statutory duty.	Mike Ashworth Executive Director Environment, Transport and Economy	Following the outbreak of the Corona Virus, the Council has engaged in significant scenario planning across all departments to ensure that the Council is equipped to respond to ensure continuity of services on a priority basis	<div>High</div> <div>10</div> <div> Probability Unlikely 2 </div> <div> Impact Very High 5 </div>		<div>EXTREME</div> <div>25</div> <div> Probability Almost Certain 5 </div> <div> Impact Very High 5 </div>	<div>High</div> <div>10</div> <div> Probability Unlikely 2 </div> <div> Impact Very High 5 </div>

Appendix A

changes could lead to core services being reduced leading to significant impact upon stakeholders and partnerships; potential litigation; fines; risk of injury or death.		Refer to Appendix C	4 Impact Very High 5		4 Impact Very High 5	4 Impact Medium 3
	<u>Ref:</u>	<u>Control Description</u>	<u>Status</u>		<u>Owner</u>	
	Refer to Appendix B					
Risk Ref: 2011/19 Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description Effective Change Management The Council is undergoing significant organisational change which will create significant workforce issues around having the right skills, productivity and capacity, each of which may adversely impact upon service delivery if not managed. The effect of reducing the Council workforce and pressure for increased productivity without effective change management and	TBC	A new risk owner needs to be identified to ensure that the Council has robust plans to manage effective change management across all departments. The mitigations need to be aligned across all departments. Refer to Appendix C	<div>EXTREME</div> <div>20</div> <div>Probability Probable 4</div> <div>Impact Very High 5</div>		<div>EXTREME</div> <div>20</div> <div>Probability Probable 4</div> <div>Impact Very High 5</div>	<div>High</div> <div>12</div> <div>Probability Probable 4</div> <div>Impact Medium 3</div>

Appendix A

employee engagement also carries health and attendance risks. The lack of effective change management can lead to significant impact upon stakeholders and partnerships; potential litigation; fines; risk of injury or death and unplanned spending increases.						
	<u>Ref:</u>	<u>Control Description</u>		<u>Status</u>		<u>Owner</u>
	Refer to Appendix B					
Risk Ref: 2011/20 Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description Supply Chain Failure Failure to manage outsourced contracts could lead to unforeseen increased costs; risk of contracts collapsing; increased carbon footprint.	TBC	A new risk owner needs to be identified to ensure that the Council has robust plans to manage effective change management across all departments. The mitigations need to be aligned across all departments. Refer to Appendix C	<div>EXTREME</div> <div>25</div> <div>Probability</div> <div>Almost Certain</div> <div>5</div> <div>Impact</div> <div>Very High</div> <div>5</div>	<div>↔</div>	<div>EXTREME</div> <div>25</div> <div>Probability</div> <div>Almost Certain</div> <div>5</div> <div>Impact</div> <div>Very High</div> <div>5</div>	<div>MODERATE</div> <div>6</div> <div>Probability</div> <div>Unlikely</div> <div>2</div> <div>Impact</div> <div>Medium</div> <div>3</div>
	<u>Ref:</u>	<u>Control Description</u>		<u>Status</u>		<u>Owner</u>

Appendix A


	Refer to Appendix B					
Risk Ref: 2011/2 Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description <i>Failure to meet waste management targets</i> The Council is faced with challenges of presenting alternatives to landfill whilst considering environmental impact, increasing financial costs and reputational impacts arising from decisions over types of waste management employed.	Claire Brailsford Assistant Director of Environment	Refer to Appendix C	<div>EXTREME</div> <div>20</div> <div>Probability Probable 4</div> <div>Impact Very High 5</div>	<div>↑</div>	<div>EXTREME</div> <div>25</div> <div>Probability Almost Certain 5</div> <div>Impact Very High 5</div>	<div>MODERATE</div> <div>6</div> <div>Probability Unlikely 2</div> <div>Impact Possible 3</div>
	<u>Ref:</u>	<u>Control Description</u>			<u>Status</u>	<u>Owner</u>
	Refer to Appendix B					
Risk Ref: 2020/02 Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score

Appendix A

Risk Description <i>Failure to comply with GDPR and Cyber resilience</i> The Council manages a significant amount of personal data and information in relation to service users and employees in the delivery of services using a range of systems and mediums. With data held in a vast array of places and in varying formats, it becomes susceptible to loss, protection, availability, misuse and privacy risks particularly with increased use of electronic transfer, and management (including use of the Government Public Sharing Network). The Council is exposed to financial penalties and reputational impact.	Peter Handford Director of Finance and ICT	TBC Refer to Appendix C	<div>EXTREME</div> <div>15</div> <div>Probability Possible 3</div> <div>Impact Very High 5</div>	<div>↔</div>	<div>EXTREME</div> <div>15</div> <div>Probability Possible 3</div> <div>Impact Very High 5</div>	<div>High</div> <div>12</div> <div>Probability Possible 3</div> <div>Impact Medium 4</div>
	<u>Ref:</u>	<u>Control Description</u>			<u>Status</u>	<u>Owner</u>
	Refer to Appendix B					
Risk Ref: Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score

<div><div>Risk Description</div><div><div><div>Adapting to Climate Change</div><div>The Council faces a challenge in relation to an increase in inclement weather patterns (flood, heat waves, drought, windstorm, increased snow fall) building the right infrastructure and new statutory flood and water risk management duties. Having sufficient financial resources and flexibility to address these challenges may become increasingly difficult.</div></div></div></div>	<div><div>Geoff Pickford</div><div>Service Director, Highways</div></div>	<div><div>TBC</div><div>Refer Appendix B</div></div>	<div><div>MODERATE</div><div>8</div><div>Probability Unlikely 2</div><div>Impact High 4</div></div>	<div><div><div>↑</div></div></div>	<div><div>High</div><div>12</div><div>Probability Possible 3</div><div>Impact High 4</div></div>	<div><div>MODERATE</div><div>6</div><div>Probability Possible 2</div><div>Impact Medium 3</div></div>
<div><div>Page 22</div></div>	<div><div>Ref:</div><div>Refer to Appendix B</div></div>	<div><div>Control Description</div></div>			<div><div>Status</div></div>	<div><div>Owner</div></div>
<div><div>Risk Ref: 2011/9</div><div>Category: Strategic</div></div>	<div><div>Risk Owner</div></div>	<div><div>Progress Update</div></div>	<div><div>Previous Risk Score</div></div>	<div><div>Movement Direction</div></div>	<div><div>Current Risk Score</div></div>	<div><div>Target Risk Score</div></div>
<div><div>Risk Description</div><div><div>Protection of Children and Vulnerable Adults</div><div>Failure to protect the most vulnerable in our society could lead to significant fines; special measures; litigation; decreased staff morale; reputational damage</div></div></div>	<div><div>Helen Jones</div><div>Strategic Director Adult Social Care and Health</div><div>Jane Parfremment</div><div>Director or Children's Services</div></div>	<div><div>TBC</div><div>Refer to Appendix B</div></div>	<div><div>EXTREME</div><div>15</div><div>Probability Possible 3</div><div>Impact</div></div>	<div><div><div>↔</div></div></div>	<div><div>EXTREME</div><div>15</div><div>Probability Possible 3</div><div>Impact</div></div>	<div><div>HIGH</div><div>10</div><div>Probability Unlikely 2</div><div>Impact</div></div>

Appendix A

			Very High 5		Very High 5	Very High 5
	<u>Ref:</u>	<u>Control Description</u>			<u>Status</u>	<u>Owner</u>
	Refer to Appendix B					
Risk Ref: Category:	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description		TBC				
Maintenance of Assets Failure to maintain our assets could lead to significant fines; significant litigation; decreased staff morale; reputational damage; HSE investigation	Dave Massingham Director of Property Geoff Pickford Service Director - Highways	Refer to Appendix B	<div>EXTREME</div> <div>15</div> <div>Probability Almost Certain 5</div> <div>Impact Medium 3</div>		<div>EXTREME</div> <div>15</div> <div>Probability Almost Certain 5</div> <div>Impact Medium 3</div>	<div>MODERATE</div> <div>6</div> <div>Probability Unlikely 2</div> <div>Impact Medium 3</div>
	<u>Ref:</u>	<u>Control Description</u>			<u>Status</u>	<u>Owner</u>
	Refer to Appendix B					
Risk Ref: 2018/5 Category	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score

Risk Description <i>Failing to comply with Statutory Duties</i> Lack of knowledge and understanding of Departmental Legislative duties meaning the Council is at increased risk of special measures, HSE investigation, Corporate manslaughter charges, personal prosecution and Insurers refusing to provide indemnity on property or liability claims.	TBC	TBC	<div>EXTREME</div> <div>25</div> <div>Probability Almost Certain 5</div> <div>Impact Very High 5</div>		<div>EXTREME</div> <div>25</div> <div>Probability Almost Certain 5</div> <div>Impact Very High 5</div>	<div>MODERATE</div> <div>10</div> <div>Probability Unlikely 2</div> <div>Impact Very High 5</div>
Page 24	<u>Ref:</u>	<u>Control Description</u>			<u>Status</u>	<u>Owner</u>
Risk Ref: 2018/4 Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description <i>Ineffective workforce planning</i> A failure to recruit and retain experienced staff; a lack of succession planning in order to ensure effective continuity of key skills and knowledge at all levels including leadership skills. Resulting in unfilled posts, accepting a lower calibre of staff, increasing training requirement to upskill new staff, vital knowledge	Emma Crapper	TBC	<div>EXTREME</div> <div>25</div> <div>Probability Almost Certain 5</div> <div>Impact High 5</div>		<div>EXTREME</div> <div>25</div> <div>Probability Almost Certain 5</div> <div>Impact High 5</div>	<div>EXTREME</div> <div>20</div> <div>Probability Almost Certain 5</div> <div>Impact High</div>

Appendix A

lost leading to service delivery issues						4
	<u>Ref:</u>	<u>Control Description</u>			<u>Status</u>	<u>Owner</u>
	TBC					

Strategic Risk Register – Summary of Changes

None.

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

None

Departmental Risk Registers

New Risks on Departmental Registers scoring over 12

The Committee is asked to note that ASC&H have not provided an updated departmental risk register, and no new risks scoring over 12 were reported on ETE or CS risk registers.

Dept	Dep't Risk Identifier	Description	Impact	Score	Link to Strategic Risk	Impact on Council Plan
CCP	65	Procurement Renewal targets not met	failure to deliver these plans will result in more none compliant contract extensions which can be the subject of a legal challenge and also prevent departments meeting their	25	2011/20 Supply Chain Failure	<ul style="list-style-type: none"> High performing council services

APPENDIX B

			strategic goals. The probability of this has increased due to the Covid-19 Pandemic			
CCP	66	The Council tender documents do not clearly set out how financial vetting will be undertaken as part of the tender evaluations process	this leaves the council at risk of a successful procurement challenge	12	2011/20 Supply Chain Failure	<ul style="list-style-type: none"> High performing council services
CCP	67	DPS operating for Community Transport does not have financial vetting for new or existing providers	This could result in supplier failure and substantial service disruption.	12	2011/20 Supply Chain Failure	<ul style="list-style-type: none"> High performing council services
CCP	68	Existing Suppliers unable to fulfil contracts due to Covi-19 restrictions	Multiple supplier failure could impact on some service delivery - suppliers may become non- viable. Need to undertake re-procurements at short notice and in a compliant manner.	20	2011/20 Supply Chain Failure	<ul style="list-style-type: none"> High performing council services
CCP	69	SAP Support and Maintenance	Existing contract was awarded from a framework in 2009 and was for 4 years only. The contract has not been formally extended but we have paid SAP every year since.	12	2011/20 Supply Chain Failure	<ul style="list-style-type: none"> High performing council services

APPENDIX B

			External legal advice sought from Geldards and advice was that a direct award may be possible under regulation 32, providing certain conditions are evidenced. There is limited evidence to support the technical reasons for staying with SAP and not . The document is weighted towards cost reasons to justify the direct award.			
CC Page 28	70	Uncertainty of impact on Supply Chain due to no deal Brexit.		15	2011/20 Supply Chain Failure	<ul style="list-style-type: none"> High performing council services

Risks on Departmental Registers Increasing scoring above 12

Dept	Dep't Risk Identifier	Description	Impact	Old Score	New Score	Link to Strategic Risk	Impact on Council Plan
CCP	22	Library strategy. Inability to achieve major changes to service delivery within the required timescale due to resistance to change, potentially low levels of engagement by and with community organisations and long lead in times to achieve changes to staffing structures.	Resulting in a delay in meeting required savings targets.	12	16	2011/1 Impact of a prolonged recovery and a funding gap	<ul style="list-style-type: none"> Empowered and self-sufficient communities
CCP	23	Community Managed Libraries(CMLs) The initial proposal for CMLs was to sublet the property to the community group or organisation. There are now discussions around community organisations	If, after a period of time, the community group failed or service notice to the library service, DCC may not have access to a building or property to continue to provide a library service from	12	16	2011/19 Effective Change Management	<ul style="list-style-type: none"> Empowered and self-sufficient communities

		taking over the lease from DCC.					
Page 30		Library Self Service procurement - The library Service currently uses 43 self-service machines in 25 of the larger and busier libraries which are now out of date and need replacing. The self-service machines reach the supplier's 'end of life' for contracted support and maintenance in August 2019. The supplier will continue to offer ad hoc support arrangements but further advise that they do not intend to support these machines beyond expected end of support for Windows 7 in Jan 2020.	The procurement project is now due to complete in Winter 2020 leaving machines unsupported between Jan and Dec 2020.	12	16	2011/19 Effective Change Management	<ul style="list-style-type: none"> Value for money

Risks on Departmental Registers Decreasing scoring to below 12

Dept	Dep't Risk Identifier	Description	Impact	Old Score	New Score	Link to Strategic Risk	Impact on Council Plan
CCP	40	Delay to Corporate Property 2020 Programme	<p>1. Asset Management Framework 2019-2022 - Inability to deliver the organisational arrangements, policy development or property/project specific work detailed in the action plan.</p> <p>2. Asset Management Governance Structure - Failure to form the corporate governance boards (e.g. the Corporate Asset Management Group), or failure of them to function correctly.</p> <p>3. Inability to develop and implement Repairs and Maintenance Strategy. Risk to the council of inconsistencies in the way its properties are maintained, impacting</p>	25	9	2011/19 Effective Change Management	<ul style="list-style-type: none"> High performing Council Services.

			property running costs and property use and requirements				
CCP	57	Delay in taking forward work on Climate Change	The reduction in resource will lead to impaired service delivery and a potential reduction in traded income.	16	8	Adapting to Climate Change	<ul style="list-style-type: none">A prosperous Derbyshire

DERBYSHIRE COUNTY COUNCIL**AUDIT COMMITTEE MEETING****22 September 2020****Report of the Assistant Director of Finance (Audit)****ANNUAL AUDIT REPORT 2019-20****1. Purpose of Report**

To inform Members of the work undertaken by the Audit Services Unit for the financial year 2019-20 and to update Members on the overall performance against the Audit Plan.

2. Information & Analysis

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

The role and responsibilities of the Unit are further clarified and reinforced in the Council's Financial Regulations and Standing Orders relating to Contracts, Anti-Fraud and Anti-Corruption Strategy, Fraud Response Plan and the requirements of Whistleblowing The Confidential Reporting Code. The Council has approved an Audit Charter in compliance with the Public Sector Internal Audit Standards (PSIAS) revisions to which were last reported to the Audit Committee on 24 September 2019.

The Annual Audit Report contains:-

- an analysis of planned and actual audit activity for 2019-20,
- an analysis of reports issued, assurance levels and recommendations made and agreed,
- productivity statistics,
- areas of good practice identified and areas for improvement,
- client satisfaction indicators for the Unit,
- the Assistant Director of Finance (Audit)'s formal controls assurance statement and opinion which contributes to the Council's Annual Governance Statement.

The Unit still does not have its full complement of staff and the ongoing impact of Covid-19 on the work of the Unit cannot be fully evaluated. I consider that these factors will have an impact on the delivery of Audit work for some time.

The PSIAS requires that the “chief audit executive (Assistant Director of Finance (Audit)) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”

The Opinion is as follows:

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

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

The majority of the Audit work which informs my opinion was completed before the impact of the Covid-19 pandemic. Audit staff have worked with Senior Management to mitigate the impact on the Council’s governance, risk management and control framework. However the full effects may not be known or totally quantified for some time and may impact on future Audit Opinions.

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

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:-

- considers the detailed Annual Audit Report for 2019-20, and
- notes the overall quality of the performance of the Audit Services Unit during the period.

Carl Hardman
Assistant Director of Finance (Audit)

DERBYSHIRE COUNTY COUNCIL

AUDIT SERVICES ANNUAL REPORT

2019-20



“Audit Services aspires to enhance and protect organisational value by providing risk based and objective assurance, advice and insight”

CARL HARDMAN
Assistant Director of Finance (Audit)



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Purpose of the Annual Report

The Annual Report provides Members with the outcome of Audit activity relating to the County Council's operations throughout the financial year. The Report highlights the achievement of the 2019-20 Plan, which was approved by the Audit Committee on 27 March 2019, key issues identified within the year and actions arising from our work.

The Public Sector Internal Audit Standards (PSIAS) requires that the '*chief audit executive*¹ (Assistant Director of Finance (Audit)) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.'

The updated Statement on the Role of the Head of Internal Audit issued by the Chartered Institute of Public Finance and Accountancy (Cipfa) in 2019 as a best practice requirement states '*The annual HIA opinion is the most important output from the HIA and is one of the main sources of objective assurance that chief executives and the leadership team have for their annual governance statement.... This opinion must reflect the work done during the year and it must summarise the main findings and conclusions together with any specific concerns the HIA has*'. The Council produces an Annual Governance Statement as part of its Statement of Accounts.

The Statement also notes that the Head of Internal Audit '*plays a critical role in delivering the authority's strategic objectives by:*

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

Audit Services' Memoranda and Reports are issued throughout the year on completion of Audit work and are addressed to responsible Senior Managers

¹ The Assistant Director of Finance (Audit) is the Council's Chief Audit Executive and Head of Audit Services

including, as appropriate, Executive Directors and Directors in accordance with the requirements of the PSIAS. Follow up actions taken to implement our recommendations are routinely monitored as part of on-going Audit work.

Statement by the Head of Audit Services and Audit Opinion

The Council acknowledges its responsibility for ensuring that an effective system of internal control is maintained and operated in respect of the resources under its control. The Head of Audit Services is required by the PSIAS to produce an internal audit opinion and report on the Council's framework of governance, risk management and control which will inform the Annual Governance Statement.

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

The Three Lines Model detailed on page 11 clearly outlines the roles of various leaders within an organisation, including oversight by the board or governing body; management and operational leaders including risk and compliance (first and second-line roles); and independent assurance through internal audit (third line). It also addresses the position of external assurance providers. The model applies to all organisations, regardless of size or complexity.

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

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

The Council's Audit Services is an assurance function which operates in accordance with the Audit Charter that was reported to the Audit Committee on 24 September 2019 and approved by Cabinet on 13 February 2020. Audit Services provide an independent and objective opinion to the Council on its framework of governance, risk management and control. This framework is

subject to regular review by the Unit who, through a structured plan of operational and financial reviews, provide Management with assistance, advice and insight on systems, processes and risks and through this work form a view on the strength of individual aspects of control and the overall control environment.

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

- assist in formulating, promoting and maintaining sound governance arrangements;
- facilitate good practice in managing risks;
- contribute to ensuring effective and efficient resource management;
- recommend improvements in control, performance and productivity;
- provide reassurance and challenge to Managers;
- encourage development of consistent policies and high standards;
- ensure the impartial investigation of irregularities and policy breaches;
- support the achievement of statutory and best practice requirements.

Audit Services operates in compliance with the requirements of the Accounts and Audit Regulations 2015. This requires that the Council *‘must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’* These Regulations also require full assistance from officers and Members in the provision of access to documents and records, and the supply of information and explanations to enable the proper fulfilment of those Audit responsibilities.

The Unit’s work conforms with the requirements of the PSIAS and the findings of the external review undertaken by Cipfa C.Co in October 2019 note *‘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

The detailed results of this external review were reported to the Audit Committee on 10 December 2019; such assessment of the Unit’s conformance with these Standards must be conducted at least once every five years. In addition the Unit complies with the policies, procedures, rules and regulations established by the Council.

The Unit has an Internal Audit Strategy which was reported to the Audit Committee on 27 February 2019 and sets out how Audit Services will be delivered and developed in accordance with the Audit Charter. This is based upon an assessment of risks and a determination of critical areas for opinion and assurance purposes. The Audit Services Plan, which is approved by Audit Committee, is reported to Cabinet and Council and is managed throughout the year to ensure delivery of all key aspects of work. Where External Audit intends to rely on Audit Services' work, aspects of that work will be subject to their review.

The Unit has a Quality Assurance and Improvement Programme (QAIP) which was reported to Members on 27 May 2020 and covers all aspects of internal audit activity. This includes arrangements for internal quality assurance including on-going supervision and monitoring of Audit work, performance management and conducting external quality assurance assessments. I can confirm that those detailed arrangements relating to internal quality assurance have been met throughout the year.

The Director of Finance & ICT is the nominated Section 151 Officer and also has line management responsibility for the Head of Audit Services. The Head of Audit Services has direct access to the Audit Committee, Head of Paid Service, other Executive Directors, Monitoring Officer and other Directors and has well established reporting lines to Members. The Council's Constitution gives the Audit Committee overall responsibility for Internal and External Audit and sets out the role and responsibilities of the Head of Audit Services. Audit Services produce Annual Reports to the Audit Committee outlining future, planned work and reporting on delivery of the Audit outcomes. The Annual Report includes an opinion on the level of assurance which can be drawn from the work undertaken.

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

During the year Audit Services have reviewed all key systems and elements of their interfaces, both centrally and as part of Departmental, establishment and other reviews. Our work has led to the production of Memoranda, addressed to Senior Management, each of which includes an Audit Opinion and Assurance Statement. Audit Opinions are categorized and based on the level of assurance which Management may draw on the adequacy and effectiveness of the internal control framework in operation in the area under review based on Audit's work. These assurance levels are detailed later in this Report at pages 15 and 16.

The Unit has produced 29 Memoranda during the year which relate to reviews covering Corporate Governance, Departmental Audits, Major Systems, Corporate and Departmental projects and key areas of probity and compliance.

Of these areas 24 were assessed as *'qualified assurance'* with 2 exceeding that level of assurance and 3 others categorized as *'limited assurance'*. We have, throughout our work, identified key recommendations which, when implemented, should significantly improve the control environment and the consequent level of assurance which Management may draw from our work. In addition, in a significant number of areas reviewed Management had failed to fully implement previously agreed Audit recommendations.

The PSIAS requires that the *'chief audit executive (Assistant Director of Finance (Audit)) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.*

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.'

In giving this opinion, based on Audit work completed during 2019-20, it should be noted that assurance can never be absolute and therefore only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. I have based my opinion on:-

- ongoing support and review of the design and operation of governance arrangements including supporting processes, the Code of Corporate Governance and the process for producing the Annual Governance Statement;
- an assessment of the range of individual opinions arising from risk based Audit assignments drawn from the approved Audit Plan which have been reported in Audit Services Memoranda completed during the year;
- the findings from Audit Reports issued during the year;
- the results of follow up work to ensure the effective implementation of recommendations in respect of previous years' internal audit work;
- an assessment of risk management arrangements and the framework of assurance;
- the results of work of other review bodies where appropriate;
- Management's response to findings and recommendations;
- the extent of resources available to deliver the internal audit work, although these were less than those required to achieve the approved Audit Plan;
- the quality and performance of Audit Services and the extent of compliance with the PSIAS;
- the proportion of the Council's audit requirements that has been covered within the period;

- known and assessed impacts of the Covid-19 pandemic on the governance, risk management and control framework.

I can confirm that no limitations have been placed on the scope of Audit Services work during the year.

Audit Opinion

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

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

The majority of the Audit work which informs my opinion was completed before the impact of the Covid-19 pandemic. Audit staff have worked with Senior Management to mitigate the impact on the Council's governance, risk management and control framework. However the full effects may not be known or totally quantified for some time and may impact on future Audit Opinions.

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

C. HARDMAN

Assistant Director of Finance (Audit)

August 2020

Legislative/Regulatory Basis of Operation

The Audit Services Unit discharges the Council's statutory responsibilities under Regulation 5 of the Accounts & Audit Regulations 2015 and the requirement that it *'must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'*. The Unit also fulfils significant aspects of the Director of Finance & ICT's statutory duties under Section 151 of the Local Government Act 1972 which requires that *'each local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs'*.

Audit Services liaises with Mazars, the Council's appointed auditors, in accordance with the agreed External and Internal Audit Protocol which was reported to the Audit Committee on 27 March 2019. The role and responsibilities of the Unit are further clarified and reinforced in the Council's Financial Regulations and Standing Orders relating to Contracts, Anti-Fraud and Anti-Corruption Strategy, Fraud Response Plan and the requirements of Whistleblowing The Confidential Reporting Code. The Council has an approved Audit Charter in compliance with the requirements of the PSIAS, revisions to which were last reported to the Audit Committee on 24 September 2019.

The PSIAS define the nature of internal auditing within the UK public sector, set basic principles for carrying out internal audit, establish a framework for providing internal audit services and set out the basis for the evaluation of internal audit performance.

The PSIAS requires that external assessments of internal audit *'must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation'*. Following a procurement process Cipfa's 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. The outcome confirmed that Audit Services are compliant with the PSIAS overall and in each of the four areas of focus assessed.

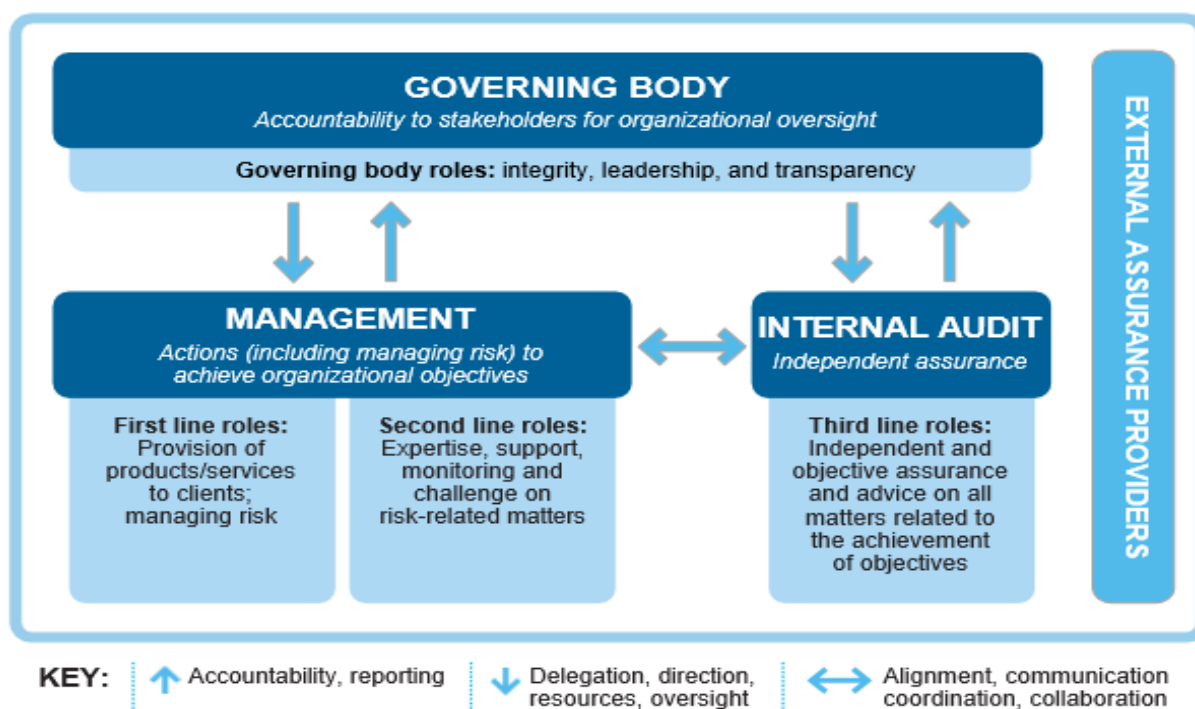
Scope of Audit Work

Audit Services' work is completed in accordance with the standards required by the PSIAS and conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, further guided by the Cipfa Local Government Application Note. The work of the Unit complies with the Audit Charter, Internal Audit Strategy and Quality Assurance and Improvement Programme which are subject to regular review.

Audit Services provides an independent and objective opinion on the Council's arrangements for risk management, control and governance by evaluating their effectiveness. Primarily the work of the Unit is based on the annual Audit Plan which is approved by the Audit Committee.

During 2020 the Institute of Internal Auditors updated the Three Lines of Defence, now known as the Three Lines Model, adopted by many organisations to assess governance and risk management procedures. The aim of the new model is to help organisations identify and structure interactions and responsibilities of key stakeholders in achieving more effective alignment, collaboration, accountability and, ultimately agreed objectives. During 2020-21 and beyond Audit Services will review the updates and align current procedures to the revised model.

The IIA's Three Lines Model



Source: <https://global.theiia.org/about/about-internal-auditing/Public%20Documents/Three-Lines-Model-Updated.pdf>

Planning Audit Activity

The Unit has established practices to formulate the Audit Plan and inform our risk assessment which is drawn from a wide range of sources including the Council Plan, Strategic and Departmental risk registers, service plans and other information, which are illustrated in the chart below. The Plan is discussed and agreed by key stakeholders including individual Executive Directors and Directors, Head of Paid Service, Section 151 Officer, Monitoring Officer and provided to the Council's External Auditor prior to submission to, and approval by the Audit Committee.



The Audit Services Unit forms part of the Commissioning, Communities and Policy Department and the Assistant Director of Finance (Audit) has direct access to all Members, all levels of Management and employees of the Council. The Assistant Director of Finance (Audit) meets regularly with the Corporate Management Team and individual Executive Directors to discuss progress against the Plan and any emerging issues. The Plan is subject to on-going review and adjusted to meet changing risks with regular updates of Audit activity reported to the Audit Committee.

Our work contributes to the Authority's ambition to be an enterprising and value for money council enabling people and communities to thrive. We support Management in formulating and implementing robust governance, risk management and control systems and ensuring on-going compliance. As part of this Audit staff continue to undertake IT security and data protection

assessments of external suppliers' systems, procedures, network security and operational controls.

In addition to our programme of Audits the Unit assists Management with the provision of on-going support, advice, attendance at various meetings including those with Departmental staff, project boards, governors and school based staff. This level of engagement is necessary to promote the principles of good governance and the necessity for robust controls. Audit Services continues to disseminate intelligence received from the National Anti-Fraud Network (NAFN) and other sources to Members, Executive Directors and Directors in order to ensure that the Council is aware of known fraud risks. The Unit acts as the central coordinator for data matches received from the Cabinet Office in respect of the National Fraud Initiative ensuring that matches are investigated, with the assistance of the Council's Departments and other participants as appropriate.

Key Results for Audit Services – 2019-20

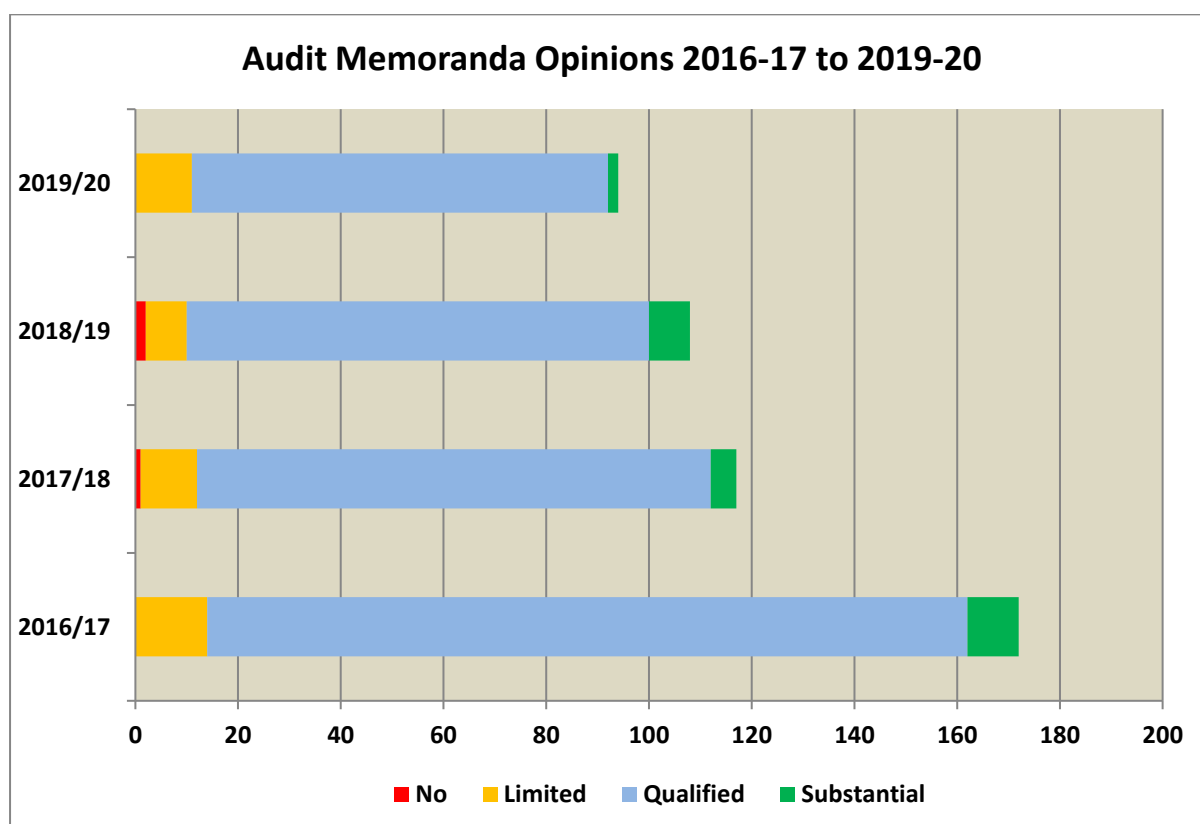
Detailed analysis of Audit work is given at **Appendix 1** to this Report. Detailed responses to questionnaires are provided at **Appendix 2** and a summary of Reports and Memoranda issued throughout the year by Audit Services is included at **Appendix 3**.

Performance (see Appendix 1)

	Days
Approved Audit Plan	2,684
Actual Productive Days	<u>2,265</u>
Shortfall in Productive Days Delivered	<u>419</u>

Analysis of Audit Assurance Levels

We provide an opinion giving the level of assurance which Management may draw from the adequacy and effectiveness of the overall control framework in operation in the area subject to Audit based on the results of that work. These levels of assurance are detailed in our Audit Opinion and the following graph summarises Audit Opinions resulting from Audit work undertaken in the past four years:-



A summary of Audit assurance levels across all areas of activity is detailed below based on our work for 2019-20 and compared with the previous year.

Audit Area	Level of Assurance							
	Substantial		Qualified		Limited		No Assurance	
	18/19	19/20	18/19	19/20	18/19	19/20	18/19	19/20
Corporate Activities	-	-	5	2	-	1	-	-
Commissioning, Communities and Policy	3	2	17	16	3	2	1	-
Children's Services (excluding schools)	1	-	7	11	-	-	-	-
Schools	2	-	38	31	3	3	1	-
Adult Social Care and Health	2	-	18	17	1	5	-	-
Economy, Transport and Environment	-	-	5	4	1	-	-	-
Total	8	2	90	81	8	11	2	-

94 Memoranda incorporating an assurance level were issued in 2019-20 (108 – 2018-19) of which 83% had qualified assurance or above (91% 2018-19). This included 29 Memoranda following reviews which cover Corporate Governance, Departmental Audits, major systems, Corporate and Departmental projects and key areas of probity and compliance. 24 of these areas were assessed as qualified assurance with 2 exceeding that level of assurance. No area of Audit activity was categorized as no assurance.

All Audit Memoranda assessed as limited or no assurance are subject to a detailed review by the Assistant Director of Finance (Audit) before issue.

Further information on assurance levels is given below:-

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.

Level of Assurance	Explanation and significance
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.

Analysis of Audit Recommendations Made

A key objective of our work is to support Management by producing recommendations based on our findings. If implemented these recommendations will improve governance and risk management arrangements, the effectiveness, efficiency and adequacy of the internal control framework and address any perceived weaknesses identified by the Audit review. These recommendations are discussed with appropriate Management, prioritized and incorporated into an Action Plan. A summary of the recommendations made by Audit Services for 2019-20 and the previous year across all areas of activity, excluding investigations, is given below. The table also details the number and percentage of recommendations which have been accepted or rejected by Management.

In total 95% of Audit recommendations made were accepted by Management which demonstrates a commitment to improvement. However, it is essential that agreed recommendations are promptly implemented to improve overall governance, control and reduce the level of risk.

Category	No of Recs Made		No of Recs Accepted		% Accepted		No of Recs Not Accepted		% Not Accepted	
	18/19	19/20	18/19	19/20	18/19	19/20	18/19	19/20	18/19	19/20
Critical	6	2	6	2	100	100	0	0	0	0
High	366	387	350	373	96	94	16	14	4	4
Medium	601	560	562	531	94	95	39	29	6	5
Low	425	387	404	360	95	93	21	27	5	7
Total	1,398	1,336	1,322	1,266	95	95	76	70	5	5

All accepted recommendations should be implemented within the timescale agreed between Management and Audit Services. These recommendations are then detailed in associated Action Plans issued on the completion of each project and are formally reviewed at the next Audit visit. The table below analyses those recommendations identified as having not been implemented.

Department	Critical	High	Medium	Low
Corporate Activities	-	4	4	1
Commissioning, Communities and Policy	1	10	20	14
Children's Services (excluding schools)	-	9	15	5
Schools	-	93	108	37
Adult Social Care and Health	-	13	14	15
Economy, Transport and Environment	-	4	6	3
Total	1	133	167	75

Whilst it is noted that a high level of recommendations made are agreed by Management, it is imperative that where agreed these are then promptly implemented. This will improve the overall governance and control environment, reduce the level of risk and implement opportunities for improvement. The above analysis shows that 63% of recommendations not implemented relate to schools; in the previous year this figure was 65%.

The Unit uses the Council's Electronic Document Retention Management (EDRM) system to distribute Audit Memoranda which do not relate to school and establishment reviews. This allows secure, electronic transmission of Audit Memoranda and return of associated, completed Action Plans. It also allows Departments to build up an accessible, electronic store of Audit Memoranda giving a history of Audit activity.

The Unit uses Pentana Audit, its established software support system, to facilitate recommendation tracking which allows regular reminders and follow up of outstanding Audit recommendations.

Further information on Audit recommendations and priority levels attached to them is given below:-

Category	Explanation and significance
Critical	Significant strategic, financial or reputational risks where immediate remedial action is considered essential.
High	The absence of, significant weakness 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.
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.
Low	General housekeeping issues which require consideration and a planned implementation date within the medium term.

Examples of Good Practice and Opportunities for Improvement Identified During the Year

Each Audit Memorandum produced reflects areas of good practice identified by the Audit Services' review and includes a prioritized Action Plan detailing recommendations for improvements. The following are examples of those areas of good practice and improvements identified from our work:-

Good Practice Identified

- **The Council's IT Network and Infrastructure** was placed under immense strain during the initial period of the Covid-19 pandemic and emergency homeworking arrangements. In the first few weeks a number of logistical problems were encountered, including accessibility of key IT applications or equipment. ICT staff supported the functioning of the Council's key services during these difficult times and provided appropriate network access to home based staff, a number of whom had never worked from home previously.
- **Revised Working Arrangements** relating to the Covid-19 pandemic were forced upon all organisations including the Council, and it is important that the benefits of these changes are not lost by returning to the old ways of working. Whilst the pandemic has brought major disruption to how the Council operates, new working arrangements have provided an insight into efficiencies that can be achieved by implementing revised working practices. These include:-
 - reduced travel to and from work and on Council business;
 - ability to re-evaluate the Council's office accommodation;
 - reduction in Council buildings' running costs including heating and lighting;
 - operation of more flexible working arrangements;
 - increased receipts from the sale of Council assets no longer required.
- **The Planning Service** had a clear governance and administrative framework in place, which was recognised externally by the Council's Planning Team winning the Royal Town Planning Institute (RTPI) East Midlands Awards for Planning Excellence 2019. The judges were particularly impressed by the focus on career development, participation and leadership and maintaining professional standards. They felt that this had clearly made positive improvements to how the planning service operates and how staff progress through the leadership structure.
- **Core Financial Systems** continue to be well established across the Council with clear objectives approved by Senior Management. The Council's finance staff provide a reliable service across a range of activities including accounts payable, payroll, financial accounting and debt management. Experienced staff ensure that routine tasks are consistently undertaken in order that salaries are paid on time, suppliers are reimbursed promptly, debts are effectively managed and the Statement of Accounts meets statutory deadlines. This has been demonstrated in 2020-21 as the Council managed to submit the certified pre-audit Statement of Accounts on 8 June 2020, just eight days after the deadline in a normal year. This was achieved despite the ongoing Covid-

19 pandemic with the majority staff working at home during the period when the accounts were being prepared.

Opportunities for Improvement Identified and Key Risks

- **Information Security and Data Protection** continues to be a high risk area for the Council, its many partners and suppliers. The significant value of personal and financial data held within the Council's network and beyond, makes it a target for various individuals or groups. Earlier in the year the Government wrote to all local authorities to warn of the increase in cyber-attacks against public bodies, and the steps that should be taken to further strengthen current defences. The recently issued Interpol Cyber Crime – Covid 19 Impact Report further supports the Government's concerns stating *'the impact of COVID-19 on cybercrime has shown a significant target shift from individuals and small businesses to major corporations, governments and critical infrastructure'*.
- **Governance and Policy frameworks** have, in a number of cases, been re-written overnight to allow public bodies, including the Council, to function and deliver key services to vulnerable residents. Whilst it is accepted that the Covid-19 pandemic has forced all organisations to deal with unprecedented challenges, it is important that when life becomes normalised such changes are reviewed. The failure to properly consider the legality, efficiency or effectiveness of the changes could lead to complications or legal challenges in the future.
- **Poor or Inconsistent Staff Training and Awareness** continues to be a recurrent theme across Audits undertaken throughout 2019-20. Whilst the Council spends the majority of its income on staff there are significant gaps in the core training provided to maintain, develop and promote its employees. This will become more of an issue over the next twelve to eighteen months as the Council looks to further implement technological changes to support service delivery. Therefore it is essential that the Council and Senior Managers have a clear training strategy which supports new and existing staff to fully understand their role and utilise current and new solutions.
- **Further and Extended Local or National Covid-19 lockdowns** could have a serious impact on Derbyshire residents, the local economy and ultimately the services and budget of the Council. Whilst the Council's staff have worked tirelessly to maintain services and adapt to new ways of working, this has resulted in staff wellbeing issues due to increased stress and isolation. Although the Council has a number of employee welfare provisions, which have been enhanced during the pandemic, the move back to a more normalised working environment will need to be managed carefully.

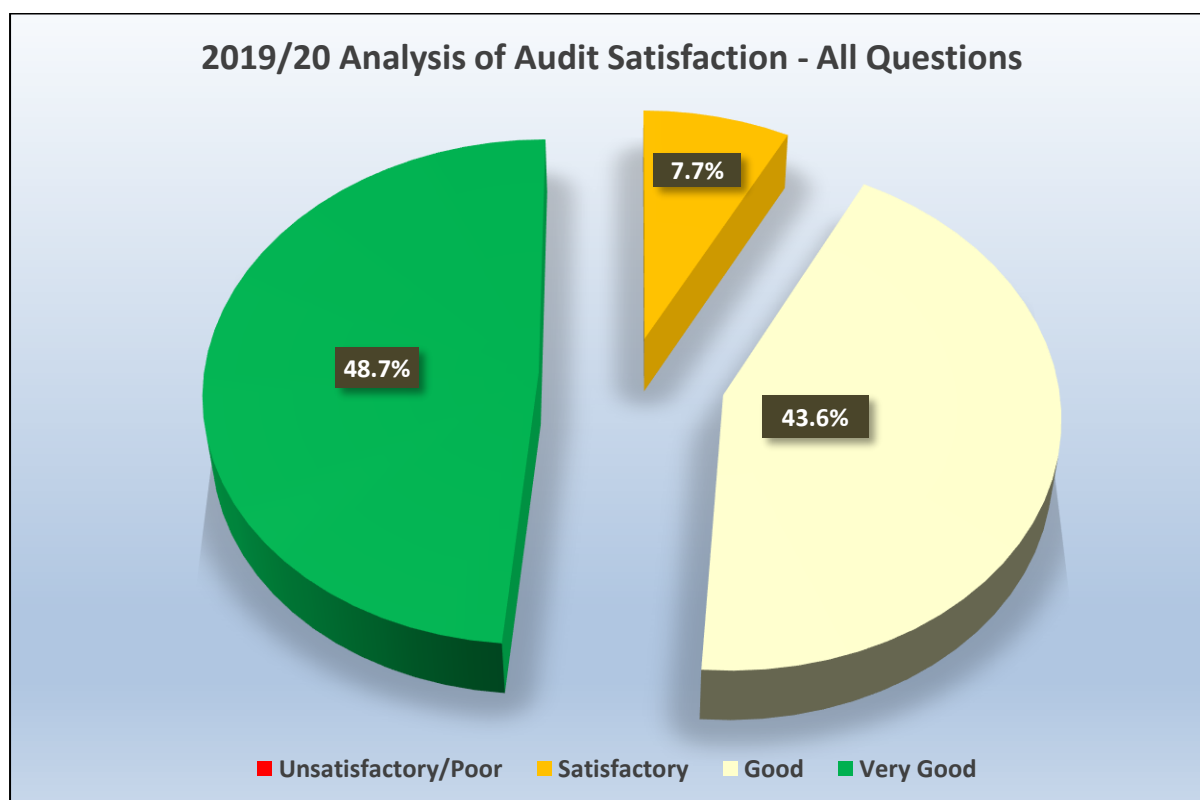
- **The impact of Climate Change** across all of the Council's services will continue to pose challenges for service delivery and place increasing pressures on budgets. Recent examples of local climate change impacts include the costs of the floods in late 2019, which not only caused significant disruption to the public but affected the Council's highways infrastructure and caused substantial damage to Rowsley C of E Primary School. There are likely to be additional costs moving forward as the Council's suppliers look to implement new procedures and technologies to reduce their carbon footprint.

Audit Satisfaction Questionnaires

Questionnaires are issued on completion of Audit work. These questionnaires allow Audit Services to gather valuable information to enable us to monitor and improve our service. The questionnaire seeks auditees' views on the following key aspects of service provision:-

- preparation for and administration of the Audit process;
- professionalism and relevance of the Audit product;
- overall perception of value added and assurance provided by the Audit outcome.

Overall Summary of Questionnaire Responses



The above analysis is based on 13 responses received from 54 questionnaires issued (24%).

Detailed responses received from these questionnaires for the last six years are set out at **Appendix 2** and provide an independent assurance that clients value the service being delivered and the Audit product. Based on these responses it is reassuring to note that the vast majority of respondents rate the service as good or very good, and that overall the high level of client satisfaction is being maintained.

Questionnaires were issued to all Executive Directors and Directors as key stakeholders to obtain their feedback on the Audit service. All responses received strongly agreed or agreed that:-

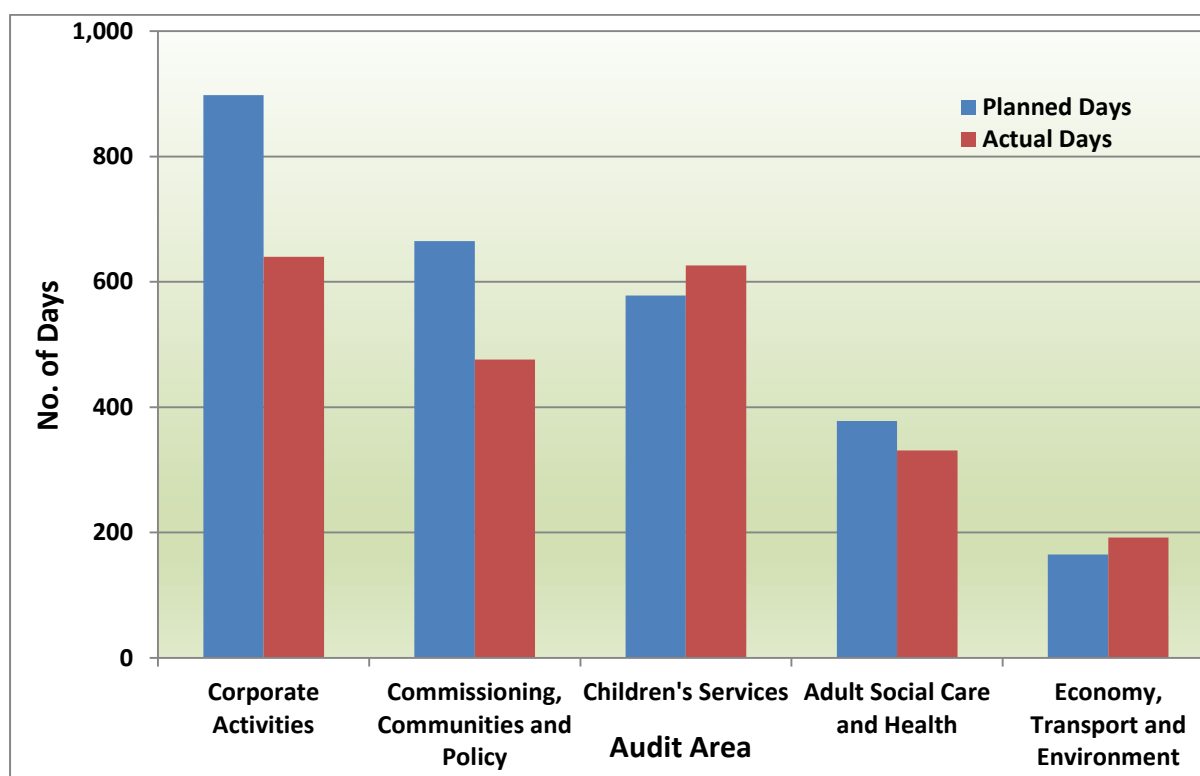
- they had appropriate levels of input to the preparation of the Audit Plan and planning process;
- Audit had adequate profile and influence within the Council in order that it can work effectively and add value;
- Audit consistently undertakes quality Audit work which provides the Council and Senior Managers with effective levels of assurance;
- Audit engages with key stakeholders effectively throughout the Audit process;
- Audit demonstrate a professional, constructive and objective approach;
- Audit provides positive support to my Department.

An area identified for possible development related to how the Council could improve its use of Audit staff to support the challenges it faces. This echoes a point raised by the external review undertaken by Cipfa C.Co which acknowledges the Unit's wide ranging skills, knowledge and experience.

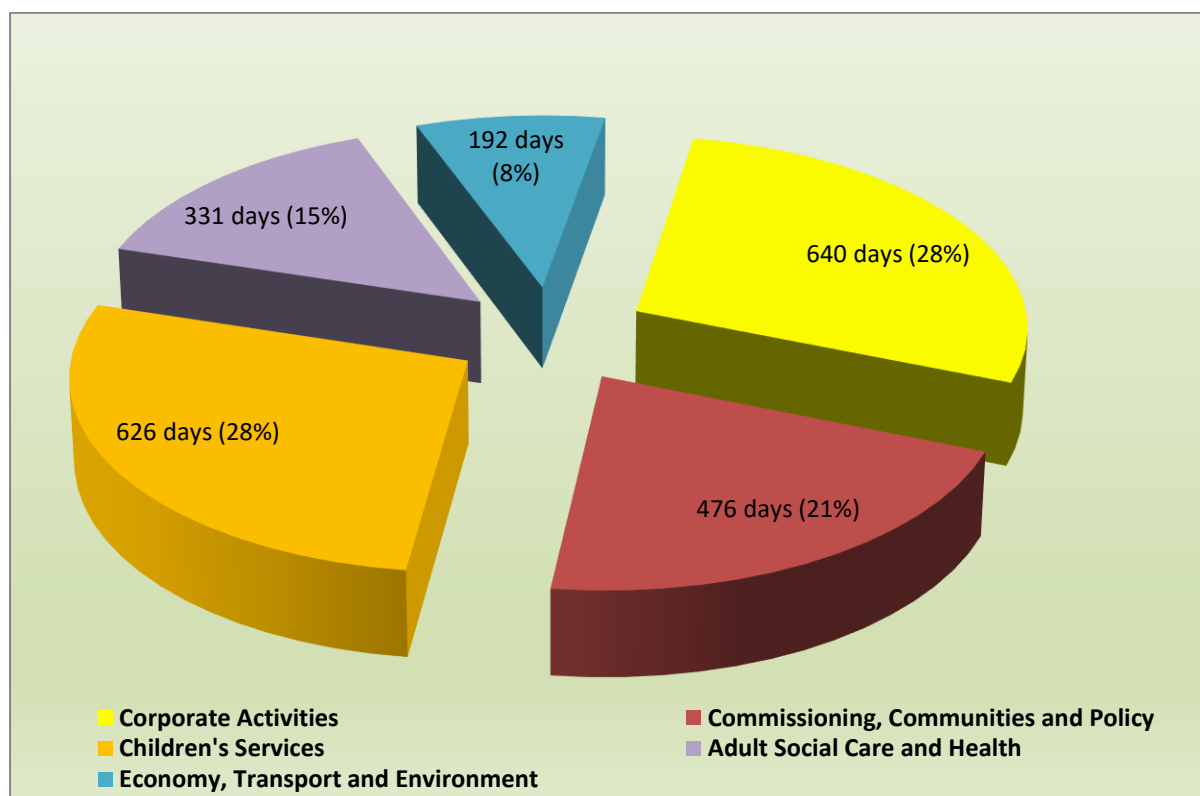
Achievement of the Annual Audit Services Plan

Members approved the Audit Services Plan for 2019-20 at the Audit Committee meeting on 27 March 2019. The Plan included wide ranging Audit work covering Corporate and Departmental projects, major systems, Departmental reviews, IT systems, information security assessments, school and establishment visits, probity and compliance reviews and fraud prevention. Regular reports on performance against the approved Audit Plan have been produced for Members throughout the year. The following charts summarise planned days against actual days, actual days delivered by Department/activity and the percentage of target days achieved by staff.

Planned Days against Actual Days for each Audit Area



Actual Days analysed by Service Area



Appendix 1 summarises actual performance against the approved Plan.

Audit Services' Methodology and Staffing

In assisting the Council to maintain and develop its governance, risk management and control environment Audit Services' staff appraise and review the:-

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

The Audit Services' Manual contains procedures and Professional Standards, the requirements of Professional Best Practice and guidance relevant to the work of the Unit. The Manual is held electronically and available to all of the Unit's staff. The Manual includes the Unit's QAIP and has been reviewed during the current year to ensure its continued relevance as a source of on-going professional and operational guidance.

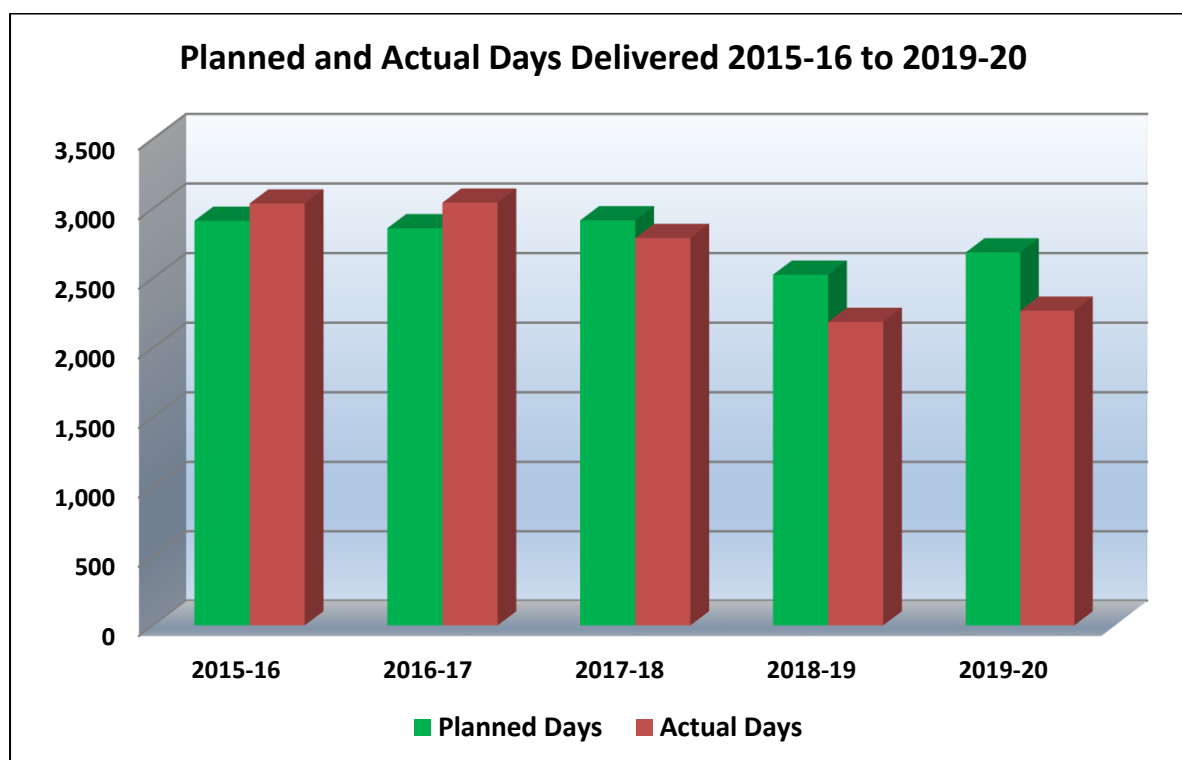
On-going monitoring of the performance and quality control of the work of Audit Services is achieved through day to day supervision, review and measurement of internal audit activity. This is undertaken in accordance with practices established by the Assistant Director of Finance (Audit) and contained in the Audit Services Manual and QAIP.

Staffing of the Audit Services Unit

Revisions have been made to the Audit Services' staffing structure during recent years to ensure that it has adequate skills and resources to remain fit for purpose. The Unit now has an establishment of approximately 17 full time equivalent posts and whilst I consider that this level of resource is adequate, it must be noted that the Unit currently has two vacancies. The full range of Audit services, including the specialist areas of investigative, information security, computer forensic and IT Audit work continue to be provided using only in-house staff which demonstrates the breadth of skills and knowledge currently available to the Council and its Senior Management.

The external review by Cipfa C.Co confirmed that 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’*. With the increasing demands placed on the Unit to provide Members and Senior Management with an assurance that appropriate governance arrangements and control frameworks are in place, and offer related advice and insight, it is essential that the current staff skills base is maintained.

The Unit had been able to retain a particularly stable staffing base until the last three years. Since then it has experienced significant recruitment issues which have resulted in less productive days being delivered than detailed within the approved Audit Plan. This has been due to vacancies, higher than anticipated levels of sickness and staff performance issues. There remain ongoing difficulties in recruiting staff of the required calibre to deliver the service in times of increasing challenges for the Council. The following graph shows planned and actual days delivered over the past five years:-



Year	2015-16	2016-17	2017-18	2018-19	2019-20
Additional/Reduced Days Delivered	124	184	127	339	419
Percentage of Planned Days Delivered	104%	106%	96%	87%	84%

Green text shows an increase in days delivered. Red text shows a reduction in days delivered.

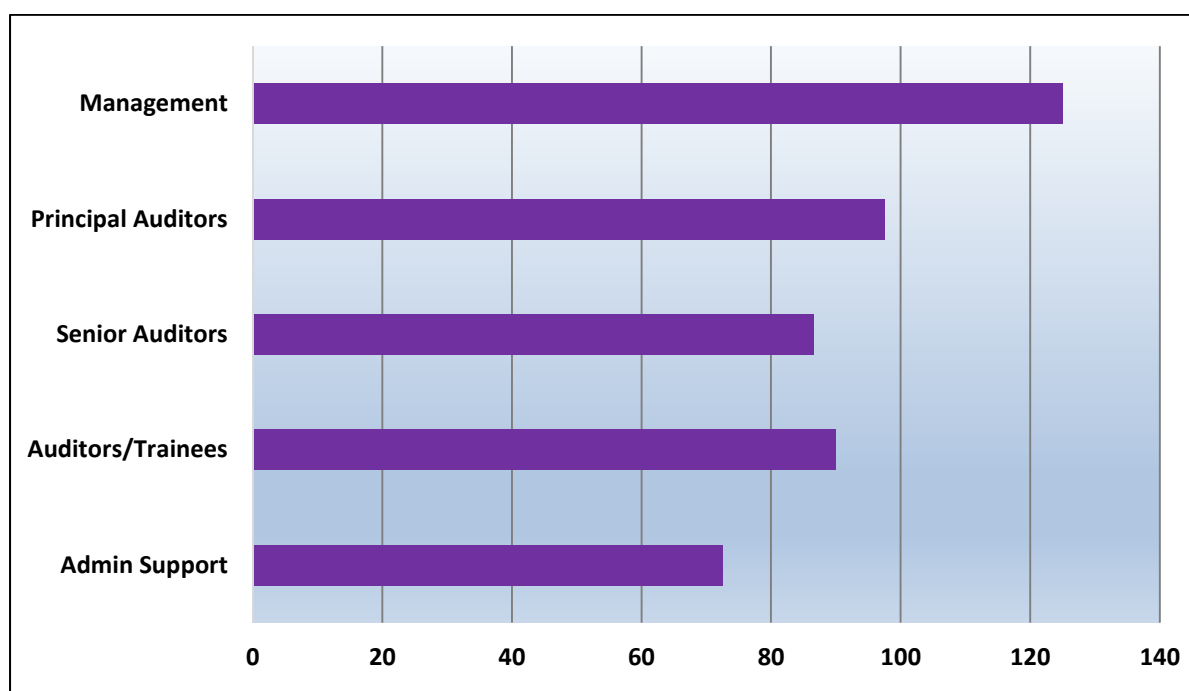
Although the Unit's establishment has been strengthened it is of concern that the percentage of planned days delivered has reduced and the current reduction equates to approximately two full time equivalent staff. It is essential that the Unit is able to recruit and retain appropriate staff to continue to deliver a full range of Audit services to the Council and its Senior Management.

On the 1 April 2019 the Unit had one Principal Auditor, one Senior Auditor, one Auditor and a Trainee Auditor post vacant which is equivalent to approximately 25% of its staffing resources. The following table summarises changes to Audit staffing during the year:-

Audit Post	Comment
Principal Auditors	<ul style="list-style-type: none"> • An appointment to the Principal Auditor post was made from 24 July 2019; • Another Principal Auditor who works three days per week commenced a period of maternity leave on 12 February 2020 and is not expected to return to work until February 2021.
Senior Auditors	<ul style="list-style-type: none"> • The vacant Senior Auditor post was filled through internal promotion from 16 September 2019 resulting in a vacancy at Auditor level; • Another Senior Auditor who commenced on 2 October 2018 left the Unit on 25 September 2019. Despite two candidates initially accepting this post they later withdrew leaving the position vacant.
Auditors	<ul style="list-style-type: none"> • During October 2018 an Auditor took up a two year fixed term post in the Adult Social Care and Health Department and an appointment to cover this vacancy commenced in January 2019. This officer now occupies a permanent Senior Auditor post; • Appointments were made to two vacant Auditor posts, with staff commencing on 20 January and 3 February 2020 respectively.
Trainee Auditor	<ul style="list-style-type: none"> • The Trainee Auditor post has been filled with an apprenticeship from 7 September 2020.

Reports have been presented to the Audit Committee throughout the year as part of regular updates detailing progress against the approved Audit Plan. These reports have informed Members of the Unit's staffing resources which have been subject to a prolonged period of unexpected pressure due to vacancies and sickness; Members have been supportive of action taken throughout this challenging period.

Average Percentage of Target Days Delivered by Staff Group



Despite these difficulties a number of staff have delivered productive days in excess of their target. I wish to record my thanks to all my staff for their professionalism and commitment throughout another demanding year and the ongoing challenges faced by the Council and the Unit.

The Unit is committed to developing its staff and continues to support both professional and internal, work based training. Audit Services is also represented on both the Local Authority Chief Auditors Network and Midland Counties Heads of Internal Audit Group, and is an active member of the Nottinghamshire and Derbyshire Audit Group.

Audit Services will continue to work to safeguard the Council and its Senior Management by promoting the principles of good governance, ensuring that robust controls are in operation and seeking to improve risk management arrangements whilst looking to minimize the effects of reduced resources and increased demands on its services. However, in common with other Council functions the Unit's ability to respond within a reasonable timeframe to requests made of the service, including operational project related work, has been impacted upon during the year. I have, and will continue to monitor this situation to minimize the effect.

External Review of Audit Services

Following a procurement process Cipfa' consultancy service (C.Co) was selected to undertake the external review of Audit Services. This assessment

was carried out on the basis of a self-assessment with independent external validation.

The main findings of the external review were that the Unit's work conforms with the requirements of the PSIAS, with the assessor's report stating *'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

The detailed results of the external review were presented to the Audit Committee on 10 December 2019 by Mr Ian Kirby (C.Co Programme Director). Such assessment of the Unit's conformance with these Standards must be conducted at least once every five years.

Based upon a combination of questionnaire responses, detailed document review and on-site interviews C.Co were *'able to identified 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 to the (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.'*

It is important to note that the external assessment team did not identify any formal recommendations for improvement, rather a number of advisory opportunities for service enhancement. These were the subject of a separate report considered by the Audit Committee on 27 May 2020 due to the meeting on 24 March 2020 being cancelled. The following points summarise action to be taken in response:-

- further development of assurance mapping where appropriate;

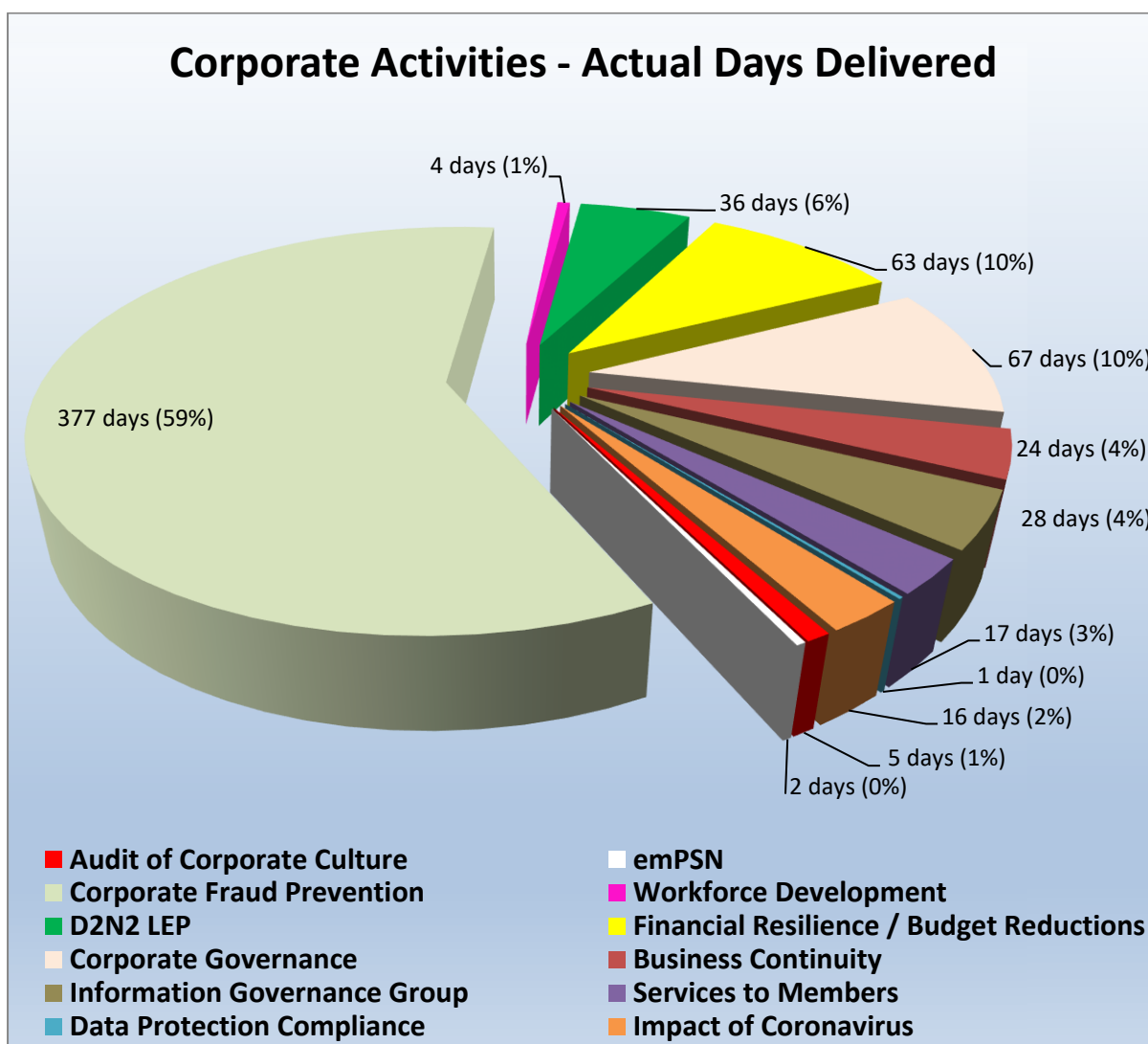
- increase level of contingency included in the Audit Plan in the short term;
- review opportunity to further develop dialogue with Senior Management using the Project Brief;
- consider further development of Key Performance Indicators (KPIs);
- revise declaration of interests form used by Audit staff.

This is an extremely pleasing result particularly in the challenging circumstances in which the Unit continues to operate.

Following the external review the Unit has revised its KPIs which were reported to Audit Committee on 27 May 2020; these KPIs will be used to report Audit activity from 1 April 2020.

Detailed Analysis of Audit Activity

Service Area	Corporate Activities									
Overall achievement of Productive Days against Plan									71%	
Number of Reports/ Memoranda Issued ²									12	
Assurance Levels ³										
Substantial	0	Qualified	2	Limited	1	No	0	Other	9	
Recommendations Made (items marked in red were rejected by Senior Management)										
Critical	0	High	17	Medium		8	Low		8	
Previous Recommendations Not Implemented										
Critical	0	High	4	Medium		4	Low		1	



² Includes 5 reports resulting from special investigations.

³ This area of activity includes special investigations where assurance levels and recommendations are treated differently and not categorized in the same way.

Strategic Provision

During the year, staff of the Unit worked on 12 key, Corporate areas which addressed significant risks facing the Council. I would wish to draw attention to the following:-

Governance Group

This Group is chaired by the Executive Director of Commissioning, Communities and Policy, and includes the Assistant Director of Finance (Audit) along with other senior officers including the Director of Finance & ICT, Director of Legal and Democratic Services, Director of Organisation Development and Policy and Departmental Managers. The Group has a key role in considering and promoting governance matters (including the development and revision of related policies), supporting the work of the Audit Committee and production of the Annual Governance Statement (AGS). The Group is currently developing a Local Code of Corporate Governance and Assurance Matrices to support the AGS. It is essential that this Group continues to receive the positive support of Members and Senior Managers in order to effectively fulfil its role.

Information Governance Group

Audit Services continues to be an integral part of the ongoing monitoring and compliance work required to maintain the Council's ISO27001:2013 accreditation. The Unit's role includes attendance and support to the monthly meetings of the Group, review of information security policies and ongoing information security reviews as specified within the Audit Plan. The Unit's staff are the contact point for the External Auditor in relation to the provision of internal audit in respect of the ISO27001 standard.

Corporate Fraud Prevention

The Council takes a robust stance in respect of counter fraud measures and has a culture which is resilient to the threat of fraud and corruption. A suite of policies has been developed which are intended to encourage the prevention of fraud, promote its detection and identify a clear protocol and methodology for undertaking investigations. The Council participates in the National Fraud Initiative (NFI) and subscribes to the National Anti Fraud Network (NAFN). During the current year is intended to review arrangements for the prevention and detection of fraud and corruption, including a review of Whistleblowing The Confidential Reporting Code and raising fraud awareness.

Threats posed by fraud remain a significant risk to all public authorities including the Council. Towards the end of 2019-20 the Covid-19 pandemic placed the country in lockdown and many workers, including those of the Council were forced to work from home. In some cases systems and processes had to be modified in order that service provision could continue. This presented

opportunities for both fraudsters and scammers to exploit potential vulnerabilities in governance, risk management and control systems.

Fraud threats are constantly changing with some being more complex and wide ranging whilst others operate at a more basic level and, in some cases, revive previous, similar fraudulent activities.

The involvement of organised crime is a continuing and growing threat which will impact on local authorities and their residents. Audit Services are seeking to build on work already undertaken in this area, and reported over two years ago, which will require the involvement of Derbyshire Constabulary and colleagues within the Council to analyse data and assist in protecting the Authority from this threat.

The Council continues to operate under financial constraints with reduced staffing levels and has responded by reviewing elements of its workforce. Whilst this streamlining of structures is essential the level of management oversight and supervision must not compromise the governance, risk management and control framework. Operational and Management controls form a vital part of the Three Lines Model illustrated on page 11.

The Unit continues its key role in protecting the Council and mitigating the risk of fraud. Audit staff investigate individual cases of suspected theft, fraud or irregularity and produce Audit Reports for Senior Management which detail our findings and recommend appropriate action including, where necessary, measures to improve controls to prevent recurrence.

The Council should make those improvements which it can to strengthen the overall internal control and governance frameworks and mitigate risks by implementing Audit recommendations.

During the year the Unit's staff worked on 8 investigations of potential fraud, misconduct or irregularity, a number of which required the deployment of the Unit's specialist IT forensic resource. Staff also actively participated in NFI 2018-19 and investigated data matches reported as part of that process as well as preparing for NFI 2020-21. The Unit continues to work with NAFN which provides valuable intelligence on potential frauds. Relevant information received from NAFN and other sources is investigated by the Unit and disseminated to Members, Executive Directors and Directors in order to ensure that the Council is informed of known and emerging fraud risks.

Instances of suspected fraud and irregularity reported to, and investigated by Audit Services continues to form a vital part of the Unit's work.

The Unit maintains its positive working relationship with the Police and any Audit investigation which may result in criminal proceedings is discussed at an early

stage. This ensures that any potential action by the Police is not compromised whilst enabling the Council to proceed with its investigation.

Staff who are responsible for investigating fraud are appropriately qualified and experienced and have unrestricted access to Members, employees, information and resources to enable investigations to take place. The Cipfa Code of Practice on Managing the Risk of Fraud and Corruption states that councils should undertake an annual assessment of whether the level of resource to counter fraud and corruption is proportionate for the level of risk. This assessment is made by the Assistant Director of Finance (Audit) when formulating the Audit Plan.

The continuing pressures on the Council's reduced resources emphasize the importance of all Members and staff remaining vigilant to ensure that governance and control arrangements are not compromised.

The Assistant Director of Finance (Audit) is the Council's RIPA Monitoring Officer, responsible for the oversight and monitoring of powers exercised under the Regulation of Investigatory Powers Act (RIPA) in accordance with the Council's RIPA Policy. The acquisition of communications data and provision of scrutiny regarding applications is provided by NAFN through their Single Point of Contact service. Local authorities may only exercise RIPA powers to prevent and detect crime. The level of activity relating to the exercise of RIPA powers has reduced significantly with no applications being processed in recent years.

The Council's procedures regarding RIPA were subject to a desktop inspection by Mrs Samantha Jones of the Investigatory Powers Commissioner's Office (IPCO) in April 2020. In summary the Commissioner confirms that the Council:-

- *'demonstrated a level of compliance that removes, for the present, the requirement for a physical inspection. Four of the six previous recommendations emanating from the 2016 inspection have been discharged' and*
- *'It must be emphasised that although your Council has not exercised its RIPA powers since 2012, there is good work being undertaken in ensuring that activity instigated by your staff when accessing the internet and social media sites is subject of a robust audit regime and a separate policy document. This document, together with the overarching RIPA policy document and your retention policy, is indicative of your level of commitment to ensure compliance with the legislation'.*

The outstanding recommendations relate to training for appropriate staff involved in RIPA related procedures and raising staff awareness of RIPA. Prior to the Covid-19 pandemic and subsequent lockdown it was intended to deliver internal and external training for relevant staff.

Financial Resilience and Achievement of Budget Savings

This Audit included the annual review of Accountancy and Budgetary Control (one of the Council's core financial systems) and a Corporate Project - Financial Resilience and Achievement of Budget Reductions. The review included procedures for monitoring, delivery and reporting of budget savings which are vital to the Council's financial stability and its ability to set and deliver a balanced budget.

The review gave consideration to the Cipfa Publication – *Building Financial Resilience (Managing Financial Stress in Local Authorities)* and how the Council currently performs against the identified symptoms of stress and the pillars of resilience. This Cipfa Insight report is intended to help chief financial officers and their authorities build financial resilience into all aspects of their planning and operations. The report identifies the warning signs of financial stress, and explains the pillars on which financial resilience depends.

The Council has established a framework to provide strong financial management which includes:-

- a robust annual budget setting process incorporating stakeholder consultation;
- a financial strategy which is reviewed and updated regularly;
- a five year financial plan which is reviewed and updated annually;
- a reserves policy and regular reporting of the reserves position;
- regular reporting of the budget position to Cabinet Portfolio Members with reporting of the Corporate position to Audit Committee and Cabinet;
- reporting of the revenue out-turn position promptly following the year end.

The challenge now is to move to integrated financial (both revenue and capital) and performance reporting. This should include the identification of key performance indicators / measures and use of benchmarking to show the Council's comparative position and performance in relation to other, similar and neighbouring authorities. Members should receive more transparent and timely reports on the Council's performance which should include progress reports on the delivery of key programmes and savings plans.

Business Continuity Planning

The business continuity planning work undertaken within the first part of 2019-20 related to the completion of the 2018-19 Audit review. The key findings and outcomes were reported in the previous year's Annual Report.

D2N2 Local Enterprise Partnership (LEP)

From 1 April 2019 the Council was appointed as Accountable Body for all funding streams associated with the LEP. As part of its responsibilities as Accountable Body to the Local Growth Fund (LGF) funding stream, Audit Services conducted an annual review of the 2018-19 Fund and certified the annual Growth Hub Funding grant declaration in accordance with requirements. The additional funding streams for which the Council now has responsibility will be subject to review as part of 2019/20 Audit review.

The D2N2 Local Enterprise Partnership continues to face significant challenges as a result of central Government plans for reform to ensure LEPs continue to drive growth and remain credible organisations locally and nationally. In response to these challenges, the D2N2 LEP is now registered as a Private Limited Company and governance arrangements, including the Strategic Economic Plan, have been reviewed and updated. Locally, the ongoing unspent LGF balances at the end of the financial year remain in part due to unavoidable delays and slippage in projects but as previously reported this trend cannot continue; clear plans and monitoring arrangements are required to spend the LGF allocation as well as previous years' underspends.

Consequently, close management, monitoring and reporting of project progress, output delivery, expenditure profiles and pipeline is vital in delivering projects on time and within budget. The submission of late returns by project promoters hinders the effectiveness of this process. Expenditure testing should be in accordance with, and at the level of, the agreed process.

Services to Members

This Audit included governance arrangements, Members' Community Leadership Scheme, allowance payments, Chairman's Fund, official cars and the Members' Bar.

Member inductions are provided and work is underway to improve the development of Members, but action is required to ensure Members are fully supported in their roles. The Health and Safety of Members should also be of paramount concern, especially given recent news headlines where Members have been assaulted whilst carrying out their official duties. The implementation of the Health and Safety guidance should therefore be seen as a priority area for review.

Ongoing training and development is also important to ensure Members keep up to date with changes in legislation and policy as well as refreshing their current knowledge. The finalisation of the Members' Development Programme will help achieve this. Action is necessary to review procedures relating to complaints against Members.

All Members are allocated a set annual allowance as part of the Members' Community Leadership Scheme. Members should complete the conflicts of interest section of supporting forms and subsequent checks on potential conflicts of interest carried out. Although evaluation forms are issued for completion by the recipient these have, on occasions, been returned before the funds have even been spent or not returned at all with no consequences of this from the Council.

Members' allowance payments reviewed during the Audit had been paid correctly with the details published on the Council's website. However, insufficient checks are undertaken on mileage claims made as no confirmation is obtained that the event attended was on behalf of the Council or that the number of miles claimed is accurate. In addition Members' driving licenses, insurance policies and MOT certificates should be verified on an annual basis to confirm that they are still able to drive on Council business.

It is important to ensure that the Members' Bar service does not negatively affect the Council's finances as it was identified that the Bar operated at a loss in the 2018/19 financial year. The review noted a number of fundamental issues in respect of the management of the Members' Bar and it is vital that this is subject to review to safeguard the Council's finances as far as possible.

Departmental Reviews

These key reviews have been undertaken for a number of years and developed by the Unit to assess the adequacy and effectiveness of controls operating within Departments. Audit work focuses on the Departmental interfaces with major systems to ensure compliance with the Council's Policies, Procedures, Financial Regulations and Standing Orders relating to Contracts, and Professional Best Practice. Risk management arrangements and the requirements necessary to ensure compliance with ISO27001 and data protection obligations are also included in our work. Audit Services continues to evolve its programme of Departmental reviews to ensure that work covers key control requirements. Such work also forms an integral part of Audit's overall assessment of the effectiveness of the governance arrangements operating within the Council and can inform future Corporate/Departmental Audit projects. Departmental reviews are a vital component in demonstrating a continuous Audit presence.

IT Systems, Information Security and Data Protection Reviews

Throughout this period, Audit Services have continued to work with colleagues across the Council including ICT Services, Information Security and Procurement to improve and monitor current procedures. Audit have built upon the assurance work with third party suppliers to support and improve external organisations' awareness of their data protection obligations and cyber security risks. It is, however, disappointing to report that basic procedures to secure IT

networks, maintain data integrity and restrict unauthorised access are still relatively common findings. Despite the highly publicised changes to data protection legislation in 2018, some organisations appear slow in fully grasping their new responsibilities and the increased risk of a significant IT or data breach event occurring.

Whilst it is acknowledged that operational improvements have been identified during the Covid-19 lockdown, with the increased use of virtual meetings, the value of targeted 'on-site' visits cannot be underestimated. Despite completing a formal procurement process to deliver a variety of services, Audit reviews still identify a significant number of basic weaknesses in certain suppliers' information security procedures including:-

- organisations processing sensitive personal data without any independent information security accreditations e.g. Cyber Essentials;
- line managers maintaining lists of all users' password details;
- little, if any, disaster recovery planning or guidance being available;
- confidential data being secured in 'carrier bags' on open office shelves;
- IT equipment including laptops not being protected by encryption;
- no contracts in place for third party suppliers to the organisation under review e.g. IT support;
- accepted practice for staff to use shared/generic passwords in order to access sensitive IT systems;
- training on information security and data protection not provided to staff on a regular basis e.g. annually.

Covid-19

Towards the end of 2019-20 the Covid-19 pandemic placed the country in lockdown and the Council's staff were required to work from home, wherever possible, from 23 March 2020. These unprecedented events placed significant pressures on the Council's services and staff as it sought to fulfil additional responsibilities placed upon it by central Government whilst trying to maintain existing services.

The response to the pandemic has been moving at pace and has had an impact on the work of Audit Services during 2019-20 which will continue into the current year at least. Audit Services acted swiftly to respond to Senior Management requests for assistance where changes were being considered to processes or new systems were being considered. In some cases Audit staff were unable to progress planned work due to the lack of availability of Departmental staff who were progressing other priority work. Consequently Senior Audit Management identified a number of areas where Audit staff would be usefully deployed on "deep dives" or more detailed work to support our overall assessment of governance and control systems. This work will be a particular feature of future reports monitoring performance against the approved Audit Plan.

Nationally the number of frauds and scams increased significantly with Action Fraud reporting that coronavirus related frauds increased by 400% in March 2020. Audit Services acted swiftly to build on our established systems to distribute intelligence received relating to potential frauds and scams and will, of course, continue to assist in safeguarding the Council against such risks. It is intended that during the current year Audit staff will promote specific fraud awareness measures throughout the Council.

Due to the pandemic the Audit Committee's meeting scheduled for 24 March 2020 was cancelled and took place on 27 May 2020. At that meeting Members received my original report proposing the Audit Services Plan for 2020-21 and a supplementary report detailing the areas which could impact on the original, proposed Plan.

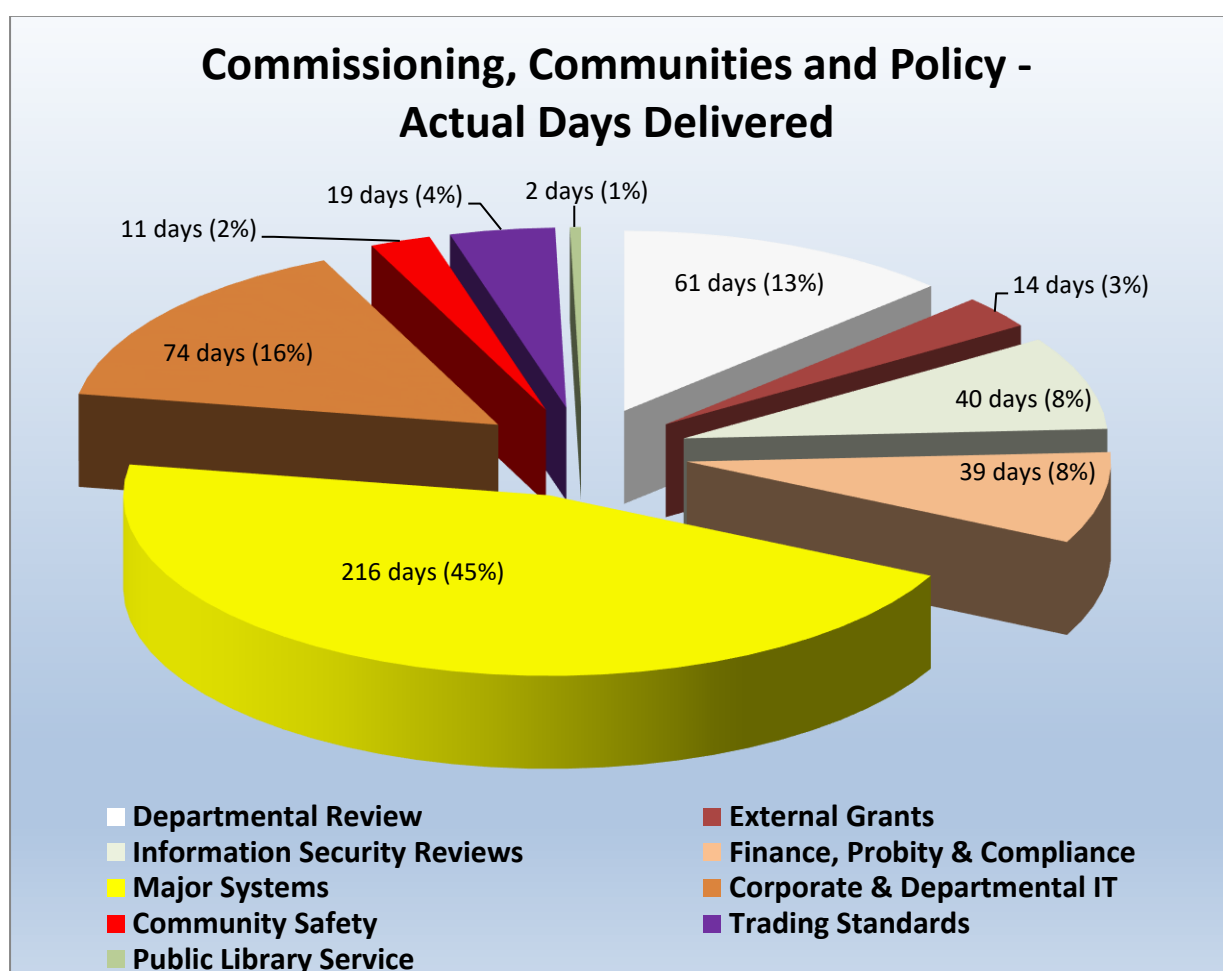
As the Council returns to business as usual it will be essential that the Audit Plan can be flexed to respond to changing and emerging threats to the Council's governance, control and risk management framework. The current situation is unparalleled and there are a significant number of factors which could impact on the proposed Audit Plan but these cannot be accurately estimated at the present time. In the absence of such detailed estimates it is considered that as the situation evolves and any implications for, or restrictions on the Audit Plan are identified and quantified, that these are included in the progress reports presented to the Audit Committee. Audit resources will be targeted at the highest levels of risk but also directed to achieve a broad range of coverage across the Council's activities.

Other Planned Reviews

Due to operational factors and particularly the Unit's reduced resources, planned reviews relating to Workforce Development and Succession Planning, Cyber Security, Audit of Corporate Culture, New Delivery and Commissioning Models/Partnership Working, SAP Utilisation, Data Protection Compliance, Supply Chain Failure and Corporate Health Check were deferred. All these reviews, with the exception of SAP Utilisation, are incorporated into the current Audit Plan.

During the year the Unit completed work and reported to Senior Management on Injury to Public or Employees and Business Continuity Planning planned in 2018-19.

Service Area		Commissioning, Communities and Policy							
Overall achievement of Productive Days against Plan							72%		
Number of Reports/ Memoranda Issued							25		
Assurance Levels									
Substantial	2	Qualified	16	Limited	2	No	0	Other	5
Recommendations Made (items marked in red were rejected by Senior Management)									
Critical	1	High	44 (1)	Medium	93 (9)	Low	48 (7)		
Previous Recommendations Not Implemented									
Critical	1	High	10	Medium	20	Low	14		



Strategic Provision

Key/Core System Reviews

The Council continues to use SAP applications to support its key financial processes which are well established. Audit Services undertakes work on major systems and their interfaces operating in Departments and establishments as a key feature of our on-going assurance work. Audit staff

routinely, independently and confidentially interrogate system data to support our reviews by producing reports which assist in targeting Audit testing. Audit staff are also active in supporting key SAP developments through participation in project groups and software testing.

A significant amount of the Council's budget continues to be spent on staffing and related costs and Human Resources processes must be effective to manage such a large, diverse workforce. The Unit carries out a wide range of work in this area as part of the central Human Resources review and during Departmental, school and establishment Audits. This work includes detailed testing of starters, leavers, time recording, leave arrangements and attendance management.

Reductions in budgets continue to place significant pressures on the Council's resources. Local authorities face funding cuts and increased demands for services and consequently financial resilience has emerged as a key consideration, particularly following the highly publicised failures identified at Northamptonshire County Council. The National Audit Office described 2019 as a '*pivotal year for local government in England*'. Audit Services undertake testing on budgeting arrangements as part of the central Accountancy and Budgetary Control review and during Departmental, school and establishment Audits. During 2019-20 the Unit undertook a Corporate project to assess Financial Resilience and Achievement of Budget Savings (see page 34) and supplement our work on Accountancy and Budgetary Control.

During 2019-20 significant work was undertaken on the Council's key systems and Memoranda were issued on:-

- human resources;
- accountancy and budgetary control (includes financial resilience and achievement of budget savings);
- accounts payable;
- accounts receivable;
- treasury management.

The Unit issued five Memoranda following information security reviews undertaken relating to Departmental systems.

Finance Officers' Group

This Group comprises representatives of Corporate Finance, Departmental Finance Managers and Audit Services. The Group meets on a regular basis to discuss a range of budgetary and accounting issues and supports the Director of Finance & ICT. Its aim is to ensure consistent accounting and budgeting practices across the Council, and to contribute to the development and

enhancement of Financial Regulations and Standing Orders relating to Contracts, and related procedures.

Risk Management Group

Audit staff are represented on the Risk Management Group which meets quarterly. The group consists of Departmental Risk Champions together with officers from Health and Safety and Legal Services. The Group's core role is to monitor and support Corporate leadership of risk management across the Council. In addition the Assistant Director of Finance (Audit) meets regularly with the Risk and Insurance Manager to discuss current and emerging risks.

GDPR Working Group

The GDPR Working Group is scheduled to meet every two weeks and chaired by the Director of Legal and Democratic Services; the Group has representatives from Departments in addition to key post holders. The Group plays a pivotal role in ensuring the Council's ongoing compliance with current data protection legislation and ensuring best practice is implemented across all services.

Information Implementation Group

This Group comprises representatives from across Departments and is chaired by a member of the Legal Services Division. The Group normally meets every two months and considers how changes to information management and elements of data protection will be implemented across the Council.

Probity and Compliance

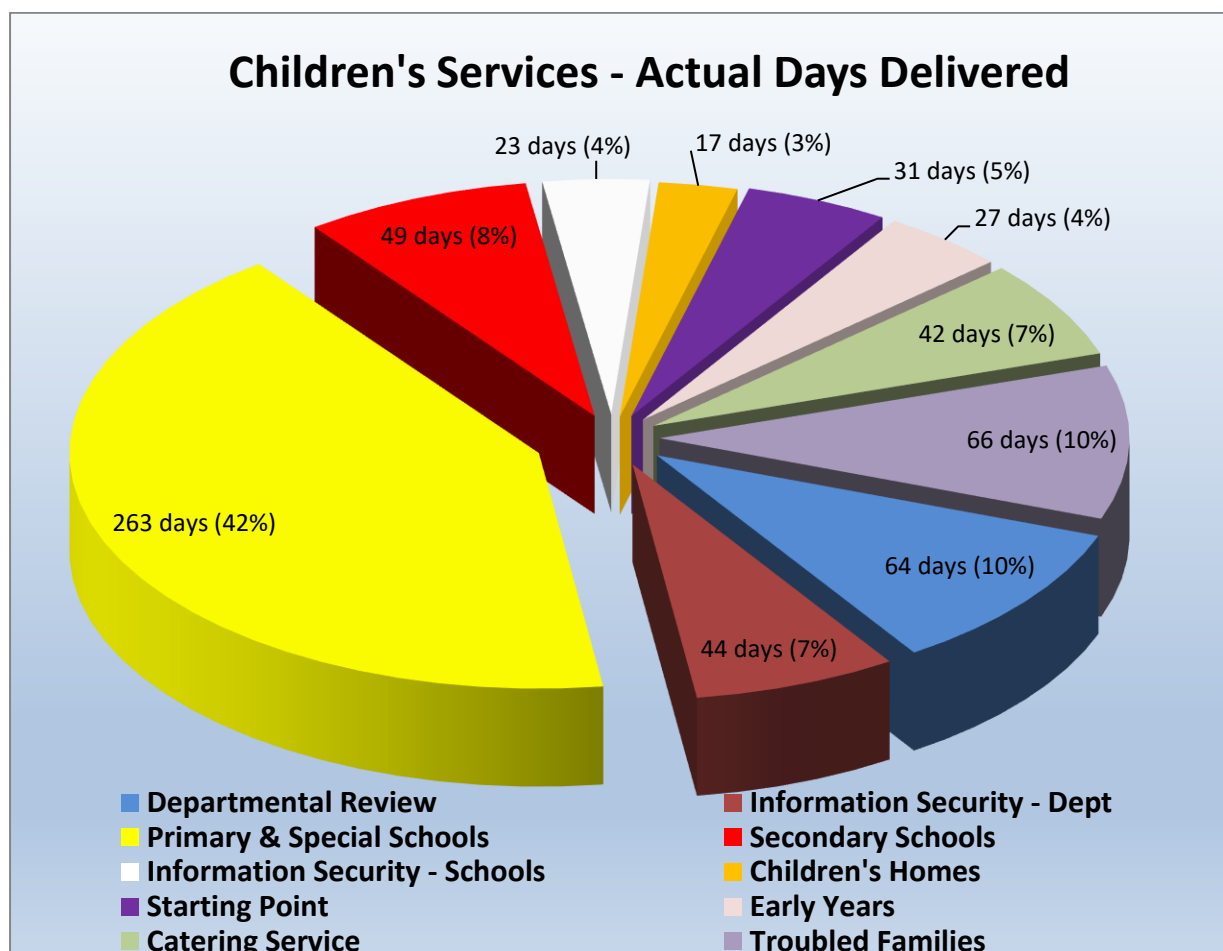
During the year Audit Services undertook probity and ISO27001 compliance visits and provided grant claim certifications.

The latest revisions to Financial Regulations and Standing Orders relating to Contracts were approved by Council on 6 February 2019. Compliance with these Regulations, Policies, Procedures and other elements of the Council's regulatory framework will continue to be assessed as a key component of ongoing Audit work.

Other Planned Reviews

A review of Corporate Property was deferred pending the establishment of a joint venture with Suffolk County Council. A review of the Registration Service was planned but not undertaken due to a lack of resources and is included in the current Audit Plan.

Service Area	Children's Services				
Overall achievement of Productive Days against Plan					108%
Number of Reports/ Memoranda Issued ⁴					55
Assurance Levels					
	Substantial	Qualified	Limited	No	Other
Non Schools	0	11	0	0	2
Schools	0	31	3	0	0
Total	0	42	3	0	2
Recommendations Made (items marked in red were rejected by Senior Management)					
	Critical	High	Medium	Low	
Non Schools	0	39 (2)	48	26	
Schools	1	209 (10)	305 (20)	256 (18)	
Total	1	248	353	282	
Previous Recommendations Not Implemented					
	Critical	High	Medium	Low	
Non Schools	0	9	15	5	
Schools	0	93	108	37	
Total	0	102	123	42	



⁴ 8 grant returns were reviewed in connection with the Troubled Families Initiative.

Strategic Provision

The Unit undertook work on Departmental systems and procedures and three Themed and Operational Projects including Starting Point, Early Years and the Catering Service. Audit Services issued five Memoranda following the completion of information security reviews relating to Departmental systems.

School and Establishment Visits

Audit Services continues its programme of school Audits and provision of support in respect of the Schools Financial Value Standard. This includes the promotion of good governance through discussions, training and meetings with governors, Children's Services and school based staff. Governing bodies and head teachers must work together in order to ensure that robust governance and control systems are operated and maintained within schools.

Our testing methodology is subject to ongoing review and refocussing to:-

- ensure its continued relevance in evaluating the adequacy and effectiveness of governance and control frameworks within schools;
- evaluate and incorporate, where appropriate, other sources of assurance eg Ofsted reports, work undertaken by School Support Finance;
- discharge the Section 151 Officer's responsibilities on behalf of the Director of Finance & ICT.

In the current year the Unit is developing a remote schools' Audit testing programme to mitigate the impact of the Covid-19 lockdown and the closure of schools. This should enable Audit work at schools to continue although with a restricted scope, and it is anticipated that some physical Audit reviews will be possible at schools and establishments prior to the end of the current financial year.

The Unit produced separate Memoranda following reviews of 32 primary and special schools and 3 children's homes during the year. Unfortunately our planned coverage of schools and establishments was not achieved due to reduced staffing resources.

The lack of staff and Covid-19 has had an impact on the planned frequency within which Audit reviews of schools and establishments can be undertaken and I will continue to keep this situation under review. At the end of each Audit visit recommendations are discussed at the exit meeting involving school and Audit staff. All schools and establishments are provided with an Action Plan following the visit which includes prioritized recommendations for improvement.

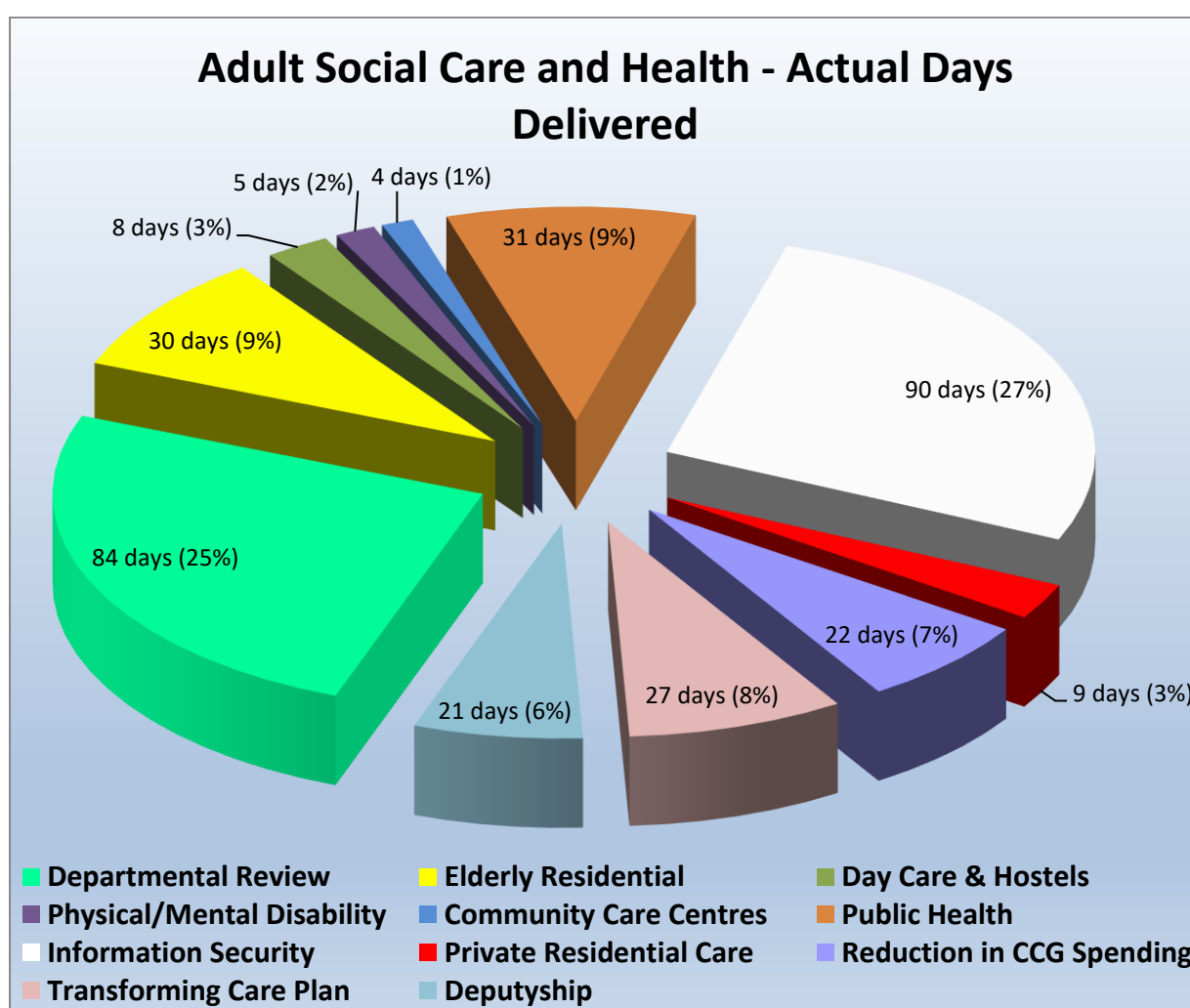
SAP continues to be used by the vast majority of schools and offers significant advantages from the use of common systems across the Council and all Audit staff routinely use SAP as part of school reviews.

The Unit continues to produce the 'Audit Matters' electronic newsletter specifically aimed at schools and uses the SchoolsNet website to provide information and best practice advice.

As part of the support provided to maintained schools the Unit has well developed links to the Council's Local Authority Designated Officer (LADO). In addition the Unit will undertake computer forensic and network reviews in relation to IT equipment used by school staff, particularly where there are potential child protection allegations.

Audit Services issued two Memoranda following information security reviews of systems relating to schools and eight grant claims were audited in respect of the Troubled Families Programme.

Service Area	Adult Social Care and Health						
Overall achievement of Productive Days against Plan							88%
Number of Reports/ Memoranda Issued							22
Assurance Levels							
Substantial	0	Qualified	17	Limited	5	No	0
Recommendations Made (items marked in red were rejected by Senior Management)							
Critical	0	High	70 (1)	Medium	80	Low	36 (1)
Previous Recommendations Not Implemented							
Critical	0	High	13	Medium	14	Low	15



Strategic Provision

During the year the Unit carried out work on Departmental systems and procedures together with four Themed and Operational Projects. These included Reduction in Clinical Commissioning Group Spending, Transforming Care Plan, Deputyship and Private Residential Care. A review of Public Health

was also completed. Eleven Memoranda were produced following completion of information security reviews relating to Departmental systems.

Establishment Visits

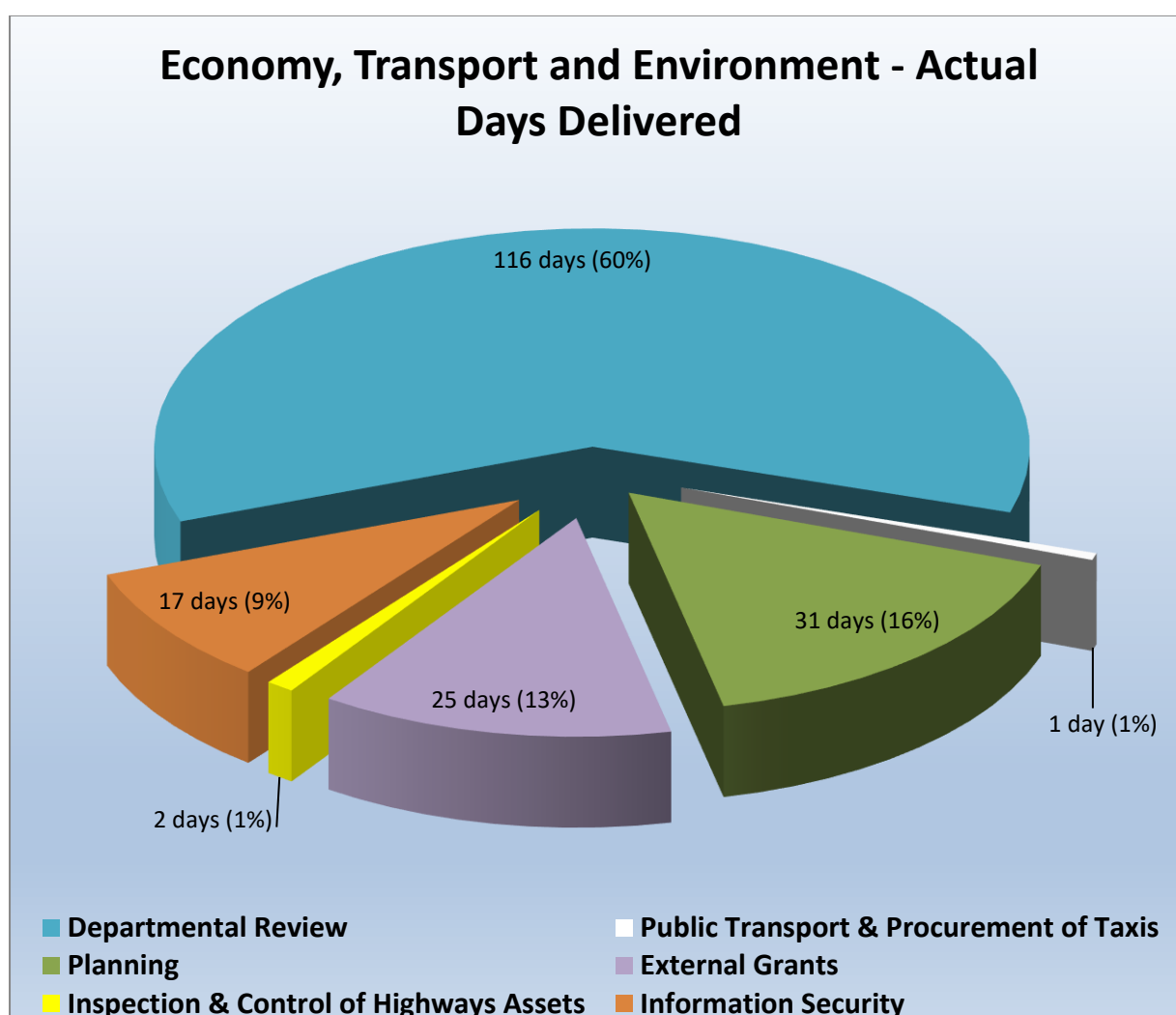
The Unit reported the findings of our work at 7 establishments but due to reduced staffing resources our planned coverage in this area was not achieved. At the end of each Audit visit recommendations are discussed with Management at each establishment during an exit meeting. Each establishment is then provided with an Action Plan detailing prioritized recommendations for improvement.

As all establishments are covered by the Council's ISO27001 accreditation, testing of information security and data protection procedures is completed by Audit Services' staff as part of these reviews.

Other Planned Reviews

A review of Direct Payments was deferred due to the lack of resources and included in the current Audit Plan.

Service Area		Economy, Transport and Environment							
Overall achievement of Productive Days against Plan							116%		
Number of Reports/ Memoranda Issued							10		
Assurance Levels									
Substantial	0	Qualified	4	Limited	0	No	0	Other	6
Recommendations Made (items marked in red were rejected by Senior Management)									
Critical	0	High	8	Medium	26	Low	13 (1)		
Previous Recommendations Not Implemented									
Critical	0	High	4	Medium	6	Low	3		



Strategic Provision

The Unit undertook work on Departmental systems and procedures together with four Themed and Operational Projects. These included Public Transport and Procurement of Taxis, Planning, Grants and Inspection and Control of

Highways Assets. Audit Services produced two Memoranda following the completion of information security reviews relating to Departmental systems.

Other Planned Reviews

A review of Concessionary Fares was deferred due to the Unit's reduced resources and included in the current Audit Plan.

Internal Audit Plan for 1 April 2020 to 31 March 2021

The Audit Plan for 2020-21 was reported to, and approved by Audit Committee on 27 May 2020 following the cancellation of the meeting planned for 24 March 2020. The Audit Plan for 2020-21 is based on the deployment of 2,884 Audit days. As previously reported the Unit still does not have its full complement of staff and the ongoing impact of Covid-19 on the work of the Unit cannot be fully evaluated. I consider that these factors will have an impact on the delivery of Audit work for some time and consequently several assumptions were made in forecasting available Audit days which may or may not be achieved. I will continue to provide updates on the impact of Covid-19 and staffing resources as part of regular reporting to the Audit Committee on the achievement of the Audit Plan.

The Plan was 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 Corporate Management Team, Executive Directors and Directors including the Head of Paid Service, Section 151 Officer and Monitoring Officer. As part of this process Audit projects have been identified which will be developed specifically to address key Corporate and Departmental risks and build on those areas where frauds/control weaknesses have previously been identified.

The Audit Plan will continue to be subject to on-going review to ensure that it remains aligned with significant risks whilst remaining responsive to changes in risk, operations, systems and controls. Amendments necessary to the Audit Plan will be identified through Audit Services' on-going liaison and discussions with the Audit Committee, Executive Directors, Directors and Senior Managers. Regular reports will be presented to the Audit Committee detailing progress against the approved Audit Plan which is constantly monitored by Senior Audit Management. Regular updates on Audit activity will also continue to be provided to the Corporate Management Team and individual Executive Directors.

As part of the Audit planning process resource requirements are considered each year and detailed staffing considerations are set out earlier in this Report at pages 23 to 29. Audit Services has an establishment of approximately 17 full time equivalents which I consider provides an adequate level of staffing resource. However, it is important to note that the Unit currently has vacancies which will impact on the delivery of the Audit Plan and, particularly in the short term, places increased pressures on the Unit's existing resources. The Unit continues to provide a full range of Audit services using only in-house staff, including the specialist areas of investigative, information security, computer forensic and IT Audit work.

DERBYSHIRE AUDIT SERVICES
INTERNAL AUDIT PLAN 2019/20

The information summarised below by Service Department identifies the work approved and actual time spent for the period ending 31 March 2020.

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 Audit Assurance	Analysis of Recommendations				Recs Not Accepted	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
Corporate Projects													
• Workforce Development/ Succession Planning	H	20	-	4	-	-	-	-	-	-	-	-	-
• Cyber Security	H	30	-	-	-	-	-	-	-	-	-	-	-
• Audit of Corporate Culture	H	30	-	5	-	-	-	-	-	-	-	-	-
• Financial Resilience & Achievement of Budget Reductions	H	30	-	63	-	-	-	-	-	-	-	-	-
• New Delivery & Commissioning Models/Partnership Working	M/H	30	-	-	-	-	-	-	-	-	-	-	-
• SAP Utilisation	M/H	20	-	-	-	-	-	-	-	-	-	-	-
• Data Protection Compliance	M/H	25	-	1	-	-	-	-	-	-	-	-	-
• 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	-	36	5	1 Qualified 4 Other	-	2	4	4	-	2M, 1L	-
• emPSN (SCo & ICo)	M	8	-	2	-	-	-	-	-	-	-	-	-
• Grants Administration	M	15	-	-	-	-	-	-	-	-	-	-	-
Corporate Governance including:-													
• Embedding Corporate Governance	H	40	-	67	-	-	-	-	-	-	-	-	-

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

Key to Recommendations: C – Critical, H – High, M – Medium, L - Low 51

Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Audit Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
• Business Continuity Planning	H	20	10	14	1	Limited	-	13	4	3	-	4H,2M	Memo relates to 2018/19.
• Corporate Health Check	H	20	-	-	-	-	-	-	-	-	-	-	
• Information Governance Group and Support	H	30	1	27	-	-	-	-	-	-	-	-	
• Services to Members	H	25	-	17	-	-	-	-	-	-	-	-	
Corporate Fraud Prevention	H	460	185	192	5	-	-	-	-	-	-	-	This includes work on <ul style="list-style-type: none"> • NFI; • publication of NAFN alerts; • surveillance and data communications compliance; • liaison with external audit; 8 investigations 5 of which relate to previous years including liaison with the Police. Special Investigation Report recommendations are not categorized.
Audit Contingency	-	-	-	-	-	-	-	-	-	-	-	-	Original contingency was 150 days.
Impact of Coronavirus	-	30	-	16	-	-	-	-	-	-	-	-	Additional Audit Projects and support to Senior Management due to the impact of the coronavirus pandemic. *30 days transferred from contingency
TOTAL		898	196	444	12		-	17	8	8	-	9	

Commissioning, Communities and Policy

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

Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Audit Assurance	Analysis of Recommendations				Recs Not Accepted	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
Departmental Review - Management & Administration	M	60	3	58	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	39	5	3 Qualified 2 Other	-	3	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.
Themed and Operational													
• Community Safety	M/H	20	-	11	-	-	-	-	-	-	-	-	-
• Trading Standards	M/H	20	-	19	1	Qualified	-	2	2	4	1H,1M,4L	1H,1L	-
• Public Library Service	M/L	5	-	2	-	-	-	-	-	-	-	-	-
Divisional Activity													
Corporate Finance													
Probity and Compliance	M/H	95	-	39	7	Qualified	-	6	15	8	1L	1M,4L	-
Major Systems	H	280	25	191	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, Accounts Receivable, Accountancy and Budgetary Control and Treasury Management reported in year.

Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Audit Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
Corporate/Departmental ICT Services	M/H	90	30	44	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>
County Property	M/H	20	-	-	-	-	-	-	-	-	-	-	-
Regulatory Registration Service	M/L	20	-	-	-	-	-	-	-	-	-	-	-
TOTAL		665	59	417	25		1	44	93	48	17	45	

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		No of Reports	Level of Audit Assurance	Analysis of Recommendations				Recs Not Accepted	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
Departmental Review - Management & Administration	M	60	2	62	1	Qualified	-	8	8	7	1H	1H,6M,1L	Memo relates to 2018/19. *15 days transferred from contingency.
Information Security Reviews	M/H	40		44	5	4 Qualified 1 Other	-	2	10	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	252	27	24 Qualified 3 Limited	1	172	249	218	9H,14M,16L	69H,94M,31L	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 Council. *20 days transferred from contingency.
Secondary	M/H	49	-	49	5	Qualified	-	33	50	38	1H,5M,2L	24H,14M,6L	-
Information Security Reviews	M/H	60	8	15	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	-	17	3	Qualified	-	11	11	5	1H	4H,7M	-
Derbyshire Outdoors	M/L	10	-	-	-	-	-	-	-	-	-	-	-

Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Audit Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
Themed & Operational													
• Starting Point	H	20	-	31	-	-	-	-	-	-	-	-	-
• Early Years	H	25	-	27	3	2 Qualified 1 Other	-	7	10	6	-	4L	-
• Catering Service	M/H	40	-	42	1	Qualified	-	11	9	7	-	4H,2M	*15 days transferred from contingency.
• Troubled Families Programme	L	30	4	62	8	Other	-	-	-	-	-	-	-
TOTAL		578	25	601	55		1	248	353	282	50	267	

Adult Social Care and Health

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

Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Audit Assurance	Analysis of Recommendations				Recs Not Accepted	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
Departmental Review - Management & Administration	M	60	1	83	1	Qualified	-	6	8	7	1L	2H,2M,3L	Memo relates to 2018/19. *15 days transferred from contingency.
Public Health	M/H	30	31	-	1	Qualified	-	6	4	6	-	1M,2L	Memo relates to 2018/19. Issued as Final without all Management responses.
Information Security Reviews	M/H	70	65	25	11	6 Qualified 5 Limited	-	23	26	-	-	-	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.
Page 5 of 5 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 Council.
Physical/Mental Disability	M/H	24	-	5	1	Qualified	-	1	6	4	-	2H,3M,1L	-
Day Care & Hostels	M/H	12	-	8	1	Qualified	-	1	6	2	-	3H,1M,1L	-
Community Care Centres	M/H	16	-	4	1	Qualified	-	1	4	3	-	-	-
Themed & Operational													
• Direct Payments	H	25	-	-	-	-	-	-	-	-	-	-	-
• Reduction in Clinical Commissioning Group Spending	H	25	-	22	1	Qualified	-	4	4	-	-	-	-
• Transforming Care Plan	H	30	27	-	1	Qualified	-	6	5	2	-	-	Memo relates to 2018/19. Issued as Final without all Management responses. *30 days transferred from contingency.

Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Audit Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
• Deputyship	M/H	25	-	21	-	-	-	-	-	-	-	-	-
• Private Residential Care	M/H	25	-	9	-	-	-	-	-	-	-	-	-
TOTAL		378	134	197	22		-	70	80	36	2	42	

Economy, Transport and Environment

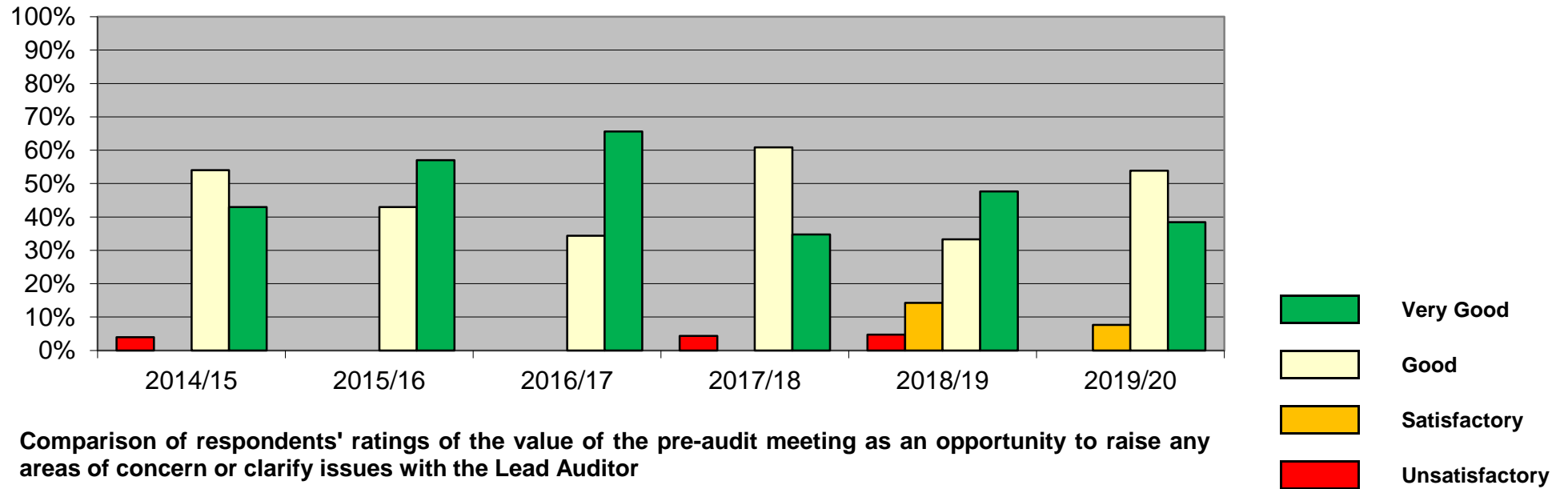
It is intended to spend **150** days on the Audit of the Economy, Transport and Environment Department which will be allocated over the following areas:-

Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Audit Assurance	Analysis of Recommendations				Recs Not Accepted	Recs Not Implmtd	Comments
			18-19	19-20			C	H	M	L			
Departmental Review - Management & Administration	M	60	44	72	1	Qualified	-	4	15	9	1L	3H,6M, 3L	Memo relates to 2018/19. <i>*15 days transferred from contingency.</i>
Information Security Reviews	M/H	15	-	17	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	-	31	1	Qualified	-	2	9	4	-	1H	-
• Concessionary Fares	M/H	25	-	-	-	-	-	-	-	-	-	-	-
• Grants	M/H	15	-	25	6	Other	-	-	-	-	-	-	-
• Inspection and Control of Highways Assets	M/H	-	-	2	-	-	-	-	-	-	-	-	Project included in 2020-21 Audit Plan.
TOTAL		165	44	148	10		-	8	26	13	1	13	

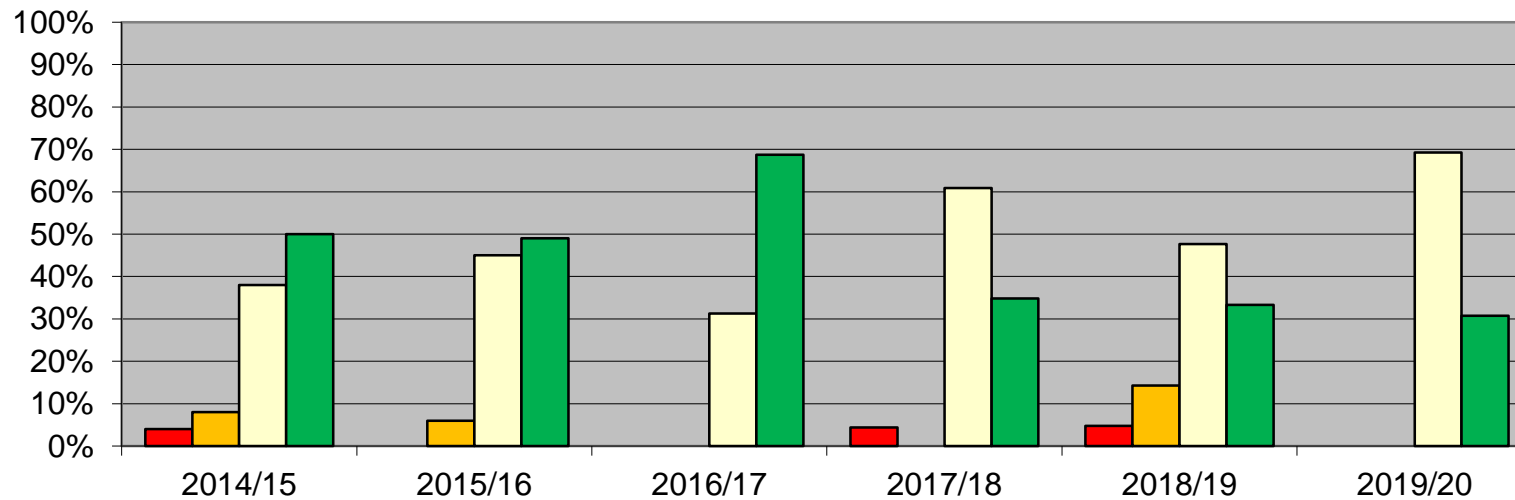
Preparation for and Administration of the Audit Process

Appendix 2

Comparison of repondents' ratings of the value of the pre-audit meeting in respect of providing a brief overview of the Audit and its expected outcomes



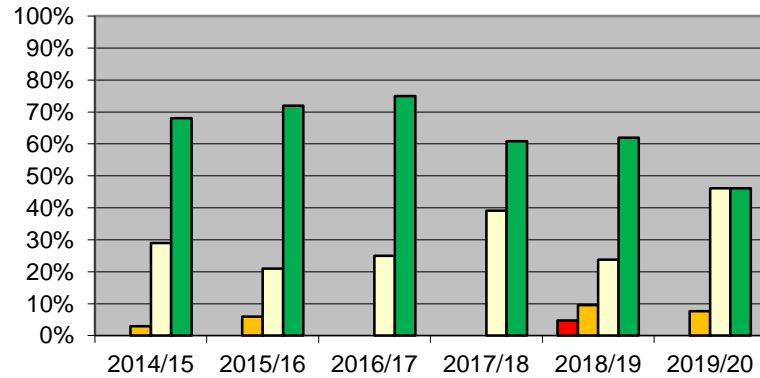
Comparison of respondents' ratings of the value of the pre-audit meeting as an opportunity to raise any areas of concern or clarify issues with the Lead Auditor



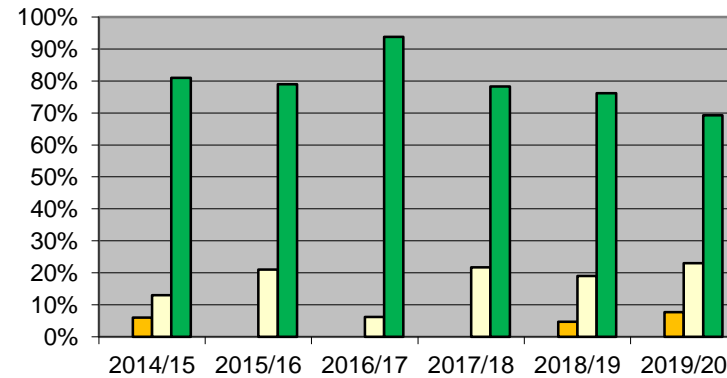
Professionalism and Relevance of the Audit Product

Appendix 2

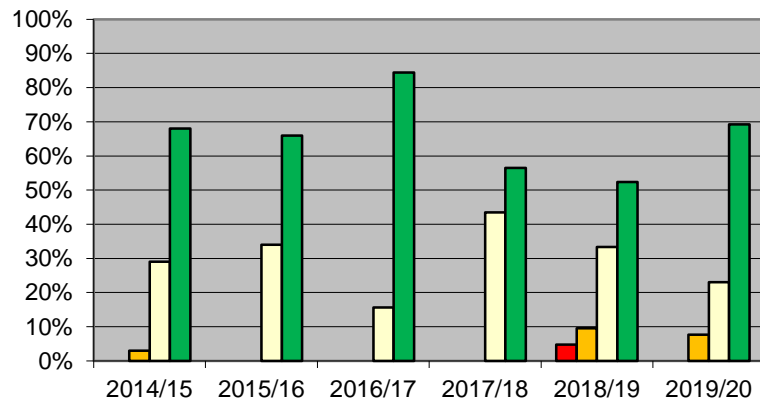
Comparison of respondents' ratings of Auditors' understanding and knowledge of the systems, procedures and key risks of the Audit areas



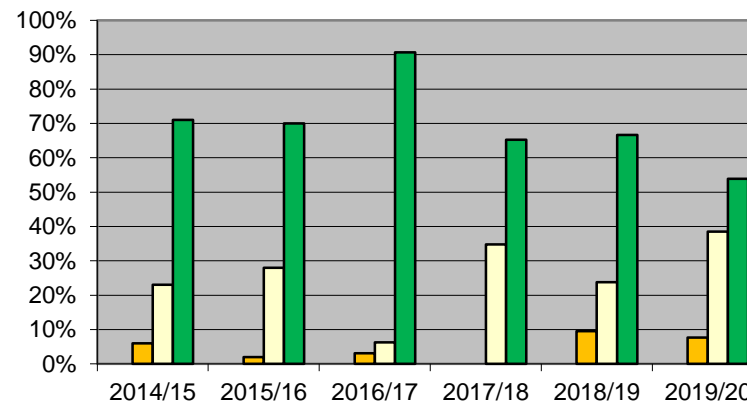
Comparison of respondents' ratings of Auditors' professionalism



Comparison of respondents' ratings of Auditor conduct in terms of minimisation of disruption



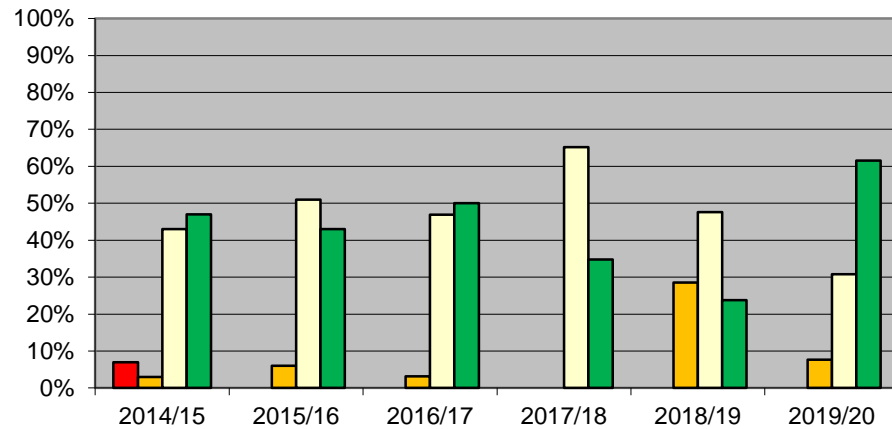
Comparison of respondents' rating of Auditors' communication skills



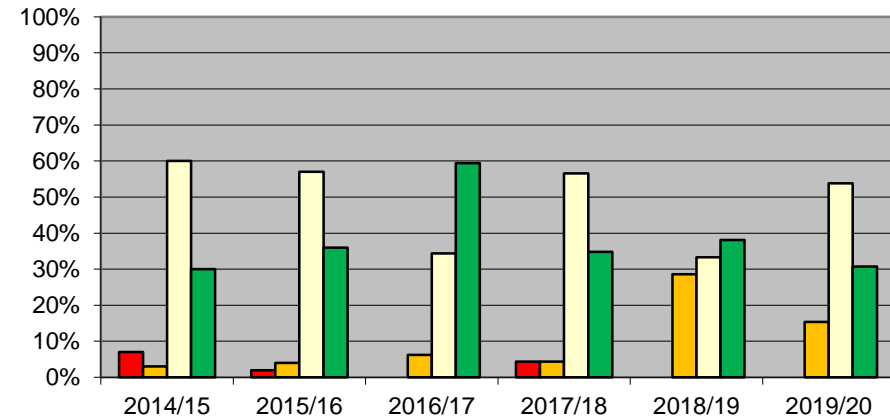
Overall Perception of Value Added and Assurance Provided by the Audit Outcome

Appendix 2

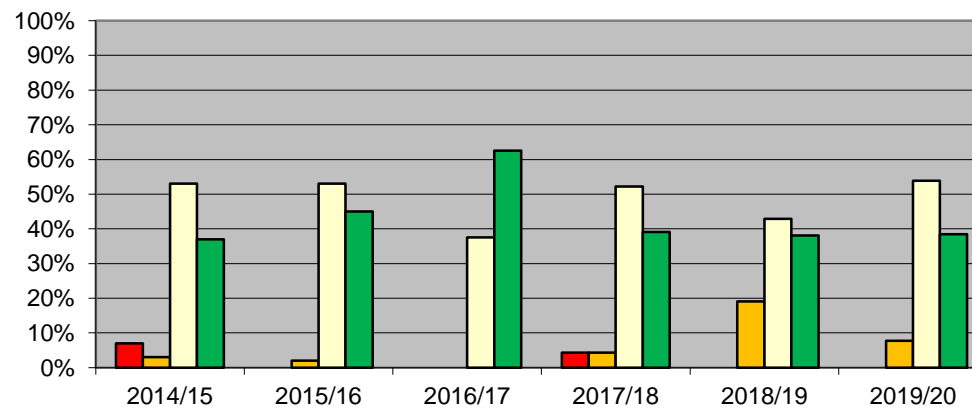
Comparison of respondents' ratings of the Audit Memorandum in terms of its clarity and factual accuracy



Comparison of respondents' ratings of the value, significance and practicality of findings in the Audit Memorandum



Comparison of respondents' ratings of the Audit Memorandum in providing assurance of the overall level / adequacy of controls in operation and the proper administration of the areas reviewed by the Audit



Summary of Reports and Memoranda Issued 2019-20**Appendix 3**

Audit Area	Audit Location	Previous Level of Assurance	Level of Assurance 2019-20	Direction of Travel
Corporate Activities				
Corporate Projects	CO002 Business Continuity Planning	Qualified	Limited	↓
Corporate Projects	VP044 D2N2 LEP	Qualified	Qualified	↔
Corporate Projects	VP044 D2N2 LEP x 4	NA	NA	
Corporate Projects	VP061 Injury to the Public or Employees	NA	Qualified	↔
Corporate Fraud Prevention	ZZ921 Special Investigation	NA	NA	↔
Corporate Fraud Prevention	ZZ923 Special Investigation x 2	NA	NA	↔
Corporate Fraud Prevention	ZZ924 Special Investigation	NA	NA	↔
Corporate Fraud Prevention	ZZ926 Special Investigation	NA	NA	↔

Commissioning, Communities and Policy Department				
Departmental Review	CA100 CCP	Qualified	Qualified	↔
Grant Reviews	CA102 Bus Services x 2	NA	NA	↔
Grant Reviews	CA102 Arts Council	NA	NA	↔
Information Security Review	DK124 Coroners Case Management	NA	Qualified	↔
Information Security Review	DK180 IT Security and Audit Services (Pen Testing)	NA	Qualified	↔
Information Security Review	DK840 My Jobs Mobile App (Property Services)	NA	NA	↔
Information Security Review	DK917 County Pension System IConnect(CCP)	NA	Qualified	↔
Information Security Review	DK917 County Pension System	NA	NA	↔
Operational Projects	CO005 Trading Standards	Qualified	Qualified	↔
Probity & Compliance Reviews	DE101 Cash Audit & ISO 27001 Visits	NA	Qualified	↔
Probity & Compliance Reviews	DE101 Cash Audit & ISO 27001 Visits	NA	Qualified	↔
Probity & Compliance Reviews	DE101 Cash Audit & ISO 27001 Visits	NA	Qualified	↔
Probity & Compliance Reviews	DE101 Cash Audit & ISO 27001 Visits	NA	Qualified	↔
Probity & Compliance Reviews	DE101 Cash Audit & ISO 27001 Visits	NA	Qualified	↔
Probity & Compliance Reviews	DE101 Cash Audit & ISO 27001 Visits	NA	Qualified	↔

Audit Area	Audit Location	Previous Level of Assurance	Level of Assurance 2019-20	Direction of Travel
Probity & Compliance Reviews	DE101 Cash Audit & ISO 27001 Visits	NA	Qualified	↔
Major Systems	MB100 Human Resources Management	Qualified	Qualified	↔
Major Systems	MC100 Accounts Payable	Substantial	Qualified	↓
Major Systems	ME100 Accounts Receivable	Qualified	Substantial	↑
Major Systems	MG100 Accountancy & Budgetary Control	Substantial	Qualified	↓
Major Systems	ML100 Treasury Management	Qualified	Substantial	↑
Corporate/Dept IT Systems	DK181 Surveillance Camera Code of Practice	NA	Limited	↔
Corporate/Dept IT Systems	DK888 Bacs Payment System Review (CCP)	Qualified	Limited	↓
Corporate/Dept IT Systems	DK923 Corporate Database	NA	Qualified	↔

Children's Services				
Departmental Review	AA001 Children's Services	Qualified	Qualified	↔
Information Security Review	DK142 Early Years MIS	NA	Qualified	↔
Information Security Review	DK152 Childrens Accommodation Support	NA	Qualified	↔
Information Security Review	DK178 Epep x 2	NA	NA	↔
Information Security Review	DK184 SEN Child Assessment	NA	Qualified	↔
Information Security Review	DK147 Wonde (SCH)	NA	Qualified	↔
Information Security Review	DK160 Evolve SCH)	NA	Qualified	↔
Establishments - Schools	AC004 Bakewell Infant	Substantial	Qualified	↓
Establishments - Schools	AC006 Bamford Primary	Qualified	Qualified	↔
Establishments - Schools	AC009 Bradwell Junior	Qualified	Qualified	↔
Establishments - Schools	AC036 Grindleford	Qualified	Qualified	↔
Establishments - Schools	AC054 Earl Sterndale	Qualified	Qualified	↔
Establishments - Schools	AC056 St Michaels Hathersage	Qualified	Qualified	↔
Establishments - Schools	AC057 Hayfield Primary	Qualified	Qualified	↔

Audit Area	Audit Location	Previous Level of Assurance	Level of Assurance 2019-20	Direction of Travel
Establishments - Schools	AC066 Marston Montgomery	Qualified	Qualified	↔
Establishments - Schools	AC073 Matlock Bath	Qualified	Limited	↓
Establishments - Schools	AC079 Tansley	Qualified	Qualified	↔
Establishments - Schools	AC081 New Mills	Substantial	Qualified	↓
Establishments - Schools	AC107 Youlgrave All Saints	Qualified	Qualified	↔
Establishments - Schools	AC115 Bolsover Infant & Nursery	Qualified	Limited	↓
Establishments - Schools	AC118 Brockley	Qualified	Qualified	↔
Establishments - Schools	AC126 Spire Infants	Qualified	Qualified	↔
Establishments - Schools	AC129 Brockwell Jnr	Qualified	Qualified	↔
Establishments - Schools	AC131 Cavendish junior	Qualified	Qualified	↔
Establishments - Schools	AC145 St Marys	Qualified	Qualified	↔
Establishments - Schools	AC153 Clowne Jnr	Qualified	Limited	↓
Establishments - Schools	AC168 Marsh Lane	Qualified	Qualified	↔
Establishments - Schools	AC180 Morton	Qualified	Qualified	↔
Establishments - Schools	AC189 Scarcliffe	Qualified	Qualified	↔
Establishments - Schools	AC193 Brookfield	Qualified	Qualified	↔
Establishments - Schools	AC207 Hollingwood Primary	Qualified	Qualified	↔
Establishments - Schools	AC260 Coppice	Qualified	Qualified	↔
Establishments - Schools	AC313 St Johns	Qualified	Qualified	↔
Establishments - Schools	AC418 Egginton	Qualified	Qualified	↔
Establishments - Schools	AD005 Buxton	Qualified	Qualified	↔
Establishments - Schools	AD023 Whittington Green School	Qualified	Qualified	↔
Establishments - Schools	AD024 Hasland Hall	Qualified	Qualified	↔
Establishments - Schools	AD034 Dronfield Henry Fanshawe	Qualified	Qualified	↔

Audit Area	Audit Location	Previous Level of Assurance	Level of Assurance 2019-20	Direction of Travel
Establishments - Schools	AD042 Tibshelf Community	Qualified	Qualified	↔
Establishments - Other	AF012 Spire Lodge	Qualified	Qualified	↔
Establishments - Other	AF015 Fairview	Limited	Qualified	↑
Establishments - Other	AF020 Hill View (Peak Lodge)	Qualified	Qualified	↔
Operational Projects	AO007 Early Years	Qualified	Qualified	↔
Operational Projects	AO007 Early Years	NA	Qualified	↔
Operational Projects	AO007 Early Years	NA	NA	↔
Operational Projects	AO024 Catering Service	Limited	Qualified	↑
Grants	AO013 Troubled Families Programme x 8	NA	NA	↔

Adult Social Care and Health Department				
Departmental Review	Adult Social Care and Health	Qualified	Qualified	↔
Departmental Review	BD001 Public Health	Qualified	Qualified	↔
Information Security Review	DK150 Deaf Communication Support Service	NA	Qualified	↔
Information Security Review	DK161 Provision of Advisory Services - CAB	NA	Qualified	↔
Information Security Review	DK162.1 Sexual Health - Pharmacy Visits	NA	Limited	↔
Information Security Review	DK162.2 Sexual Health - Women	NA	Limited	↔
Information Security Review	DK162.3 Accredited Provider Activity Payment System	NA	Limited	↔
Information Security Review	DK173 Dementia Support	NA	Qualified	↔
Information Security Review	DK174 Rehab Visually Impaired	NA	Qualified	↔
Information Security Review	DK175 Home from Hospital	NA	Limited	↔
Information Security Review	DK176 Home Improvement Agency	NA	Qualified	↔
Information Security Review	DK182 Derbyshire Direct Payment	NA	Qualified	↔
Information Security Review	DK183 DD Payroll Services	NA	Limited	↔
Establishments - Other	BB017 Gernon Manor	Qualified	Qualified	↔
Establishments - Other	BB026 The Leys	Qualified	Qualified	↔
Establishments - Other	BB039 The Spinney	Qualified	Qualified	↔

Audit Area	Audit Location	Previous Level of Assurance	Level of Assurance 2019-20	Direction of Travel
Establishments - Other	BB050 Castle Court	Substantial	Qualified	↓
Establishments - Other	BG007 Parkwood Centre	Qualified	Qualified	↔
Establishments - Other	BJ011 Queens Court	Qualified	Qualified	↔
Establishments - Other	BU002 Morewood	Substantial	Qualified	↓
Operational Projects	BO023 Transforming Care Plan	NA	Qualified	↔
Operational Projects	BO025 Reduction in CCG Spending	NA	Qualified	↔

Economy, Transport and Environment Department				
Departmental Review	HA100 Economy, Transport and Environment	Qualified	Qualified	↔
Information Security Review	DK141 Def Software Ltd Testing	NA	Qualified	↔
Information Security Review	DK163 Fuel Management System	NA	Qualified	↔
Operational Projects	HO005 Planning Responsibilities	Qualified	Qualified	↔
Grant Reviews	HO026 Local Transport Capital Funding Grant x 3	NA	NA	↔
Grant Reviews	HO029 Highways Hub x 3	NA	NA	↔

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DERBYSHIRE COUNTY COUNCIL**AUDIT COMMITTEE MEETING****22 September 2020****Report of the Assistant Director of Finance (Audit)****AUDIT SERVICES UNIT – PROGRESS AGAINST AUDIT PLAN 2020-21****1. Purpose of Report**

To inform Members of progress against the approved Audit Plan for 2020-21 as at 31 August 2020.

2. Information & Analysis

At the meeting of this Committee held on 27 May 2020 Members approved the Audit Plan for 2020-21 which had been formulated from our risk assessment drawn from a wide range of sources including the Council Plan, the Council's strategic risk register, Departmental risk registers, service plans and meetings with Executive Directors and Directors. These meetings included the Executive Director of Commissioning, Communities and Policy (Head of Paid Service), Director of Finance & ICT (Section 151 Officer) and Director of Legal and Democratic Services (Monitoring Officer).

In accordance with the Audit Committee's Terms of Reference this report updates Members on progress against the Plan for the five months to 31 August 2020 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.

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.

Coronavirus

At the Audit Committee's meeting on 27 May 2020 it was reported that the coronavirus pandemic was having far reaching effects across the world, some of which would continue for a number of years. The current situation is unparalleled and there are a significant number of factors which have had an impact on the proposed Audit Services Plan for 2020-21 including:-

- Timing of Audit work;
- Additional, unplanned work;
- Potential impact of frauds, scams and errors;
- Home working and social distancing;
- Access to records;
- Access to premises;
- Return to business as usual.

The impact of these restrictions on the Audit Services Plan are identified, quantified and included in this progress report to Audit Committee. Audit resources will be targeted at the highest levels of risk but also directed to achieve a broad range of coverage across the Council's activities. Six months have now elapsed since the start of lockdown and it is still not possible to determine if, how and when the Council's services will return to normal.

Timing of Audit Work

The timing of Audit work and engagement of Departmental Management and staff are always significant factors to consider when planning Audit reviews. Currently, and particularly in the early weeks of the lockdown, there were pressures on the Council and Senior Management to fulfil additional responsibilities whilst continuing existing service provision. This situation, together with the majority of staff working remotely, make it difficult or impossible for the Unit to progress some planned Audit work.

Additional, Unplanned Work

Due to changed working arrangements it has been necessary for the Council to consider new systems or changes to existing systems. Audit staff continue to support Senior Management by providing advice and guidance in order to ensure that governance and control systems remain effective, and discharge those responsibilities required of the Audit Services Unit by Financial Regulations and Standing Orders relating to Contracts.

In addition, as the Unit has not been able to progress planned projects staff have been deployed in "deep dives" to review specific areas of risk in greater detail e.g. checks on potential duplicate payments and directorships. The results of this work continue to be reported to Senior Management on completion.

Potential Impact of Frauds, Scam and Errors

During the immediate aftermath of the lockdown fraudsters sought to take advantage of the situation that organisations and staff were working in changed circumstances and sought to exploit any vulnerabilities. Action Fraud reported coronavirus related frauds increased by 400% in March 2020.

Audit Services acted swiftly to build on our established systems to distribute intelligence received relating to potential frauds and scams and will, of course, continue to assist in safeguarding the Council against such risks.

Home Working and Social Distancing

The majority of Council staff continue to work from home and the Unit is using systems, including Microsoft Teams and Skype, to arrange discussions and virtual meetings to progress Audit work. Whilst these arrangements have been successful to a degree they do have limitations.

Access to Records

In the majority of cases records required by Audit to support our work are computerised and accessible remotely with appropriate permissions. However, there are still a number of paper based systems and records which are not easily accessible when working at home.

Access to Premises

Whilst schools have reopened Audit staff are currently unable to visit them and other establishments due to the risk of transmitting infection between staff and, in some cases, residents. During recent years the Unit has increased the amount of information it gathers before a school Audit to reduce the impact on school staff on the day of the visit. Our approach to school Audits has been reviewed and it will be possible to undertake elements of testing remotely and via communication platforms such as Microsoft Teams. It is anticipated that Audit reviews of schools will be undertaken this way, and that visits to any premises will not now be resumed before the end of this calendar year.

Return to Business as Usual

Following the immediate impact of the lockdown it was necessary for Executive Directors to make urgent decisions using emergency powers, in accordance with guidance issued by the Director of Legal and Democratic Services. Such decisions are recorded in a separate record.

The Council and Senior Management, whilst still dealing with the impact of the coronavirus pandemic, have moved towards business as usual although the systems and processes to support such working have changed in some cases. Consequently business as usual will be different following the pandemic.

Audit Services will review the effectiveness of systems to support emergency decision making and assist the return to business as usual. It will be necessary to ensure that established, robust control frameworks are not compromised but acknowledge that some changes made could provide lasting benefits and efficiencies. This will bring challenges for Audit Services and I will continue to actively shape the work of the Unit to be able to meet the new normal.

Staffing

The considerable and continuing pressures placed on the Unit's staffing resources have been reported to Audit Committee on a regular basis. It is positive to be able to report that, with the exception of a vacant Senior Auditor

post, all other posts are currently occupied. In respect of the Senior Auditor post, an offer had been made and accepted by a candidate who later withdrew when their contract was issued. It is intended to advertise and recruit to this post shortly. In addition, the Unit's levels of sickness absence remains higher than estimated and whilst staff attendance continues to be managed in accordance with the Council's Policies, this situation has also had an impact on available days to deliver the Audit Plan.

External Review of Internal Audit

Following the conclusion of the external review of Audit Services by the Chartered Institute of Public Finance and Accountancy's consultancy service, C.Co, the review's findings were considered and a report was presented to the Audit Committee's meeting on 27 May 2020. This report detailed the Unit's response to those areas identified as advisory opportunities to enhance the internal audit service. As a result the Audit Services Key Performance Indicators were revised.

Monitoring and Delivery of the Audit Services Plan

The delivery of Audit work is routinely monitored on a weekly basis by Senior Audit Management and progress against the Audit Services Plan is regularly reported to the Audit Committee. It is essential that the Audit Services Plan can continue to respond to changing and emerging threats to the Council's governance, control and risk management framework.

Where planned Audit activity does not take place Senior Management may wish to seek or build upon other forms of assurance and accept a higher level of risk.

The achievement of the Audit Services Plan and output from Audit work will inform the annual Audit Opinion provided by the Assistant Director of Finance (Audit), as Head of Internal Audit.

At 31 August 2020 1,122 productive days have been delivered against the pro-rata target of 1,202 days (total planned days for 2020-21 is 2,884). This includes 388 days deployed on projects not specifically included in the original Audit Plan.

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 2020/21

The information summarized below by Service Department identifies the work approved and actual time spent for the period ending 31 August 2020.

Corporate Activities

It is intended to spend **1,060** 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
			19-20	20-21			C	H	M	L			
Corporate Projects													
• Workforce Development/ Succession Planning	H	30	5	1	-	-	-	-	-	-	-	-	-
• Cyber Security	H	30	-	-	-	-	-	-	-	-	-	-	-
• Audit of Corporate Culture	H	30	-	-	-	-	-	-	-	-	-	-	-
• Climate Change	H	30	-	-	-	-	-	-	-	-	-	-	-
• Major Incident Response	M/H	30	-	-	-	-	-	-	-	-	-	-	-
• Maintenance of Council Properties	M/H	30	-	37	-	-	-	-	-	-	-	-	-
New Delivery & Commissioning Models/Partnership Working	M/H	30	-	-	-	-	-	-	-	-	-	-	-
• Data Protection Compliance	M/H	20	-	30	-	-	-	-	-	-	-	-	-
• Supply Chain Failure	M/H	20	-	9	-	-	-	-	-	-	-	-	-
• Health and Safety & Wellbeing	M/H	20	-	5	-	-	-	-	-	-	-	-	-
• Serious and Organised Crime	M/H	10	-	1	1	Other	-	-	-	-	-	-	-
• D2N2 LEP	M	50	-	19	1	Other	-	-	-	-	-	-	-
• emPSN (SCo & ICo)	M	5	-	-	-	-	-	-	-	-	-	-	-
• Financial Resilience & Achievement of Budget Reductions	H	-	2	-	1	Qualified	-	3	12	6	1H,1M	1H,5M, 3L	Memo relates to 2019/20.

Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
			19-20	20-21			C	H	M	L			
Corporate Governance including:- • Embedding Corporate Governance • Business Continuity Planning • Corporate Health Check • Information Governance Group and Support • Services to Members	H	40	12	20	1	Qualified	-	-	-	-	-	-	Referred to individual schools
	H	20	-	3	1	Limited	1	2	1	-	-	5H,1M,1L	Memo relates to 2019/20.
	H	20	-	-	-	-	-	-	-	-	-	-	-
	H	20	-	24	-	-	-	-	-	-	-	-	-
	H	-	17	-	1	Qualified	-	12	11	5	-	2H,5M,2L	Memo relates to 2019/20.
Corporate Fraud Prevention	H	425	25	29	2	-	-	-	-	-	-	-	This includes work on • NFI; • publication of NAFN alerts; • surveillance and data communications compliance; • liaison with External Audit; • Special Investigations; • Raising Fraud Awareness.
Audit Contingency	-	200	-	-	-	-	-	-	-	-	-	-	-
TOTAL		1,060	61	178	8		1	17	24	11	2	25	

Commissioning, Communities and Policy

It is intended to spend **705** days on the Audit of the Commissioning, Communities and Policy Department which will be allocated over the following areas:-

Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
			19-20	20-21			C	H	M	L			
Departmental Review - Management & Administration	M	60	8	14	1	Qualified	-	6	12	8	1H,1M,1L	2H,5M,8L	Memo relates to 2019/20.
External Grants & Certifications	M/H	10	-	2	-	-	-	-	-	-	-	-	-
Information Security Reviews	M/H	45	-	12	2	1 Qualified 1 Other	-	3	2	-	-	-	New and enhanced IT systems which require approval by the Director of Finance & ICT. IT solution testing and head office visits to ensure systems incorporate core data protection principles, and do not compromise the Council's ISO27001 accreditation in accordance with the requirements of the protocol developed with the Director of Finance & ICT.
Themed and Operational	M/H	25	-	-	-	-	-	-	-	-	-	-	-
Implementation of ICT Strategy	M/H	25	-	-	-	-	-	-	-	-	-	-	-
• Communications and Call Derbyshire	M/H	25	-	-	-	-	-	-	-	-	-	-	-
• Democratic Services	M	25	-	-	-	-	-	-	-	-	-	-	-
• Public Library Service	M/L	5	-	-	-	-	-	-	-	-	-	-	-
• Community Safety	M/H	-	13	-	1	Qualified	-	1	9	1	1M	4M,1L	Memo relates to 2019/20.
Divisional Activity													
Corporate Finance													
Major Systems	H	285	28	80	5	3 Substantial 2 Qualified	-	6	25	25	4M,2L	5H,7M,2L	Due to the nature of these key reviews they are routinely work in progress at the year end. Work on Human Resources, Accounts Payable, Procurement, Funds Management and Treasury Management reported in year. Memos relates to 2019/20.
Probity and Compliance	M/H	95	62	-	2	Qualified	-	3	12	6	3M,3L	1H,2M	HM Revenue & Customs Compliance and Pensions Administrations Reviews. Memos relate to 2019/20.

Audit Area	Level of Risk	Plan Days	Actual Days		No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
			19-20	20-21			C	H	M	L			
Corporate/Departmental ICT Services	M/H	90	22	23	-	-	-	-	-	-	-	-	Work includes assessments of new and existing IT systems together with specific reviews of the Business Continuity Planning, Systems Development Controls, BACS and Systems Interfaces.
County Property	M/H	20	-	-	-	-	-	-	-	-	-	-	-
Regulatory Registration Service	M/L	20	-	-	-	-	-	-	-	-	-	-	-
TOTAL		705	133	131	11		-	19	60	40	16	37	

Children's Services

It is intended to spend **650** 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 19-20 20-21		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	7	4	1	Qualified	-	7	11	9	1L	6H,6M, 3L	Memo relates to 2019/20.
Information Security Reviews	M/H	35	1	2	1	Qualified	-	-	3	-	-	-	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. Memo relates to 2019/20.
Schools													
Nursery, Primary & Special	M/H	348	-	15	-	-	-	-	-	-	-	-	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 Council.
Secondary	M/H	56	-	-	-	-	-	-	-	-	-	-	-
Information Security Reviews	M/H	35	4	6	2	Qualified	-	-	-	-	-	-	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. 1 Memo relates to 2019/20.
Children's Homes	M/H	16	-	-	-	-	-	-	-	-	-	-	-
Derbyshire Outdoors	M/L	10	-	-	-	-	-	-	-	-	-	-	-
Themed & Operational													
• Use of Personal Budgets and Children with SEND	H	25	-	20	-	-	-	-	-	-	-	-	-
• Adult Community Education	M/H	25	-	32	-	-	-	-	-	-	-	-	-

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
			19-20	20-21			C	H	M	L			
• Derbyshire Music Partnership	M/L	25	-	-	-	-	-	-	-	-	-	-	-
• Troubled Families Programme	M/L	30	-	16	3	Other	-	-	-	-	-	-	Grant Claims
• Starting Point	H	-	2	-	1	Qualified	-	8	6	2	1L	3H,1M,2L	Memo relates to 2019/20.
TOTAL		650	14	95	8		-	15	20	11	2	21	

Adult Social Care and Health

It is intended to spend **299** days on the Audit of the Adult Social Care and Health 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
			19-20	20-21			C	H	M	L			
Departmental Review - Management & Administration	M	45	-	4	1	Qualified	-	7	7	9	-	5H,4M,3L	Memo relates to 2019/20.
Public Health	M/H	25	-	-	-	-	-	-	-	-	-	-	-
Information Security Reviews	M/H	70	1	7	2	Limited	-	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. Memos relates to 2019/20.
Social Care													
Elderly Residential	M/H	24	-	-	-	-	-	-	-	-	-	-	It should be noted that Audit opinions and recommendations made relating to establishments are categorized in relation to the establishment and not the Council.
Physical/Mental Disability	M/H	24	-	-	-	-	-	-	-	-	-	-	
Day Care & Hostels	M/H	20	-	-	-	-	-	-	-	-	-	-	
Community Care Centres	M/H	16	-	-	-	-	-	-	-	-	-	-	
Themed & Operational													
• Review of Quality Assurance Framework	H	25	-	2	-	-	-	-	-	-	-	-	-
• Direct Payments	H	25	-	4	-	-	-	-	-	-	-	-	-
• Delayed Transfers of Care and Data Accuracy	M/H	25	-	19	-	-	-	-	-	-	-	-	-
• Deputyship	M/H	-	17	-	1	Qualified	-	4	7	4	-	4H,1M	Memo relates to 2019/20.
• Private Residential Care	M/H	-	6	-	-	-	-	-	-	-	-	-	Relates to 2019/20 Audit Plan.

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

Key to Recommendations: C – Critical, H – High, M – Medium, L - Low 8

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
			19-20	20-21			C	H	M	L			
• Emergency Response and Service Continuity	M	-	-	2	-	-	-	-	-	-	-	-	Follow-Up Review – Not in original Audit Plan.
TOTAL		299	24	38	4		-	16	15	13	-	17	

Economy, Transport and Environment

It is intended to spend **170** 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
			19-20	20-21			C	H	M	L			
Departmental Review - Management & Administration	M	45	29	3	1	Qualified	-	5	13	9	1M,1L	4H,6M,1L	Memo relates to 2019/20.
Information Security Reviews	M/H	15	2	10	2	Qualified	-	-	6	-	-	-	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. 1 Memo relates to 2019/20.
• Public Transport and Procurement of Taxis (including Vetting of Contractors)	M/H	25	-	-	-	-	-	-	-	-	-	-	-
• Waste Management	M/H	25	-	-	-	-	-	-	-	-	-	-	-
• Inspection and Control of Highways Assets	M/H	25	4	-	-	-	-	-	-	-	-	-	-
• Concessionary Fares	M/H	20	-	-	-	-	-	-	-	-	-	-	-
• Grants	M/H	15	-	12	-	-	-	-	-	-	-	-	-
TOTAL		170	35	25	3		-	5	19	9	2	11	

Additional Unplanned Work (As reported to Audit Committee on 27 May 2020) – (See analysis on page 14)

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
			19-20	20-21			C	H	M	L			
Audit Management Support	M/H	-	-	53	-	-	-	-	-	-	-	-	-
Departmental Audit Support	M/H	-	-	18	-	-	-	-	-	-	-	-	-
Individual Unplanned Projects relating to the Council's Activities:-													
<div>Page 120</div> <ul style="list-style-type: none"> • Duplicate Payments (VfM) 	M	-	-	20	1	Substantial	-	-	-	-	-	-	539,000 Council invoices analysed. No duplicates identified based on criteria including supplier, amount and date of invoice. 174,000 school invoices analysed. Potential duplicate payments identified of £16,943.59.
<ul style="list-style-type: none"> • Photocopier Charges (VfM) 	M	-	-	11	-	-	-	-	-	-	-	-	Review of photocopier charges in accordance with the Council's current contract provisions.
<ul style="list-style-type: none"> • Software Licencing (VfM) 	M	-	-	-	-	-	-	-	-	-	-	-	Assess current licensing arrangements across Departments to evaluate costs and use of licenses.
<ul style="list-style-type: none"> • Gas and Electricity Charges (VfM) 	M	-	-	2	-	-	-	-	-	-	-	-	Verify the Council's energy usage is registered with the correct supplier and billed in accordance with contract rates.
<ul style="list-style-type: none"> • Agency Staff Charges (VfM) 	M/H	-	-	-	-	-	-	-	-	-	-	-	Review the level and usage of agency staff. Assess governance arrangements in place with individual suppliers.
<ul style="list-style-type: none"> • Directorship Review (Gov) 	H	-	-	54	-	-	-	-	-	-	-	-	Utilising the publically available Companies House data match the information against staff declarations of personal interests.
<ul style="list-style-type: none"> • Network Access Procedure (IS) 	M/H	-	-	8	-	-	-	-	-	-	-	-	Review of staff network access against periods of leave to identify potential instances of user account compromise.
<ul style="list-style-type: none"> • CCTV Expenditure (VfM) 	M/L	-	-	3	-	-	-	-	-	-	-	-	Following the review of the Council's Surveillance Camera procedures (2019/20), assess CCTV charges across the Council.

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
			19-20	20-21			C	H	M	L			
• Recruitment & Selection Costs (VfM)	M	-	-	-	-	-	-	-	-	-	-	-	Assess the level of costs in accordance with the Council's approved Recruitment and Selection procedures.
• Hospitality Costs (VfM)	M	-	-	13	-	-	-	-	-	-	-	-	Assess the level of costs in accordance with the Council's procedures.
• Memberships & Subscriptions (VfM)	M/L	-	-	14	-	-	-	-	-	-	-	-	Review the nature and extent of costs relating to external memberships and subscriptions to professional bodies and other organisations etc.
• Core Finance System Access (IS)	M/H	-	-	-	-	-	-	-	-	-	-	-	Review of staff access to core finance system (SAP) against periods of leave to identify potential instances of user account compromise.
• Mosaic System Access (IS)	M/H	-	-	5	-	-	-	-	-	-	-	-	Review of staff access (Mosaic) against periods of leave to identify potential instances of user account compromise.
• Provisions for Suppliers and Contractors (Gov)	M/H	-	-	15	-	-	-	-	-	-	-	-	Review of payments to suppliers and contractors to ensure continuity of income and maintain further services.
• DfE Digital Devices for Disadvantaged Groups (Gov)	H	-	-	4	-	-	-	-	-	-	-	-	Assist Children's Services colleagues to implement robust controls for the management of the Department for Education (DfE) IT devices project.
• Covid 19 Returns & Executive Director Decisions (Gov)	H	-	-	28	-	-	-	-	-	-	-	-	Review of returns to MCHLG in respect of additional expenditure incurred by the Council due to Covid-19 and lost sales/income.
• Suppliers Registered with the ICO (IS)	M	-	-	7	-	-	-	-	-	-	-	-	Compare the publically available register of organisations from the Information Commissioner's Office (ICO) against the Council's Accounts Payable records to assess whether organisations that have been paid by the Authority are registered with the ICO where appropriate.
Unplanned projects relating to schools. Activities include the following reviews:-	M/H	-	-	133	-	-	-	-	-	-	-	-	The scope of the school reviews was similar to the work undertaken above in relation to activities and transactions processed by the Council.

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
			19-20	20-21			C	H	M	L			
<ul style="list-style-type: none"> Agency Staff Charges (VfM) CCTV Expenditure (VfM) Directorship Review (Gov) Gas and Electricity Charges (VfM) Hospitality Costs (VfM) Photocopier Charges (VfM) Recruitment & Selection Costs (VfM) Software Licencing (VfM) Memberships & Subscriptions (VfM) 													
TOTAL	-	-	-	388	1								
Key : (VfM) – Value for Money focused Audit review (Gov) – Governance focused Audit review (IS) – Information Security/ Data Protection focused Audit review.													

	Audit Management Support	Departmental Support	Listed Individually Above
VR001 Duplicate Payments Review (Memorandum)			✓
VR002 Photocopier Charges Review (Memorandum)			✓
VR003 Auditor Inbox Review	✓		
VR004 Software Licence Review (Memorandum)			✓
VR006 Restructure of S Drive	✓		
VR007 Restructure of T Drive	✓		
VR008 Gas and Electricity Review (Memorandum)			✓
VR009 Agency Staff Review (Memorandum)			✓
VR010 School Tests		✓	
VR011 Establishment Tests		✓	
VR012 Director Checks (Memorandum)			✓
VR013 External Site Visit Tests	✓		
VR014 Network Access to Absence (Memorandum)			✓
VR015 CCTV Expenditure (Memorandum)			✓
VR016 Recruitment and Selection (Memorandum)			✓
VR017 Hospitality (Memorandum)			✓
VR018 Subs & Memberships (Memorandum)			✓
VR019 Schools Review of Payments (Memorandum)			✓
VR020 Non Audit Plan General Management	✓		
VR021 SAP Access to Absence (Memorandum)			✓
VR022 Non-Productive Time Coronavirus	✓		
VR023 Non Audit Plan Adult Care		✓	
VR024 Non Audit Plan CCP		✓	
VR025 Non Audit Plan Children's Services		✓	
VR026 Non Audit Plan ETE		✓	
VR027 Non Audit Plan Corporate Activities		✓	
VR028 Mosaic User Access (Memorandum)			✓
VR029 Provisions for Suppliers and Contractors			✓
VR030 DfE Digital Devices for Disadvantaged Groups			✓
VR031 Covid 19 Returns & Executive Director Decisions (Memorandum)			✓
VR032 DCC Suppliers - Registered with ICO (Memorandum)			✓

Memorandum – Indicates that Audit work is expected to lead to the production of Audit Memoranda.

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 governance, risk management and control minor weaknesses have been identified which include non-compliance with some control processes. No significant risks to the achievement of system/audit area objectives have been detected.
Qualified Assurance	Whilst there is basically a sound system of governance, risk management and 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 or scope for improvement identified, which may put achievement of 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 governance, risk management and control system which expose the system/audit area objectives to a high risk of failure, the Council to significant reputational risk and require improvement.
No Assurance	Control has been judged to be inadequate as systems weaknesses, gaps and non-compliance have been identified

Level of Assurance	Explanation and significance
	in numerous key areas. This renders the overall system of governance, risk management and control inadequate to effectively achieve the system/audit area objectives which are open to a significant risk of error, loss, misappropriation or abuse. Immediate remedial action is required.

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DERBYSHIRE COUNTY COUNCIL**AUDIT COMMITTEE MEETING****22 September 2020****Report of the Director of Finance & ICT, Director of Legal & Democratic Services and Assistant Director of Finance (Audit)****NATIONAL FRAUD INITIATIVE****1. Purpose of Report**

To inform Members of the Council's completion of scrutinizing the data matches arising from participation in the National Fraud Initiative (NFI) 2018-2019.

To inform Members of the receipt of the request from the Cabinet Office for the Council's participation in the NFI 2020-2021.

2. Information and Analysis

The National Fraud Initiative (NFI) is coordinated by the Cabinet Office and matches electronic data within and between approximately 1,200 participating public and private sector bodies to prevent and detect fraud. These bodies include government departments, national agencies, health authorities, police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.

National Fraud Initiative (NFI) 2018-2019

The 2018-2019 NFI exercise has now come to a close. This latest national data matching exercise has enabled participating organisations within the UK to prevent and detect instances of fraud and error totalling £244.7 million between 1 April 2018 and 4 April 2020. This brings the cumulative outcome to a total value of £1.93 billion since the inception of NFI in 1996 as detailed in the latest NFI report (**Appendix 1**).

The 2018-2019 NFI data matching exercise resulted in 38 distinct reports being made available to the Council for investigation. At the end of the exercise Audit Services reported the identification of 60 instances requiring financial recovery or adjustment totalling £240,391.59. A summary of the instances where investigation has resulted in a financial outcome are detailed in the table below.

Report Title	Total Number of Records Processed	Number of Instances Requiring Financial Recovery or Adjustment	Value of Financial Recovery or Adjustment (£)
Pensions/Pension Gratuity to Benefits Agency Deceased Records	343	14	14,916.86
Private Residential Care Homes to Benefits Agency Deceased Records	157	3	19,514.93
Personal Budgets to Pensions	45	3	241.49*
Duplicate records by invoice amount and creditor reference	813	17	172,269.46
Duplicate records by supplier invoice number and invoice amount but different creditor reference and name	379	23	33,448.85
Total	1,737	60	240,391.59

**Total of increased payment made to 3 individual service users identified from the review.*

Action has been taken to recover overpayments or adjust payments.

National Fraud Initiative (NFI) 2020-2021

The Council has now received the Cabinet Office's formal request to participate in NFI 2020-21; relevant data must be extracted from systems as at 30 September 2020 and submitted between 9 October and 1 December 2020.

Following a consultation exercise it has been agreed that the existing mandatory data matches listed below would continue to be part of the NFI 2020-21. However, the Private Supported Care Homes and Personal Budgets Social Care data sets will be excluded from the main NFI 2020-21 exercise. The Cabinet Office have identified that this data matching has been blocked due to concerns about patient data, but has indicated that the data sets will be collected and matched to a later timetable than that of the main exercise. The Cabinet Office have also identified a new data specification for Covid-19 grant recipients. Again this data set will be collected and matched at a later date.

The Council is required to submit the following datasets to the Cabinet Office for the main NFI 2020-21 exercise and formal confirmation was received on 13 August 2020:-

- Payroll;
- Pensions;
- Deferred Pensions;
- Creditors History;
- Creditor Standing;
- Blue Badge Parking Permit (this data submission will be made directly to the Cabinet Office from the Blue Badge Improvement Service on behalf of the Council);
- Concessionary Travel Pass (this data submission will be made directly to the Cabinet Office from Applied Card Technologies on behalf of the Council).

A detailed data specification of the information required for each of the above datasets has been provided by the Cabinet Office.

In order to inform Members, staff and pensioners of the Council's participation in the NFI exercise fair processing notices have been communicated by the following methods:-

- Members news on 6 July 2020 (for all Members);
- Our Derbyshire employee newsletter on 7 July 2020 (for Council staff with access to the Workplace application);
- Payslip letter in July 2020 (for all employees without access to the Workplace application);
- Pensioners' payslip message May 2020 (for all current pensioners) ;
- Maintained schools staff payslip message July 2020 (for all school staff);
- Trade Unions – letter to CJC on 2 April 2020.

Where data is collected from service users and suppliers i.e. Blue Badge Scheme, Concessionary Travel Scheme, personal budgets, direct payments, private residential care homes and suppliers, these are notified of the NFI process on the application form documentation used to collect their data;

The results of the matching exercise arising from the Council's data being submitted to the Cabinet Office in October 2020 will be made available for investigation from 28 January 2021.

Audit Services is the central coordinator for the data matches received from the Cabinet Office and ensures matches are investigated, liaising as required with Departments within the Council and other authorities. Audit Services also maintains the web based application provided by the Cabinet Office which tracks progress on matches reported.

As in previous years Reports will be brought to future meetings of the Audit Committee to provide Members with updates on progress regarding NFI 2020-21.

3. Financial Considerations

The exercise is a significant contribution to the Council's responsibility for the prevention and detection of fraud. The cost to the Council of participation in NFI 2020-21 has increased marginally and the standard fee of £3,750 for NFI 2018-2019 will rise to £3,800. It should also be noted that a penalty fee of 5% of the standard fee (£190) has been introduced and may be levied for late or inaccurate data submissions.

4. Legal Considerations

The NFI is conducted using the data matching powers conferred on the Minister for the Cabinet Office by Part 6 of and Schedule 9 to the Local Audit and Accountability Act 2014.

The legal basis for processing personal data is that processing is necessary for the performance of a task carried out in the public interest. Certain public sector bodies are required to provide data for the NFI on a mandatory basis. In addition, bodies can provide data for matching on a voluntary basis.

5. HR and Equalities Considerations

The Audit Commission advises Council's 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 appropriate newsletters, pay slips and by the publication of an NFI Privacy Notice on the Council's website. Trade Unions are also consulted through CJC.

The Council will also ensure that the principles of the Data Protection Act are observed in providing the data for this exercise, and takes every precaution to ensure that data submitted is accurate and up to date. The NFI does not require the consent of the individuals concerned under current data protection legislation.

6. Other Considerations

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

7. Background Papers

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

8. Officers' Recommendation

That the Committee:-

- considers progress made by the Council in respect of the NFI 2018-19 exercise, and
- notes the receipt of the request that the Council participates in NFI 2020-21.

Peter Handford
Director of Finance & ICT

Simon Hobbs
**Director of Legal &
Democratic Services**

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



National Fraud Initiative Report

July 2020





National Fraud Initiative Report

2020 Report

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Foreword

The fundamental challenge that public bodies face with fraud is that it is a hidden crime – those committing it actively try to conceal it so we must be proactive in our efforts to seek it out.

I am therefore delighted to report that the National Fraud Initiative, the Cabinet Office's data matching service, has enabled participating organisations to prevent and detect £245 million fraud and error in the period 1st April 2018 to 4th April 2020¹. This brings cumulative outcomes for NFI participants to £1.93 billion.



This fraud and error has been detected and prevented by the hard working staff at the 1,200 public and private sector organisations that participate in the National Fraud Initiative.

Reducing the amount of fraud in systems is a huge challenge to your organisations. We remain committed to supporting you by developing the National Fraud Initiative, and working with its community of users to drive fraud out of public services, ensuring that taxpayers' money is spent where it is needed most.

The National Fraud Initiative has the ability to quickly address emerging risks through the targeted data matching pilots that are carried out throughout the two year cycle. Most of these pilots come from your suggestions, however the scale of government COVID-19 emergency relief now offers a significant opportunity for fraudsters.

It is for this reason that we plan to extend the National Fraud Initiative remit to help ensure COVID-19 emergency relief funding is only accessed by those that are entitled.



...this fraud and error has been detected and prevented by the hard working staff that participate in the National Fraud Initiative”

The initial focus will look for irregularities in the funding distributed through local authorities. This will include, but is not limited to Business Support Grant data, such as grant recipients and business rates system data.

We are already actively engaging with stakeholders in the public and private sector to understand how the National Fraud Initiative can be further developed to highlight fraud across more of the COVID-19 support packages.

The use of data and effective data matching is a central element of our efforts to ensure that COVID-19 financial support is not lost to fraud and error.

The National Fraud Initiative has shown the effectiveness of this approach both in the last NFI exercise, and cumulatively since its inception.

This report demonstrates this across many areas of the public sector, and its use in the COVID-19 spend areas shows our commitment to seek out, find and tackle fraud and error across the public sector.

Lord Agnew, Minister of State at the Cabinet Office and Her Majesty's Treasury

¹ The nearest date to 31st March 2020 management information was available to produce this report.



About the National Fraud Initiative

The National Fraud Initiative (NFI), conducted by the Cabinet Office, involves data matching to help in the prevention and detection of fraud.

The NFI provides multiple solutions, ranging from real time point of application fraud prevention checks through to the national data matching exercise which helps those that take part detect active fraud cases within systems.

Data for the NFI is provided by some 1,200 participating organisations from the public and private sectors including local authorities, government departments, private registered providers of social housing (also known as housing associations) and pension schemes. The NFI works with public audit agencies in all parts of the UK.

Data matching involves comparing sets of data electronically, such as the payroll or benefit records of a body, against other records held by the same or another body to see to what extent they match.

This data is usually comprised of personal information².

Participating organisations receive the resulting data matches for consideration and investigation where appropriate.

The data matching identifies inconsistencies that require further investigation and allows potentially fraudulent claims and payments to be identified.

No assumption can be made as to whether there is fraud, error or another explanation until the investigation process is completed.

Once an investigation has been completed, the body can take appropriate action which may be to prosecute cases of fraud, recover overpayments, make good underpayments and update records as appropriate. There is also an opportunity to identify system weaknesses and review controls.

The NFI is conducted using the data matching powers conferred on the Minister for the Cabinet Office by Part 6 of and Schedule 9 to the Local Audit and Accountability Act 2014.

The legal basis for processing personal data is that processing is necessary for the performance of a task carried out in the public interest. Certain public sector bodies are required to provide data for the NFI on a mandatory basis.

In addition, bodies can provide data for matching on a voluntary basis.

This report includes all NFI outcomes recorded in the period 1st April 2018 to 4th April 2020.

These outcomes include NFI 2018/19 (the national data matching matches released at the end of January 2019), as well as those from the FraudHub, AppCheck and ReCheck products. Outcomes from incomplete investigations will be captured and reported as part of the next NFI exercise.

² The data requirements for the NFI exercise are set out in **data specifications**.

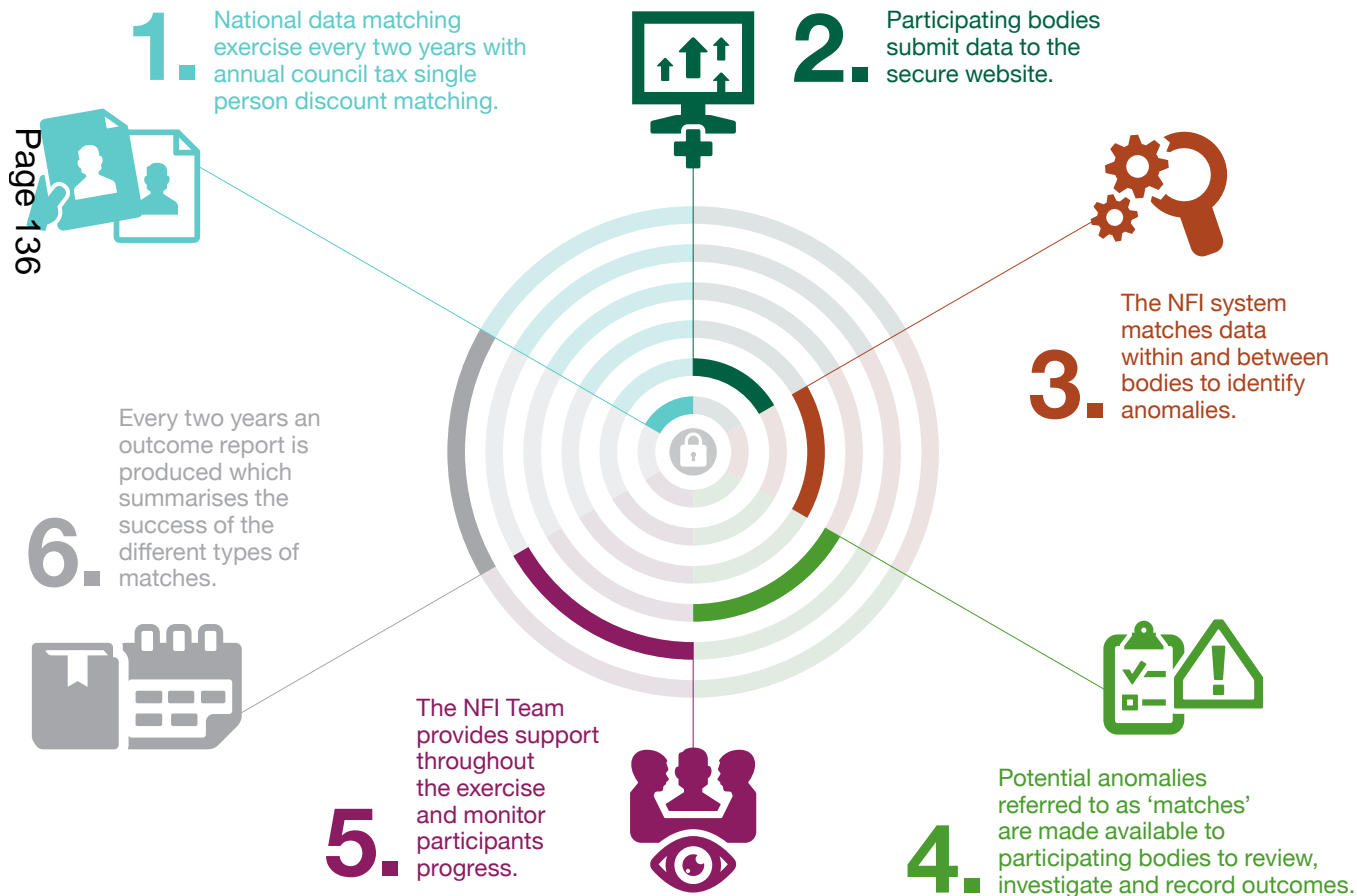


The NFI product portfolio

National Exercises

Data is collected from organisations across the UK for national fraud detection batch matching every two years. Matches are accessed through a secure web application.

The NFI matching cycle



AppCheck

A fraud prevention tool that helps organisations to stop fraud at the point of application, thereby reducing administrative and future investigation costs.

ReCheck

A flexible batch matching tool that allows an organisation to repeat national batch matching at a time to suit them.

FraudHub

FraudHub enables individual organisations or groups of neighbouring organisations to regularly screen more than one dataset with the aim of detecting errors in processing payments, or benefits and services.



Cost of running the NFI

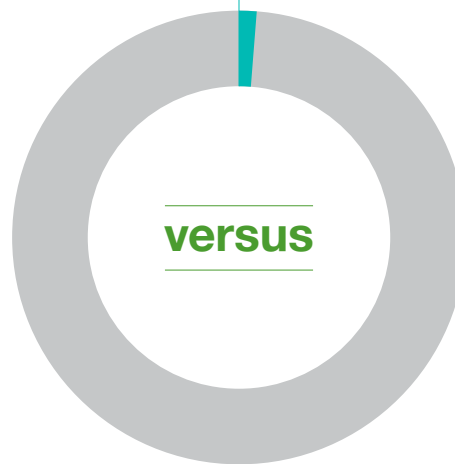
Main expenditure



Income



**£2.8 million
fee income**



**£245 million
outcomes**

Example fees³

2018/19 National

- London Borough Council **£4,150**
- Mid-sized council **£2,200**
- Police **£1,000**
- NHS Foundation Trust **£1,000**



Sliding scale from **£275** for 250 searches to **£850** for 1,000 searches, or **£1,850** annual membership (unlimited searches)



£300 per dataset for 1-20 datasets, or **£250** per dataset (20+)



£1,840 to £7,640 annual membership dependent on type of public sector body

³ The NFI work programme and scale of fees are consulted on prior to each exercise.

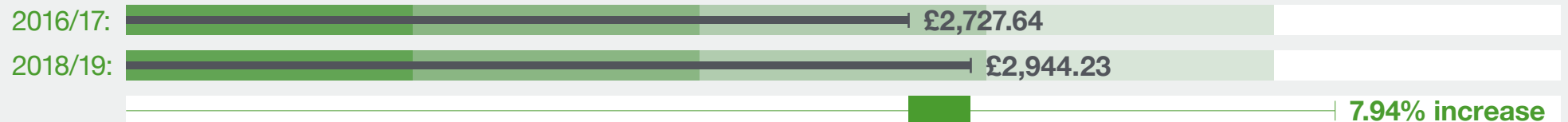


Fraud, overpayments and errors identified and prevented across the UK (2018 to 2020)

Results for the period 1st April 2018 to 4th April 2020:



UK financial outcomes per case (categorised by participants as error or fraud):

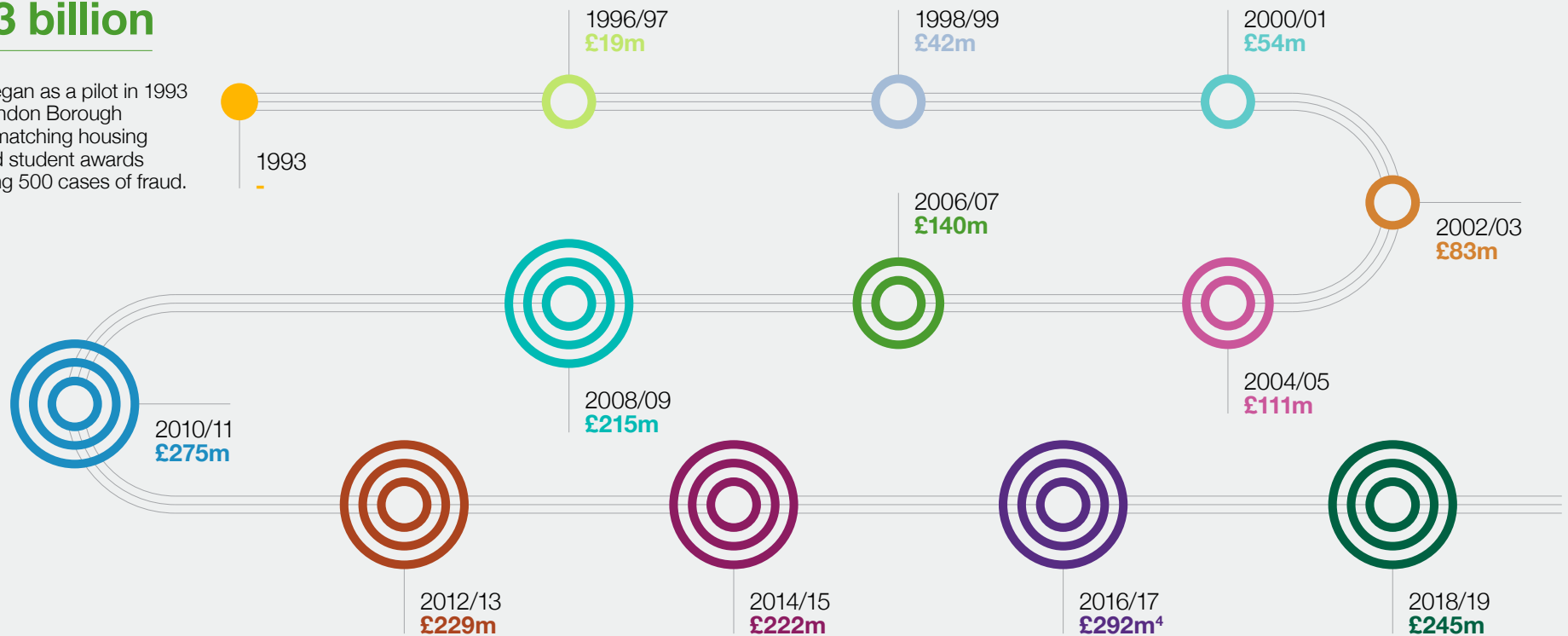


Fraud, overpayments and errors identified and prevented across the UK (1996 to 2020)

The NFI results for the UK over time:

£1.93 billion

The NFI began as a pilot in 1993 with 13 London Borough Councils, matching housing benefit and student awards data, finding 500 cases of fraud.



⁴ Pension related outcomes in the previous NFI exercise were overstated by £9 million due to a formula error. The corrected overall total is shown in this graphic.

An analysis of the NFI results in England (2018 to 2020)

The results in England total: **£215.8 million**

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The main categories of fraud identified by the NFI in England relate to:



The exercise produced the following significant results in England:

151,815
concessionary travel passes were cancelled



46,750
blue badges were cancelled



36,728
number of incorrect claims for council tax single person discount



6,092
false applications were removed from housing waiting lists



2,688
cases where council tax reduction had been claimed incorrectly



292
cases where payments to a care home had continued after the death of the resident



60
social housing properties recovered



The £215.8 million also includes a number of pilot matches. More details about pilots can be found on **page 28**. Results were as follows:

	Number of cases	Actual outcomes £ million	Amount recovered £ million
HMRC information sharing ⁵	2,481	3.9 (Estimates £4.9 million)	3.4
State Benefits	81	0.2 (Estimates £0.2 million)	0.1
Utilities	8,465	- (Estimates £3.2 million)	-
Total including estimates	11,027	12.4	3.5



⁵ Outcomes from the HMRC information sharing pilot are split across the relevant dataset area for example, housing benefits, council tax, etc.

An analysis of recovery rates in England

Once overpayments have been identified, public bodies can take appropriate action to recover the money.

At the end of this reporting period, public bodies had taken action to recover 88.6% of total frauds detected compared to 79% for the equivalent period to the end of March 2018.



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...public bodies had taken action to recover 88.6% of total frauds detected”



Table 1 – Recovery rates in England

Dataset	Fraud detected (actual not estimated) £ million	Amount in recovery £ million	Recovery rate %
Housing Benefit	26.3	21.5	82%
Council Tax Single Person Discount	17.2	15.9	92%
Pensions	7.3	6.9	94%
Creditor Payments	5.1	5.4 ⁶	106%
Council Tax Reduction	4.2	3.7	88%
Private Residential Care Homes	2.7	2.7	100%
Personal Budgets	0.8	0.7	95%
Other	0.7	0.5	70%
Payroll	0.5	0.2	40%
Pilots (excluding HMRC pilot ⁷)	0.2	0.1	83%
Right to Buy	0.03	0.03	100%
Total	65.1	57.7	88.6%

⁶ This includes amounts from 2016/17 that were retrospectively marked as recovered in this reporting period.

⁷ Outcomes from the HMRC information sharing pilot are split across the relevant dataset area for example, housing benefits, council tax, etc.

Recovery rate/impact of the NFI on public finances



**£215.8
million**

= The total amount of fraud, overpayments and error identified and prevented by NFI participants in England during the period 1st April 2018 to 4th April 2020.



Actual fraud detected:
£65.1m



Not recovered =
£7.4m

Recovered =
£57.7m



Estimated value of fraud detected and future losses prevented:
£150.7m



Detected =
£18.5m

Prevented =
£132.2m

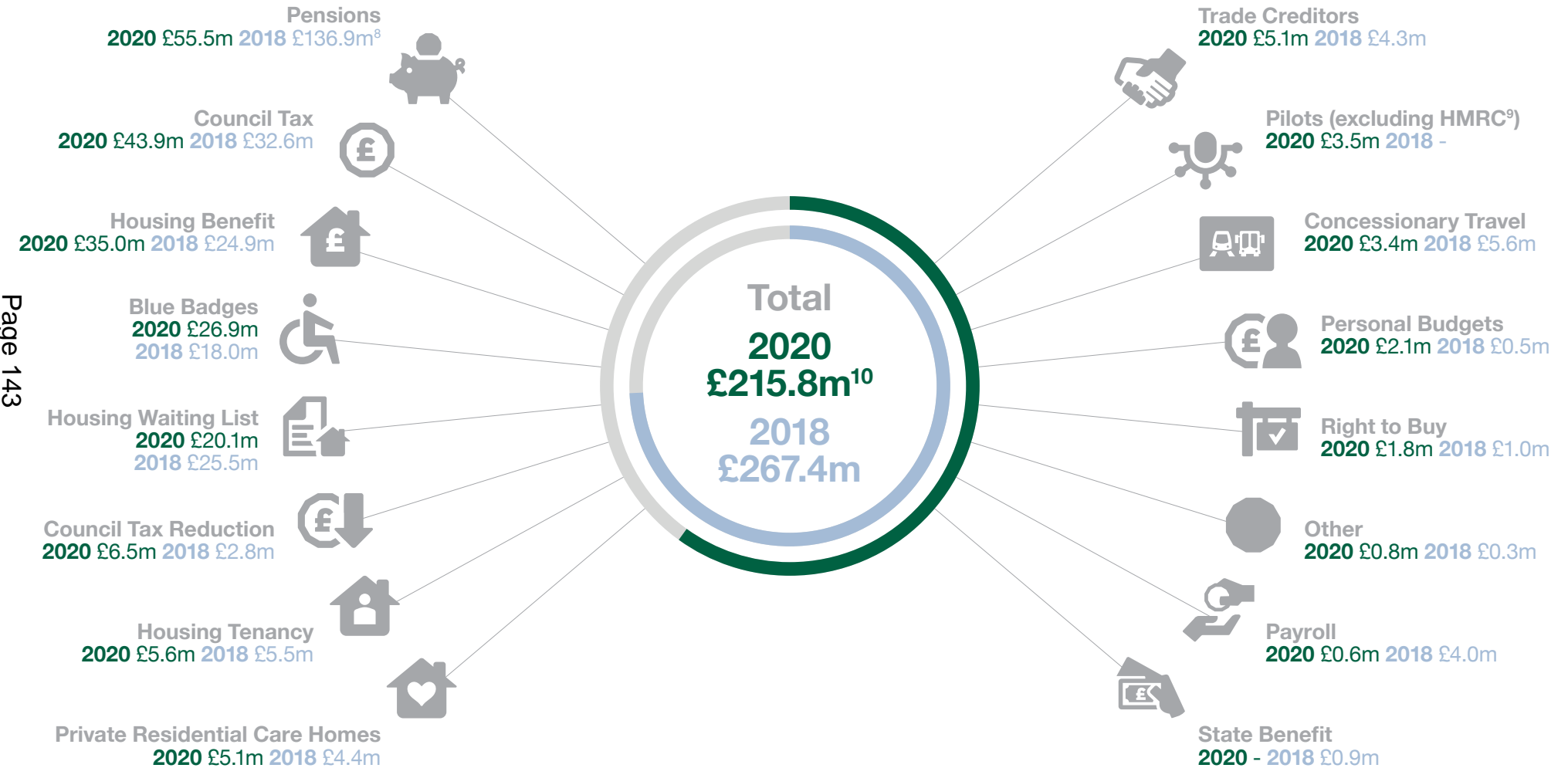
Total Losses Recovered and Prevented =

£189.9m

Recovered and prevented as percentage of £215.8 million outcomes =



Outcomes in England by risk area



⁸ Pension related outcomes in the previous NFI exercise were overstated by £7.9 million due to a formula error. The corrected figure is shown in this graphic.

⁹ Outcomes from the HMRC information sharing pilot are included in the headings above, as applicable.

¹⁰ Due to rounding, numbers presented throughout this report may not add up precisely to the totals indicated and percentages may not precisely reflect the absolute figures for the same reason.

Main messages for 2018 to 2020 by data set

Pensions: £55.5 million



Individuals obtaining the pension payments relating to a deceased person.

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The Office for National Statistics, Occupational Pension Schemes Survey¹¹ published June 2019, concluded that the total membership of occupational pension schemes in the UK was an estimated 45.6 million in 2018, compared with 41.1 million in 2017. Active membership of occupational pension schemes was 17.3 million in 2018, split between the private (11.0 million) and public sector (6.3 million). Active membership of private sector defined contribution occupational schemes was 9.9 million in 2018, representing an increase of 28.6% on 2017 levels (7.7 million). There was a decrease in the number and value of pension cases from £136.9 million in 2016/17 to £55.5 million in 2018/19. The decrease can be attributed to:

- Some pension schemes had a backlog of investigations in 2014/15 that came through in 2016/17 (see Table 2);
- Some schemes have a backlog from 2018/19 that has not yet been reported; and
- Fewer large pension schemes elected to participate on a voluntary basis in June 2019.

Table 2 – Comparison of pension related overpayments 2012/13 to 2018/19

	2012/13		2014/15		2016/17		2018/19	
	Number of cases	£ m	Number of cases	£ m	Number of cases	£ m	Number of cases	£ m
	2,990	75.9	3,592	85.1	3,763	136.9	2,876	55.5
Average outcome per case	£25,385		£23,692		£36,381		£19,289	

Testimonials:

Armed Forces Pensions

“I have been working on the matches provided by the NFI since the 2002 exercise and have found the NFI mortality screening service really useful in helping to identify numerous cases where we would have otherwise not have known there had been a change. The site is very secure, but easy to navigate and filter necessary information for our pension scheme. I look forward to working with the NFI Team to identify further improvements to the service.”

Preeti Sudra, Senior Pensions Administrator Equiniti Group plc
(Administrators for Armed Forces Pensions).

NHS Business Services Authority

“The NHS Business Services Authority aims to identify and prevent fraud throughout all aspects of the business. The opportunities provided by the National Fraud Initiative (NFI), through taking part in matching exercises with other organisations, are invaluable in not only identifying fraud, but also by helping to highlight approximately £1.6 million of pension overpayments in 2019, it also prevented any further loss of monies. Alongside the financial value, the simplicity of the process and the support provided by the NFI team cannot be understated when considering the benefits of participating in NFI exercises.”

A spokesperson from the NHS Business Services Authority.

¹¹ Office for National Statistics, **Occupational Pension Schemes Survey, UK: 2018**, June 2019.

Main messages for 2018 to 2020 by data set

Council Tax: £43.9 million



Individuals falsely declaring they live alone or who fail to notify when a second adult moves into the property. Therefore, not qualifying for the Council Tax single person discount they have claimed.

According to the Valuation Office Agency Valuation List as at 9 September 2019 there were 8.3 million dwellings in England that were subject to either a discount or to a premium on their council tax. Of these, 7.8 million dwellings were entitled to a discount as a result of being occupied by single adults. This represents 31.9% of all dwellings¹².

Page 145 Across the UK, the CIPFA 2019 Fraud and Corruption Tracker¹³ concludes that for local authorities, council tax single person discount (SPD) fraud has grown the most out of all fraud risk areas, with an estimated increase of £3.6 million since 2017/18.

The annual NFI match between Council Tax and Electoral Register data to tackle Council Tax single person discount (SPD) abuse has once again provided substantial returns for councils. Outcomes from the 2018/19 and 2019/20 exercises are £43.9 million (37,000 SPDs cancelled) compared to £32.6 million reported for the 2016/17 and 2017/18 exercises (30,343 cancelled). This is an increase of 34.7%.

The majority of outcomes come from matching individuals in receipt of a council tax single person to electoral register data (83.6%). The HMRC information sharing pilot generated £2.8 million additional overpayments from matches that provided information on individuals residing at an address, accounting for 24.6% on the overall increase to council tax outcomes.

There has also been success from the new mandatory data match introduced in 2016/17. All SPD claims are now matched against the wider range of NFI datasets to again obtain more information about the individuals residing at an address.

This resulted in the identification of 1,130 incorrect claims for single person discount and approaching £1 million overpayments which are similar levels to 2016/17.

The optional enhanced Council Tax SPD service introduced in 2016/17, that combines both public and private sector credit reference agency data, has also achieved good results identifying £3.2 million overpayments by the 17 councils that purchased the service. This service is available in addition to the mandatory annual matching and is charged for on a per record basis.



¹² Ministry of Communities and Local Government, **Local Authority Council Tax base England 2019**, 19 February 2020.

¹³ CIPFA, **Fraud and Corruption Tracker 2019**, 18 November 2019.

Main messages for 2018 to 2020 by data set

Housing Benefit: £35.0 million



Individuals claiming housing benefits who failed to declare an income or change of circumstances.

In May 2020, the DWP reported Housing Benefit overpayments due to fraud or error of £1.1 billion (an overpayment rate of 6.0%), compared to £1.3 billion (an overpayment rate of 6.3%), in 2018/19. Of the £1.1 billion, £0.6 billion of housing benefit overpayment was recovered¹⁴. DWP reports the main cause of overpayments on Housing Benefit is incorrect information about earnings and employment.

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Housing benefit outcomes are £35 million, compared with the 2016/17 figure of £25 million. These outcomes were recorded by local councils and the DWP. It is assumed that the increase in overpayments of 41% is attributable to improved processes in the referral of matches by councils, and the subsequent investigation by the DWP. Table 3 shows how outcomes have been reported in 2018 and 2020.

Table 3 – Analysis of housing benefit overpayments by source (includes estimates)

	2018		2020	
	2014/15 reported after 31 March 2016 £ million	Reported between 1 April 2016 and 31 March 2018 £ million	2016/17 reported after 31 March 2018 £ million	Reported between 1 April 2018 and 4 April 2020 £ million
Outcomes from local councils	14.0	8.0	3.0	10.0
Outcomes from DWP	-	3.0	8.0	14.0
Total	14.0	11.0	11.0	24.0

Housing benefit overpayments identified through matching to student loans continues to generate the most outcomes. Local councils alone identified 1,055 cases with an actual overpayment value of £3.9 million. This represents 45% of the total housing benefit actual overpayments recorded by councils.

We continue to work closely with the DWP to ensure we maximise the benefits of the NFI, while avoiding duplication with the Housing Benefit data matching undertaken by the DWP through the Verify Earning and Pensions Service¹⁵.

In line with the NFI 2018 to 2022 strategic themes this will include exploring access to other state benefit data such as Universal Credit.

¹⁴ DWP, **Fraud and error in the benefit system: 2019 to 2020 estimates (revised 29 May 2020)**, 29 May 2020.

¹⁵ The Verify Earning and Pensions service (VEPS) allows councils to verify earnings and pensions information from claimants using real-time information from Her Majesty's Revenue and Customs.

Main messages for 2018 to 2020 by data set

Housing Benefit: £35.0 million



Individuals claiming housing benefits who failed to declare an income or change of circumstances.

Case study:

Coventry City Council

Coventry City Council identified 35 cases from the NFI matches in the first half of the 2019/20 financial year, resulting in overpayments totalling £154,350.

These included five cases relating to housing benefit claimants who had failed to declare their student loan totalling £38,200;

a housing benefit claimants to personal alcohol license match identified an overpayment of £20,500 due to a non-commercial tenancy¹⁶;

eight HMRC earnings and capital cases where the council tax reduction scheme claimants had failed to declare employment totalling £40,200;

and five HMRC household composition cases where other persons should have been liable for the council tax or household income was not fully declared totalling £40,000.



¹⁶ A private tenancy must be on a commercial basis in order for Housing Benefit to be paid. The relationship between tenant and landlord may cause that tenancy to be considered non-commercial and disqualify Housing Benefit payments.

Main messages for 2018 to 2020 by data set

Blue Badges: £26.9 million



Potential misuse of blue badge parking passes belonging to someone who had died. This may be continued use of the pass by relatives of the deceased, forgery of a pass in the name of a deceased person, use of a stolen badge.

As at 31st March 2019 there were 2.29 million Blue Badges held in England according to the Department for Transport Statistics¹⁷. There were 1,432 prosecutions for misuse of Blue Badges between 1st April 2018 and 31st March 2019 an increase of 17.9% since 2017/18. The majority of prosecutions (99%) in England were targeted at a non-badge holder using another person's badge.

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During this reporting period, the number of blue badges cancelled increased to 46,750 from 31,223 in 2016/17. The estimated value of blue badges cancelled between reporting periods increased from £18 million to £26.9 million an increase of 49.4%. The increase is due to more councils and transport authorities cancelling more badges.



Number of blue badges cancelled

2018
31,223
2020
46,750



Number of organisations

2018
90
2020
109

¹⁷ Department for Transport, **Blue Badge Statistics, England: 2019**, 4 December 2019.

Main messages for 2018 to 2020 by data set

Blue Badges: £26.9 million



Potential misuse of blue badge parking passes belonging to someone who had died. This may be continued use of the pass by relatives of the deceased, forgery of a pass in the name of a deceased person, use of a stolen badge.

Case study:

Cumbria County Council

The NFI exercise identified 1,100 matches for Cumbria County Council where a blue badge was in circulation but the owner of the badge was identified as deceased. Match Key Rule and the Death Verification Level information provided in the report, was used to assist in prioritising and investigating these matches.

For 311 (28%) of the matches the investigation found that the deaths were already known to the council or that the owner of the blue badge had died after the badge had expired.

For the remaining 789 (72%) validation checks were used to confirm the quality of the data and to verify that an individual's identity and postcode matched the data on the Blue Badge Information System.

For some matches the investigation was extended and the relatives of the owner of the blue badge were contacted by telephone or letter to confirm whether the owner had died. The outcome of investigations found that in all cases the relatives had failed to notify the council about these deaths so the blue badges were cancelled.

The NFI estimated value of cancelling a blue badge is £575 which represents the value of parking charges up to the point of cancellation plus an estimate of future fraud losses prevented. This means that the NFI has helped the council identify and cancel 789 blue badges with an estimated value of £453,675.



Main messages for 2018 to 2020 by data set

Housing Waiting List: £20.1 million



Social housing waiting list applicants who were not entitled to social housing because they had misrepresented their circumstances.

The most recent Ministry of Housing, Communities and Local Government housing statistics¹⁸ show that as at the end of March 2019 there are 1.2 million households on social housing waiting lists in England. Removing applicants who are not eligible will enable councils to allocate social housing to those in genuine need.

Housing waiting lists matching has resulted in 6,092 ineligible applications for social housing having been removed by 94 councils during 2018/19. An increase from the 75 councils in 2016/17.

Applying the Cabinet Office estimate of fraud or loss presented of £3,240¹⁹ per property this equates to £20.1 million for 2018/19 compared to £25.5 million in 2016/17. The higher level in 2016/17 can be attributed to the fact that this was the first time this match had been introduced and some bodies used this as an opportunity to validate their housing waiting list and clear ineligible applicants.



¹⁸ Ministry of Housing, Communities & Local Government, **Table 600: numbers of households on local authorities' housing waiting lists, by district, England, from 1997**, 28 January 2020.

¹⁹ See 'Report calculation methodology – England only 2018 to 2020' on **page 37** for more details about the NFI estimate methodology.

Main messages for 2018 to 2020 by data set

Housing Waiting List: £20.1 million



Social housing waiting list applicants who were not entitled to social housing because they had misrepresented their circumstances.

Sandwell Council

In order to join the Sandwell housing waiting list, applicants must have either lived in Sandwell for five years or be able to demonstrate a local connection through their parents, brother, sister or adult child. Applicants can also join the housing waiting list if there is a proven need to live in Sandwell. Since January 2019, Sandwell Council have been using AppCheck to verify data given by applicants at the registration stage, enabling them to identify fraudulent applications, which in the past would have potentially satisfied the application requirements and have been accepted on the housing waiting list.



Case studies:

Contradictory and False Information

Whilst vetting a number of housing applications, one application that would normally have satisfied processes and would have been registered on the housing waiting list, was identified by AppCheck as containing contradictory information. The applicant had stated that they had been living in Sandwell for the five-year qualifying period. However, AppCheck highlighted that the individual had been living and claiming benefits in Birmingham.

As well as false information being given on the application form, the applicant had also provided a landlord's reference, which gave false information to qualify for housing. An investigation was carried out and further evidence was obtained, which proved that the applicant had only been residing in Sandwell for one year. An interview under caution was conducted where the applicant admitted that they had provided false information to register and obtain housing with Sandwell Council.

Concealed Rent Arrears Uncovered

An applicant had declared that they had not been living in Sandwell and were relying on the local connection of a relative. This would have satisfied the registration criteria. AppCheck identified that the applicant had been linked to an address in Blackpool.

However, the address had not been declared on the application form as an address they had resided at in the past six years. Further checks were made, and it was identified that the applicant had resided at the Blackpool address.

It was also discovered that the applicant had rent arrears outstanding at the address, which were again not disclosed on the application form. It was concluded that the address had been concealed intentionally because of the poor conduct of a previous tenancy to gain social housing unlawfully.

In both of these cases, as false information was provided, the applications were refused, saving the council over £3,000 per application, and the applicants were excluded from making a further submission for 12 months.

Main messages for 2018 to 2020 by data set

Council Tax Reduction: £6.5 million



Individuals claiming Council Tax reduction who failed to declare an income or change of circumstances.

Since 1 April 2013 local authorities in England have been responsible for administering Council Tax Reduction Schemes (CTRS) in their own area (also referred to as Council Tax Support)²⁰. Some authorities chose to adopt the default scheme²¹. Under the regulations liability for Council Tax can be reduced by applying a discount:

- Page 152
- Worked out as a percentage of a council tax bill;
 - Of a set amount as set out in the local scheme; or
 - Equal to the whole amount of the council tax bill – so that the amount payable is nil.

The most recent analysis of Council Tax Reduction Schemes for the 2017/18 financial year, carried out by the New Policy Institute in April 2017²², found that out of 326 councils:

- 277 had reduced the amount of CTRS available through minimum payments or band caps;
- 12 have made alternative changes such as removing the second adult rebate; and
- 37 local authorities had kept their CTRS the same since 2013.

However, through the next NFI exercise we expect to see an increase in the number and amount of CTRS payments. As part of its response to COVID-19, the government announced in the Budget on 11 March 2020 that it would provide local authorities in England with £500 million of new grant funding to support economically vulnerable people and households in their local area²³.

The expectation is that the majority of the hardship fund will be used to provide council tax relief, alongside existing local council tax support schemes.

Council Tax Reduction Scheme data was matched for the first time in 2016/17 and achieved £2.8 million. Outcomes from 2018/19 showed that this is a significant risk area with councils able to identify £6.5 million across 2,688 cases.

The average reported saving per case was £1,578 (excluding estimated forward savings) compared to £1,130 in 2016/17.

The HMRC information sharing pilot contributed to the increase in this area resulting in £3.1 million outcomes from Council Tax Reduction to both Earnings and Capital and Household Composition.

²⁰ HM Government, **The Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012**, 27 November 2012.

²¹ HM Government, **The Council Tax Reduction Schemes (Default Scheme) (England) Regulations 2012**, 18th December 2012

²² NPI, **Key Changes to Council Tax Support in 2017/18**, 5 April 2017.

²³ Ministry for Housing Communities and Local Government, **COVID-19 hardship fund 2020-21 – local authority guidance**, March 2020.

Main messages for 2018 to 2020 by data set

Council Tax Reduction: £6.5 million



Individuals claiming Council Tax reduction who failed to declare an income or change of circumstances.

Case study:

London Borough of Barnet

The London Borough of Barnet completed a comprehensive review of the NFI reports using the new fraud risk scoring to prioritise resources on matches that scored over 75%. As a result they were able to report overall overpayments of £572,613.

Examples of successful outcomes include: Metropolitan Police Amberhill data identified two Council Tax Reduction scheme customers who appeared to be using false identities. Investigations resulted in both claims being cancelled generating overpayments of £83,989 and £26,364.

Housing Benefit to Student Loans identified five cases of undeclared student loan income with overpayments amounting to £43,193.

HMRC data matched to Council Tax Reduction Scheme helped to establish that a claimant had been living abroad since 2013 generating an overpayment of £13,140. Another match from the same report identified a non-dependant who had not moved out of the property in 2009 when the customer said they had. The overpayment in this case amounted to £28,113.



Main messages for 2018 to 2020 by data set

Housing Tenancy: £5.6 million



Social housing tenants who were subletting or had multiple tenancies unlawfully.

There has reportedly been a steady downward trend in the number of housing and tenancy related frauds detected/prevented during 2018/19, decreasing by roughly 20% from 2017/18. This trend likely indicates successful efforts by local authorities to tackle housing fraud and remove illegally sublet properties from the system. However, housing fraud including succession and false applications continues to be a high risk for councils²⁴.

Outcomes from the 2018/19 tenancy matches increased by 1.82% compared to 2016/17, which was due to a small increase in the number of properties recovered to 60 from 58 in 2016/17.

Each property recovered can be reallocated to those in genuine need, so the NFI will continue to seek ways to help councils fight social housing fraud, such as repeating the HMRC information sharing pilot (see **page 28** for more details).



Case study:

Royal Borough of Greenwich

The Royal Borough of Greenwich has recovered four social housing properties as a result of matches to HMRC data. In one case it was discovered a current tenant owned five other properties across the country, some of which had been purchased under the Right to Buy scheme.

None of the properties had been declared by the tenant when she subsequently declared herself homeless when applying for social housing. The tenant died prior to being interviewed under caution and left an estate of over £1.5 million with no will.

The council are pursuing financial recovery of the costs that were incurred as a result of having provided emergency/temporary accommodation to another household.

²⁴ CIPFA, **Fraud and Corruption Tracker 2019**, 18 November 2019, page 10.

Main messages for 2018 to 2020 by data set

Housing Tenancy: £5.6 million



Social housing tenants who were subletting, were not entitled to social housing because of their status in the UK, or had multiple tenancies unlawfully.

Case study:

Housing Tenant to Housing Benefit

A Housing Tenants to Housing Benefit Claimants match identified housing benefit was being paid for the same tenant at two different properties. It was discovered the tenant had been offered temporary accommodation by one council but had identified alternative housing in a neighbouring council area and moved into that property instead. However, the allocation of the first property was inaccurately recorded.

Investigation confirmed that the property had been cancelled as a temporary accommodation option (so rent was not being paid over to the landlord), but it was not cancelled on the housing management system and housing benefit payments continued to be paid into a rent account that was not in use. This created a £25,422.46 overpayment.

This case was closed and monies transferred with no financial loss to the council but also prompted a review of the interface between systems and how it links with the temporary accommodation process.



Main messages for 2018 to 2020 by data set

Concessionary Travel: £3.4 million



Potential misuse of concessionary travel passes belonging to someone who has died.

A statutory bus concession for older and disabled people has been in place since 2001. In 2008, the concession was extended to cover free local bus travel between 0930 and 2300 to older and disabled people anywhere in England. This statutory concession is referred to as the English National Concessionary Travel Scheme. In London, the statutory concession for London residents covers the whole London Local Transport Network.

Some administering authorities may offer a resident discretionary enhancements over and above the statutory scheme, including free travel outside the statutory time period or on other transport modes for example, London residents aged 60 plus who are below the statutory concessionary travel age can obtain a 60 plus Oyster card. This allows free travel on bus, tube, tram, DLR, London Overground, TfL Rail and most National Rail services.

In 2018/19, the Department for Transport reported there were 9.1 million older and disabled concessionary travel passes in circulation and the net spend was £1.1 billion. In total there were 861 million concessionary bus journeys in England in 2018/19²⁵.

The number of concessionary passes updated, cancelled or hot-listed²⁶ in 2018/19 as a result of an NFI match was 151,815 a decrease from 234,154 in 2016/17. As a result, the estimated value of fraud losses prevented in the same reporting period decreased from £5.6 million in 2016/17 to £3.4 million in 2018/19.

The decrease in the number of passes updated, cancelled or hot-listed may be linked to a reduction in the number of bodies undertaking additional voluntary matching as this resulted in around 82,000 cancelled passes in the previous reporting period with an estimated value of around £2 million.

The reason for this reduced take-up will be explored to ensure the NFI continues to offer data matching solutions that best meet the needs of voluntary participants.

²⁵ Department for Transport, **Concessionary Travel Statistics 2018/19**, 17 December 2019.

²⁶ Hot-listed is a term used where a pass has been deactivated for a specific reason, in this case as the person is believed to be deceased.

Other case studies

Case study:

Bedford Borough Council

Bedford Borough Council's Investigation Service was alerted to discrepancies in identity documents following a NFI match between the Council's payroll and Metropolitan Police Amberhill false identity data. They established that an employee had used false documents to obtain a post as a night care assistant and for Disclosure & Barring Service (DBS) clearance to work.

Enquiries revealed her true identity and that she had overstayed her visa and had no right to work or reside in the UK. She stated she obtained the false ID documents for as little as £200.

She pleaded guilty to three charges related to using a false identity to gain employment and was sentenced to nine months' imprisonment suspended for 12 months, ordered to complete 80 hours unpaid work and given a 20-day Rehabilitation Activity Requirement (RAR).

Cllr Michael Headley, portfolio holder for finance, said: "It's particularly important that people who are working with children or vulnerable adults are exactly who they say they are."



Matches benefiting other public bodies

The main benefit of a UK-wide data matching exercise is that it enables matches to be made between bodies and across national borders.

For public bodies that take part in the NFI but may not always identify significant outcomes from their own matches, it is important to appreciate that other bodies and sectors may benefit significantly.

Data from the 2018/19 NFI exercise benefited wider public bodies, both within and outside England, enabling them to take action on 9,370 cases with actual overpayments of £14.3 million²⁷.

Most of these outcomes are from cross-body housing benefits, council tax reductions and housing waiting list matches.

Table 4 – How English bodies benefited from data provided by participants outside England



Number of cases

Local government

5,456

Central government

3,265

NHS

468

Other

181

Total

9,370



Actual outcomes

Local government

£8m

Central government

£5.1m

NHS

£0.6m

Other

£0.6m

Total

£14.3m



²⁷ Actual overpayments exclude estimates of fraud prevented.

Pilots undertaken by the NFI during 2018 to 2020 in England

HMRC information sharing pilot

After a successful initial information sharing pilot with HMRC in spring 2019, just over 2.2 million matches were released to all local councils in August 2019.

Matches were across 7 datasets (council tax reduction scheme; housing benefit claimants; housing tenants; personal budgets; private residential care homes; right to buy; and council tax single persons discount) and targeted three fraud risks:

- Undeclared property ownership
- Non or under declaration of earnings and capital
- Misrepresentation of household composition

Outcomes for the pilot totalled £8.8 million across all three targeted risk areas, specifically:

- Undeclared Earnings and Capital from Household Composition – £5.3 million
- Undeclared Earnings and Capital – £2 million
- Undeclared Property Ownership – £1.4 million

Outcomes for Household Composition matches were most significant at £5.3 million, making up 61% of total outcomes. This was due to the number of matches released and its applicability to both Council Tax single person discount fraud and Council Tax Reduction Scheme fraud which local councils have prioritised and for which, results are often quicker.

As a result of the success of the pilot the NFI will seek to undertake a further pilot as part of the NFI 2020/21, subject to the agreement of HMRC and approval to use the Digital Economy Act.

As part of this pilot we will:

- Exclude Right to Buy and Personal Budgets datasets as they did not deliver benefits in the first pilot;
- Build matches into the main NFI 2020/21 exercise;
- Reduce false positives that were identified in the first pilot; and
- Refine matching rules and risk scoring to allow for better prioritisation of matches by councils.

We anticipate that these changes would allow even greater benefits to be realised by securing better engagement and improving the effectiveness of the resources invested in reviewing these matches.

We anticipate outcomes from a further pilot could range between £16 million and £36 million depending on levels of engagement from local councils in England.



Pilots undertaken by the NFI during 2018 to 2020 in England

Case study:

Tameside Council

Tameside Council identified over £200,000 in potential savings from the 2018/19 NFI reports.

In one particular housing benefit case a non-dependant had failed to declare employment going back to December 2016, this resulted in recovery of £3,277.12 overpaid council tax reduction.

The council also used the output from the NFI HMRC information sharing pilot to identify a significant number of housing benefit and council tax reduction claims with discrepancies, such as inaccurate information provided on application forms and failure to notify a change in circumstances. Proactive follow up investigations stopped further fraud or error.

A spokesperson from Tameside said:

“The Council has found the data to be very useful in supporting the identification of cases where claimants have provided false information and/or failed to notify the Council of changes that affect benefit entitlement. All of which shows the accuracy and benefit of NFI data files.”



Water Companies

We have worked closely with the Water Industry to leverage insight from NFI data to address specific risks in this sector. We undertook a pilot which sought to address two risks:

- Non-entitlement to discounted tariffs
- Misrepresentation of void properties

The pilot used NFI data to flag where individuals were potentially not in receipt of benefits which qualified them for a discounted water tariff or where a property that was recorded as void by the water company was in fact occupied. 13% of the records matched in the pilot identified potential fraud or error.

Outcomes totalled £3.1 million in respect of void properties showing to be occupied and £172,000 in respect of non-entitlement to discounted tariffs. Investigations are ongoing and so further outcomes are expected.

In addition to helping utility companies detect more fraud and error cases, the NFI data is also helping them to verify genuine customers.

Following this pilot the NFI team is now rolling out this data matching model to other water companies in the wider utilities sector.

Business Rates

The NFI undertook a pilot to identify fraud and error within business rates whereby businesses evade rates by claiming discounts/reliefs to which they are not entitled.

For the pilot just over 200,000 records from 30 local councils were matched to each other and other external datasets.

The pilot resulted in nearly £316,000 of overpayments particularly in relation to non-entitlement to Small Business Rate Relief where companies were claiming reliefs on multiple properties.

NFI forward look

COVID-19 pandemic

The COVID-19 pandemic has already impacted on the NFI work programme in 2020 and 2021.

Following a consultation we have confirmed that the NFI will be extended to support local councils in identifying potential fraud across several government stimulus packages, in particular where local councils administer payments, for example, Business Support Grants.

Alongside this the NFI is also working with government departments on if/how the NFI can support them.

Expansion of NFI data matching purposes

Throughout 2019/20 we have been working towards passing an important piece of secondary legislation which would allow the NFI to expand the purposes of data matching. The Minister for the Cabinet Office currently has the power to conduct data matching exercises for one purpose: to help in the prevention and detection of fraud.

The Local Audit and Accountability Act 2014 (LAAA), however, provides that four additional purposes for data matching can be added to Schedule 9 (by affirmative regulations) and the Schedule can also be modified. The NFI is hoping to add all four new purposes for data matching exercises, which are to assist in the:

- Prevention and detection of crime (other than fraud)
- Apprehension and prosecution of offenders
- Prevention and detection of errors and inaccuracies
- Recovery of debt owing to public bodies

Analysis has already shown that these new data matching purposes could have far reaching benefits across the public sector.

During 2020/21 we will be looking to implement the purposes, through a parliamentary statutory instrument that will amend the LAAA. Alongside this we will develop a plan of appropriate data matching pilots for each purpose successfully included.



NFI forward look

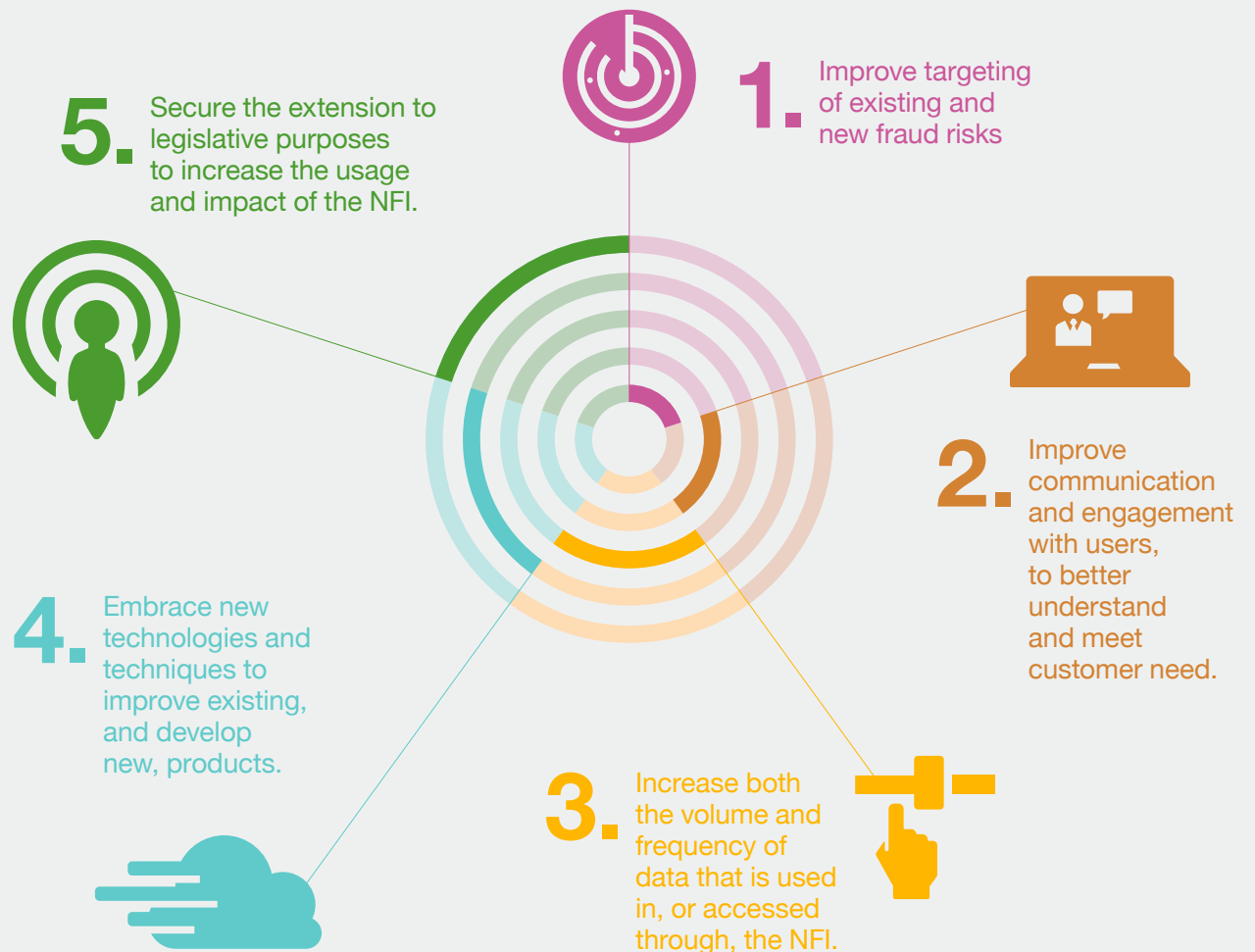
Strategic Objectives

The extension to cover COVID-19 emergency funding and the expansion of the data matching purposes are both aligned with the NFI strategic objectives.

As is other work outlined in this report including pilots, enhancements to the risk scoring and securing HMRC data for NFI 2020/21.



In addition, the NFI team will seek to identify and deliver other work streams that further contribute to the strategic objectives set out in Figure 1.

Figure 1 – NFI Strategy Objectives 2018 – 2022




How the NFI is improving

In the 2018 report, we set out five strategic objectives for the NFI to 2022 (Figure 1). We have made good progress in all areas such as:

You said	Our response in 2018	We did
 <p>“Management Information reports are not intuitive or easy to use.”</p>	<p>“As part of our continuous improvement strategy, we will develop management information tools, upgrade navigation options and improve web app functionality to better suit the user.”</p>	<p>We made significant improvements to the 2018/19 web application including:</p> <ul style="list-style-type: none"> – Interactive dashboards and widgets allowing users to select the management Information that they want to regularly view – Better signposting to management information – A Global Search option – A Fraud Risk score match view – Hide/Show columns – Improved report design
 <p>“There is a lack of engagement with users.”</p>	<p>“We recognise the challenges around successful user engagement.</p> <p>As part of our strategy, we will identify the right people to ensure NFI becomes a fundamental aspect of every organisation’s counter fraud work”.</p>	<p>We introduced a twice yearly newsletter for NFI participants that includes updates on pilots, case studies, user insight and articles on issues across the UK regions.</p> <p>We ran six user engagement sessions across the UK and exhibited at over 35 events.</p> <p>In addition, two factsheets on COVID-19 counter fraud measures were issued in April and May 2020.</p>

How the NFI is improving

In the 2018 report, we set out five strategic objectives for the NFI to 2022 (Figure 1). We have made good progress in all areas such as:

You said	Our response in 2018	We did
<p>Page 164</p>  <p>“Currently the matches provided contain many false positives and only about 10% are worth investigating.”</p>	<p>“We will tighten matching rules, and risk scoring, improving the accuracy and quality of existing NFI data matching techniques.</p> <p>We will also look to add additional data sources from both the public and private sector.”</p>	<p>We introduced risk scoring of 2018/19 matches – a review of the effectiveness of this approach is now underway ahead of the 2020/21 exercise. We will seek to incorporate the main messages into our risk scoring of future matches. An analysis of matches processed in 2018/19 and 2016/17²⁸ shows:</p> <ul style="list-style-type: none"> – The number of matches processed in 2018/19 were just under 1.3 million compared to 1.2 million in 2016/17. – In 2018/19, 65,029 (5.1%) of the 1.3 million matches processed were marked error, fraud or referred to DWP compared to 75,621 (6.4%) in 2016/17. There are currently limitations in these statistics as a Closed – Fraud or Error status cannot be attributed to all report level outcomes. We estimate this would add a further 140,000 fraud or error cases to the above figures, increasing the percentage from 5.1% to 14.2%. We intend to review the usability of the outcome status options for 2020/21 and make improvements where needed, in order to improve the completeness of these statistics for future reporting periods. – The number of matches that were already known about by the participant decreased from 13.32% of processed in 2016/17 to 11.52% of processed in 2018/19. – During 2018/19 a new Closed – Not selected for Investigation option was provided for users – 20% of matches were given this status that would previously have been Closed – No issue or left as not processed. This intelligence will help us improve matching techniques to reduce false positives in 2020/21. <p>We brought in regular data feeds from the DWP, Companies House and Credit Reference Agencies. Using the Digital Economy Act 2017 we worked with HMRC on a pilot to incorporate data on household composition, household earnings and property ownership.</p> <p>The pilot helped councils prevent and detect overpayments in the region of £8.8 million up to 27th March 2020.</p>

²⁸ These figures exclude ReCheck, AppCheck and FraudHub cases.



Comparison of NFI outcomes in England by risk area 2018 to 2020

Dataset	Example activity area	2020 £ million	2018 £ million
Pensions	Individuals obtaining the pension payments of a dead person	55.5	136.9 ²⁹
Council Tax	Individuals who did not qualify for the council tax single person discount because they were living with other countable adults	43.9	32.6
Housing benefits	Individuals claiming housing benefit who failed to declare an income or change of circumstances	35.0	24.9
Blue badges	Potential misuse of blue badge parking passes belonging to someone who has died	26.9	18.0
Housing waiting lists	Social housing waiting list applicants who were not entitled to social housing	20.1	25.5
Council tax reduction scheme	Individuals claiming Council Tax reduction who failed to declare an income or change of circumstances	6.5	2.8
Housing tenancy	Social housing tenants who were subletting or had multiple tenancies unlawfully	5.6	5.5
Private residential care homes	Payments to private care homes by a council for the care of a resident where the resident had died	5.1	4.4

²⁹ Pension related outcomes in the previous NFI exercise were overstated due to a formula error. The corrected total is shown in this table.

Comparison of NFI outcomes in England by risk area 2018 to 2020

Dataset	Example activity area	2020 £ million	2018 £ million
Trade creditors	Traders who intentionally or unintentionally submitted duplicate invoices for payment	5.1	4.3
Pilots	Various (excludes HMRC information sharing)	3.5	-
Concessionary travel	Potential misuse of concessionary travel passes belonging to someone who has died	3.4	5.6
Personal budgets	Individuals claiming a personal budget who failed to declare an income or change of circumstances or were deceased	2.1	0.5
Right to Buy	Social housing tenants who were not entitled to right to buy because they had multiple tenancies unlawfully	1.8	1.0
Other	Other miscellaneous outcomes not linked specifically to the above categories	0.8	0.3
Payroll	Employees working for one organisation while being on long-term sick leave at another	0.6	4.0
State benefit	Individuals claiming state benefits who failed to declare an income or change of circumstances	-	0.9
Total		215.8³⁰	267.4

³⁰ Due to rounding, numbers presented throughout this report may not add up precisely to the totals indicated and percentages may not precisely reflect the absolute figures for the same reason.



Comparison of NFI outcomes in England by case 2018 to 2020

Dataset	2020 Number of cases	2018 Number of cases
Pensions Pension payments stopped/adjusted	2,876	3,763
Council Tax single person discount Council Tax single person discount claims stopped	36,728	30,343
Housing benefit fraud, error and overpayments relating to:		
– Local government employees	754	798
– Central government pensioners	1,281	353
– Individuals receiving a local government pension	1,852	298
– Students	1,055	1,361
– NHS employees	282	313
– Other	679	743
Social housing/Right to Buy		
– Properties recovered	60	58
– Right to Buy wrongly awarded	17	4
– Applicants removed from a housing waiting list	6,092	7,601
Transport		
– Blue badges cancelled	46,750	31,223
– Concessionary travel passes cancelled	151,815	234,154
Social care		
– Residents in private care homes	292	275
– Personal Budgets	92	163
– Other social care	50,027	-
Payroll Total employees dismissed or resigned	21	53
Creditor payments Duplicate creditor payments	1,062	884
Council tax reduction scheme	2,688	1,613
Total	304,423	314,061



Report calculation methodology 2020 – England only

Data match	Detected Fraud £ million	Estimated Fraud £ million	Total £ million	Basis of calculation of estimated outcomes
Pensions	7.3	48.2	55.5	Annual pension multiplied by the number of years until the pensioner would have reached the age of 85.
Council Tax	17.2	26.7	43.9	Annual value of council tax single person discount multiplied by two years.
Housing benefits	26.3	8.7	35.0	Weekly benefit reduction multiplied by 21 weeks.
Blue badges	-	26.9	26.9	£575 per blue badge cancelled to reflect the estimated annual cost of blue badge fraud, the likelihood that badges are misused and the duration that fraudulent misuse will continue.
Housing waiting list	-	20.1	20.1	£3,240 per applicant removed from the waiting list, based on the annual cost of temporary accommodation, the likelihood that individuals on the waiting list would be provided a council property, and the duration for which fraud or error may continue undetected.
Council Tax reduction scheme	4.2	2.3	6.5	Weekly change in council tax discount multiplied by 21 weeks.
Housing tenancy	-	5.6	5.6	£93,000 per property recovered based on average four year fraudulent tenancy and an estimate of the duration that the fraud may have continued undetected. This includes temporary accommodation for genuine applicants; legal costs to recover property; re-let cost; and rent foregone during the void period between tenancies.
Private Residential care homes	2.7	2.4	5.1	£7,000 per case based on average weekly cost of residential care multiplied by 13 weeks.
Trade creditors	5.1	-	5.1	Not applicable.

Report calculation methodology 2020 – England only

Data match	Detected Fraud £ million	Estimated Fraud £ million	Total £ million	Basis of calculation of estimated outcomes
Pilots (excluding HMRC)	0.2	3.4	3.5	Water utility companies: In cases where a resident is found to be living at an address yet the property has been declared as void, the annual water charge will be used. In cases where a resident has incorrectly claimed a discounted tariff, the average amount of annual discount across the three most popular discounted tariffs will be used.
Concessionary travel	-	3.4	3.4	Number of passes cancelled multiplied by £24, based on the cost of reimbursement to bus operators for journeys made under the concessionary pass scheme and the duration of fraudulent pass misuse.
Personal budgets	0.8	1.3	2.1	Monthly reduction in personal budget payment multiplied by 3 months (the average duration that personal budget payments continue following the death of the recipient).
Right to Buy	-	1.8	1.8	£65,000 per application withdrawn based on average house prices and the minimum right to buy discount available. A regional variation applies in London of £104,000 per application withdrawn, to reflect the maximum value of Right to Buy discount available.
Other	0.8	-	0.8	
Payroll	0.5	0.1	0.6	£5,000 per case where the employee is dismissed or resigns.
Total	65.1	150.7³¹	215.8	

³¹ Due to rounding, numbers presented throughout this report may not add up precisely to the totals indicated and percentages may not precisely reflect the absolute figures for the same reason.



Contact us

We are always on the lookout for participants to help with ongoing improvements to the NFI. If you would like to get involved, please contact us at **nfiqueries@cabinetoffice.gov.uk**

For more information about the NFI please visit our website:

<https://www.gov.uk/government/collections/national-fraud-initiative>

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Audit Update Report

Derbyshire County Council and Derbyshire Pension Fund

Year ending 31 March 2020

CONTENTS

1. Executive summary
2. Significant findings to date
3. Value for Money conclusion

Appendices:

A. National Publications

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

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1. EXECUTIVE SUMMARY

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditor for Derbyshire County Council and the Derbyshire Pension Fund and also summarising key national publications that may be of interest to Members.

Changes in accounts and audit timetable

In April 2020 The Ministry of Housing, Communities and Local Government (MHLCG) confirmed that a statutory instrument (SI) amending the Accounts and Audit Regulations had been laid and came into force on 30 April 2020. The new effects of the amendments to the regulations are to change the dates that local authorities, are required to publish draft and final accounts, and to remove the 'common' period during which local electors can inspect and object to local authority accounts.

The key changes for publication of draft and final accounts are as follows:

- The deadline for authorities to publish draft financial statements moves from 31 May to **31 August 2020**.
- The deadline for publication of final (audited) financial statements moves from 31 July to **30 November 2020**.

The requirement for a 'common' inspection period has been removed. The requirement to hold a 30-working-day inspection period remains, but for 2019/20 authorities can commence the inspection period at any time, except it must commence **no later than 1 September 2020**. This will allow authorities to produce their draft accounts and commence their inspection periods as soon as they are able.

We received the accounts of the Derbyshire County Council and Derbyshire Pension Fund on 8 June 2020 and the public inspection period commenced on 9 June 2020 and concluded on 20 July 2020.

Progress to date

We agreed dates to complete the audit fieldwork and our work has progressed reasonably well. Covid19 has created challenges to our ability to work efficiently, but management have been both supportive and cooperative as our work has progressed.

We do not expect, however, to be able to conclude the audit until October / November. This relates to the current position on the review process and our need to clarify the position on pensions and going concern. We are aiming to complete our work in October and we envisage our Audit Completion Reports for Derbyshire County Council and the Derbyshire Pension Fund being available in late October to facilitate sign offs in early November.

2. SIGNIFICANT FINDINGS TO DATE

Set out below are the significant findings from our audit to date. These findings include:

- matters arising from the work performed to date regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. At this stage we envisage concluding that the financial statements have been prepared in accordance with the financial reporting framework and have not identified any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council’s financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls (DCC and DPF)	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk
	We addressed this risk through performing audit work over: <ul style="list-style-type: none">• Accounting estimates impacting on amounts included in the financial statements;• Consideration of identified significant transactions outside the normal course of business; and• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Current Position
	The majority of our testing has been completed, with no matters arising.
	As management override could occur at any point up to the end of the audit, we need to perform our final procedures closer to the completion stage of the audit.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Revenue recognition (DCC)	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. Having considered the factors for revenue recognition and the Council's income streams, we believe the risk is relevant to "fees, charges and other service income". We have applied our judgement and believe the risk is not present in income from interest and investments, council tax, business rates and government grants.</p> <p>In our auditor judgement, we believe the risk is focused on the year-end balance sheet and in particular the existence and accuracy of "fees, charges and other service income" receivables.</p>
	<p>How we addressed this risk</p> <p>We addressed this risk by performing work in the following areas:</p> <ul style="list-style-type: none">• ensuring the accounting policies in relation to revenue recognition and recognition of accruals are appropriate and consistently applied;• testing year end debtors to confirm that they have been correctly valued and are correctly treated as a debtor of the authority; and• carrying out cut-off testing to confirm income has been charged to the correct accounting year.
	<p>Current position</p> <p>Our work is substantially complete with no significant findings, however we need to perform our final procedures and quality control reviews before concluding.</p>

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Valuation of land and buildings, investment properties (where material) and assets held for sale (where material) (DCC)	<p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's Property, Plant and Equipment that is held at a valuation.</p> <p>The Council uses an internal valuation expert to provide information on valuations because there is a high degree of estimation uncertainty caused by significant judgements and number of variables involved in providing valuations. We have therefore identified the valuation of material balances of land and buildings, investment properties (if material) and assets held for sale (if material) to be an area of significant audit risk.</p> <p>At the outset of the Covid19 outbreak, guidance issued by the Royal Institute of Chartered Surveyors set out an expectation that valuers are likely to conclude that there is "material uncertainty" over the valuation of land and buildings at the balance sheet date.</p>
	<p>How we addressed this risk</p> <p>We have considered the Council's arrangements for ensuring that the valuation of land and buildings are reasonable and whether valuation movements are in line with market expectations using available indices where appropriate. We have assessed the competence, skills and experience of the valuer.</p> <p>We test a sample of revaluations in year to valuation reports and supporting calculation sheets to ensure these are consistent with underlying source records (such as floor plans) in addition to challenging the methods and assumptions used by the valuer. Where necessary we also perform further audit procedures on individual assets to ensure that the basis and level of revaluation is appropriate.</p> <p>In addition, we assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer.</p>
	<p>Current position</p> <p>Our work is substantially complete with non-material findings relating to the indexation of values in order to fully reflect the position at the balance sheet date.</p> <p>The Council's valuer has included a statement of 'material uncertainty' over the valuation as at 31 March 2020 and we have considered this as part of our testing approach. We are considering the impact to our Audit Report, which we expect will lead to an 'emphasis of matters' paragraph to draw attention to the relevant disclosure note in the financial statements. This would not be a modification to the audit opinion and our approach is taken consistently across all local authority audits.</p>

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Valuation of net defined benefit liability (DCC)	<p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. Moreover, in 2019/20 the local government pension assets and liabilities are subject to triennial revaluation, which will set the contribution rates for 2020/21 onwards. This results in an increased risk of material misstatement.</p> <hr/> <p>How we addressed this risk</p> <p>In relation to the valuation of the Council's defined benefit pension liability in addition to our standard programme of work in this area we:</p> <ul style="list-style-type: none">• review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PwC, the consulting actuary engaged by the National Audit Office;• agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements;• critically assess the competency, objectivity and independence of the Derbyshire Pension Fund's Actuary, Hymans; and• gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate. <hr/> <p>Current position</p> <p>Our work is ongoing and these assurances will also inform us of any concerns relating to the valuation of pension fund assets as a result of any uncertainty caused by Covid19. We will need to consider the impact of this before issuing our opinion.</p> <p>In July 2019, MHCLG consulted on the proposed remedy for the 'McCloud' and 'Sargeant' cases. This indicates that the approach adopted for 2018/19 and 2019/20 is likely to have led to an overstatement of the pension fund liability as at 31 March 2020. We have requested the Council obtain an updated actuarial valuation to identify whether the pension fund assets and liabilities require adjustment.</p>

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Valuation of unquoted investments for which a market price is not readily available (DPF)	<p>As at 31 March 2019 the fair value of investments which were not quoted on an active market was £912m, which accounted for 18 percent of net investment assets. Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.</p> <p>As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.</p>
	<p>How we addressed this risk</p> <p>We addressed this risk by completing the following additional procedures:</p> <ul style="list-style-type: none">• agreeing holdings from fund manager reports to the global custodian’s report;• agreeing the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation;• agreeing the investment manager valuation to audited accounts or other independent supporting documentation, where available; and• where audited accounts are available, checking that they are supported by a clear opinion.
	<p>Current position</p> <p>Our work is substantially complete with only non-material findings, however we need to perform our final procedures and quality control reviews before concluding.</p>

2. SIGNIFICANT FINDINGS (CONTINUED)

Key areas of management judgement Minimum revenue provision (MRP) (DCC)	Description of the issue Local authorities are normally required each year to set aside some of their revenues as a provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is not prescribed although an overarching principle of prudence is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised in determining the level of its prudent provision. <hr/> How we addressed this issue We addressed this judgement by: <ul style="list-style-type: none">• reviewing the Council's MRP policy to ensure that it has been developed with regard to the statutory guidance;• assessing whether the provision has been calculated and recorded in accordance with the Council's policy;• assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement; and• confirming that any charge has been accounted for in accordance with the Code. <hr/> Current position Our work is substantially complete with no significant findings, however we need to perform our final procedures and checks before concluding. <hr/>
Key areas of management judgement SinFin waste recycling (DCC)	Description of the issue The long-term waste management contract between Derbyshire County Council, Derby City Council and Resource Recovery Solutions came to an end in 2019. Work is underway to determine the condition and capability of the currently non-operational treatment facility. The Council's management will need to make a judgement on how to account for the impact in 2019/20. <hr/> How we addressed this issue We evaluated the basis of the accounting judgement and the impact on the financial statements for 2019/20 including the adequacy of disclosures. <hr/> Current position Our work is substantially complete with no significant findings, however we need to perform our final procedures and checks before concluding. <hr/>

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant matters discussed with management

We have, and will continue to have, ongoing dialogue with management over key aspects of the audit. These have included:

- the impact of Covid19 on the entity’s business, including potential impact on risks of material misstatement; and
- discussions in connection with the application of auditing standards and fees for audit.

Covid19

We have discussed the impact of Covid19 on the Council’s business and concluded there were no additional financial statement significant audit risks arising.

One area of concern is the Council’s financial resilience. The Council must re-evaluate its budget and medium term financial outlook. The full financial impact of Covid19 is not yet certain, however the initial outbreak impacted on the Council’s ability to enact its original 2020/21 plan, including services redesign, reducing expenditure and / or investment opportunities.

We recognise the Council is working through the implications and considerations. The impact of this cannot be understated. The Council’s useable reserves are under significant pressure and action must be taken in order to ensure the Council’s financial resilience is assured.

Financial Statement Matters: Going Concern

The Council’s going concern status is confirmed through the 2019-20 local government accounting code, and must also follow International Accounting Standard (IAS) 1: Presentation of financial statements. We must comply with a revised ISA (UK) 570 Going Concern, effective for periods commencing on or after 15 December 2019. The above, combined with the impact of Covid-19, means an additional level of scrutiny is required over the going concern assertion in 2019/20. In particular, reviewing management’s explicit considerations of whether the financial statement disclosure for going concern should more explicitly describe the impact of Covid-19.

We have provided a briefing note to management and have requested the Council perform a formal going concern assessment for 2019/20 prior to us forming our final audit opinion.

Financial Statement Matters: Financial Instruments

Whilst the Government has introduced a number of measures to ease financial hardship, the Council will need to consider the impact on expected credit losses or the impairment of financial assets.

Financial Statement Matters: Sources of estimation uncertainty, including pension fund assets and liabilities

The Council is required to provide disclosures regarding the key sources of estimation uncertainty that management has made in preparing the financial statements, specifically those with a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the ensuing financial year.

Audit fees

As explained in our Audit Strategy Memorandum, we continually strive to maintain high standards of audit quality. One mechanism for doing this is to consider the outcome of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers. In particular, we have increased the level of work we do on:

- defined benefit pension schemes;
- valuation of property, plant and equipment; and
- Major local audits.

We expect this to be a permanent uplift to the audit fee and have provided management with an estimate, to be confirmed on completion of our work, of between £9,000 to £15,000.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant matters discussed with management (continued)

Audit fees (continued)

In addition to the fees relating to scope changes to the valuation of land and buildings and in relation to the pension fund assets and liabilities, we have discussed with management the additional audit testing and audit work required relating to:

- Valuation uncertainty on land and buildings and pension fund assets caused by Covid19;
- Additional testing and evaluation of the going concern assertion and financial instruments; and
- Potential changes to the financial statements as a result of the McCloud remedy.

We have provided management with an estimate of between £6,750 and £14,000 for these matters. The final amount will be agreed on completion of our work and be proportionate to the level of specific additional work required.

Management co-operation

During the ongoing coronavirus situation, Mazars has implemented clear and decisive measures to ensure the welfare of our people and clients while ensuring that we continue to deliver for those who rely on us. Remote working has meant the audit is not as efficient as we would like or expect, including an extended period of query resolution. This is consistent across all our clients and a reflection of the impact of Covid19.

Management have been under substantial pressure to deliver against many competing priorities since March 2020 and we want to extend our thanks to the finance team for their positive support and co-operation during the course of the audit.

Audit adjustments

In our Audit Completion Report, we will provide full disclosure of audit adjustments and any unadjusted misstatements for approval. From the work performed to date, the main items for the Audit Committee to note are:

- Property Plant & Equipment - Management identified that the Tupton Hall School Academy disposal had been adjusted from purchased built not PFI asset line in the PPE table.
- Minor disclosure update to credit risks arising from financial instruments – Management identified that figures in the disclosure narrative and tables had not been updated for a pre-audit adjustment to trade debtors.
- We have identified non-material changes which could be made relating to the indexation of property values to make them relevant to the balance sheet date and the proposed remedy for the 'McCloud' and 'Sargeant' pensions cases. There is also the potential for change through another pension case called 'Goodwin'.
- Pension Fund Accounts – Management identified that for current assets the latest table was not pasted in (the table was before a £191k loss allowance for rental debtors), the current assets in the net assets statement is however correct.
- Minor changes identified by Mazars to date in the Council Accounts include:
 - Accounting Policies – updated to include the following in respect of valuation of heritage assets “Where a valuation has been applied to this class of assets, other than a historic valuation, a range of valuation bases have been used which include external valuations, curatorial valuations and a limited number of cases of insurance valuations. Where a curatorial valuation has been applied the valuation is dependent upon the experience and knowledge of the Derbyshire Museums Manager”.
 - Note 16 - updated to show heritage assets by separate classes this year and last, with movements, with explanation of the different classes added.
 - Note 51 – sentence added: “The Council’s maximum exposure to credit risk is deemed to be the gross carrying amount of the financial assets held.”
 - Note 22 – these sentences added: “The Council’s pooled investment funds are traded on active markets, for which the Council can access the measurement data. The fair values of these funds are determined by the closing bid prices at 31 March 2020. The fair values of the Council’s deposits and the loans it has made are determined with reference to the principal, term, rate and timing of the interest and the borrower’s credit rating” Also extra lines added to split out non-current investments in the ‘Non-Current Financial Assets’ table to separately disclose the Pooled Investment Funds (at FV hierarchy level 1) and the loan for Buxton Crescent (at FV hierarchy level 3).

3. VALUE FOR MONEY CONCLUSION

Our approach to Value for Money

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

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

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

Significant Value for Money risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified the following significant risk to our VFM work:

Risk: SinFin Waste Recycling	
Description	<p>The long-term waste management contract between Derbyshire County Council, Derby City Council and Resource Recovery Solutions came to an end in 2019.</p> <p>The facility was due to be operational in 2017, however this did not happen as intended. Following a sustained period of the Councils asking the funding banks to step-in and get the Waste Recycling facility fully operational, the banks issued a legal notice (called a “No Liquid Market” notice) that brought the contract to an end and the councils did not dispute the notice.</p> <p>Work is underway to determine the condition and capability of the currently non-operational treatment facility.</p>
Planned response	<p>We will review the governance and decision making in respect of this project before offering our 2019/20 VFM conclusion. In undertaking this work we will consider the timeline of key decisions made by the Council and any reports issued in support of those decisions.</p>

3. VALUE FOR MONEY CONCLUSION

Risk:	Financial resilience
Observations to date	<p>A new two year contract has been put in place by the Council and Derby City Council to make sure waste that residents cannot recycle or choose not to recycle continues to be dealt with and that recycling centres and waste transfer stations continue to operate. The contract for these services is with waste management company Renewi UK Services Ltd. Work had been progressing on the facility to determine its condition and capability, however due to the measures introduced by the UK Government to counter the Covid-19 pandemic, work on site has been affected. This work is also being carried out by Renewi UK Services Ltd and will allow the councils to ascertain what measures need to be in place for the facility to become fully operational.</p> <p>Funding for the facility had been loaned to RRS by the UK Green Infrastructure Platform and three leading international banks; Sumitomo Mitsui Banking Corporation and Shinsei Bank from Japan and Bayerische Landesbank from Germany. The councils are in negotiations to pay the banks an “estimated fair value” for the plant taking into account all of the costs of rectifying ongoing issues at the plant and the costs of providing the services to meet the agreed contract standards.</p> <p>The Council and Derby City Council are putting a second Inter Authority Agreement (IAA) into place to cover the period of the contract with Renewi UK Services Ltd. As with the previous IAA, this will establish that each council is represented on the board set up to oversee and implement the delivery of the project and has 50:50 voting rights, the councils collectively are considered to have power over the relevant activities and hence have control collectively. The relevant activities are the long term running of waste disposal for the councils. As decisions about the relevant activities will require the unanimous consent of both parties, the arrangement is considered to meet the definition of a joint arrangement. As the proposed arrangement is not structured as a separate entity it is classified as a joint operation and each council will recognise its share of the arrangement’s assets, liabilities, income and expenditure. The Council has considered the accounting treatment for the NWTF and has determined that no asset or liability can be recognised on the balance sheet at 31 March 2020 because the asset has not been brought into service as intended. The capital costs being incurred are therefore being treated as relating to an asset under construction.</p> <p>We have considered the accounting treatment being applied and consider this to be appropriate to the current circumstances. In terms of our Value for Money Conclusion, our determination is based on the arrangements put in place during 2019/20 as described above.</p> <p>Further considerations will be needed depending on the “estimated fair value” paid and the extent to which the plant can be brought into operation to recycle the types and amounts of waste originally intended. It appears unlikely that this will be known for some time and we therefore intend to roll forward this issue into 20120/21 for continued consideration.</p>

A. SUMMARY OF NATIONAL PUBLICATIONS

This section of our report contains national publications which may be of interest to Members. This summary does not intend to provide an exhaustive list of all recent publications, but to provide an overview of key areas.

Within Mazars, we liaise with the regulators for your sector on a regular basis and this will continue during the coming periods, so that we ensure we are up-to-date with emerging issues; we feed back any messages as part of on-going two-way communications.

	Publication/update	Key points
Chartered Institute of Public Finance and Accountancy (CIPFA)		
1.	Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, CIPFA, July 2020	Guidance on financial accounting in local government.
2.	Delivering Outcomes in the Public Sector, CIPFA, August 2020	Provides advice to practitioners on how to use an outcomes approach to deal with challenges in public spending.
National Audit Office (NAO)		
3.	Whole of Government Accounts 2018-19, NAO, July 2020	The Whole of Government Accounts consolidates the accounts of public sector bodies.
4.	Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19, NAO, June 2020	This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak.
Public Sector Audit Appointments (PSAA)		
5	PSAA publishes the outcome of its market engagement exercise, PSAA, July 2020	This exercise sought views from all registered firms to inform PSAA's consideration of whether a further procurement would be appropriate in order to try to attract additional, good quality capacity into the market, and if so, how such a procurement might best be designed.
Ministry for Housing, Communities and Local Government (MHCLG)		
6	Launch of Planning for the future consultation to reform the planning system, MHCLG, August 2020	An overhaul of the country's planning system that will aim to deliver the high-quality, sustainable homes communities need will be at the heart of the most significant reforms to housing policy in decades, the Housing Secretary has announced.
7	Reforming local government exit pay, MHCLG, September 2020	As part of a wider programme of cross-public sector action on exit payment terms, this consultation paper sets out the government's proposals for reforming local government exit payments.
Local Government Association (LGA)		
8	Digital innovation in adult social care: how we've been supporting communities during COVID-19, LGA, September 2020	Work has been undertaken in capturing examples of social care digital innovation across local government in this new report.
House of Commons: Public Accounts Committee (PAC)		
9	Local authority investment in commercial property, PAC, July 2020	Significant concerns have been expressed over local authority approaches to commercial property investment.

A. NATIONAL PUBLICATIONS

1. Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, CIPFA, July 2020

This edition of the Code introduces a number of important amendments relating both to context and an understanding of requirements. Changes include:

- implementation and emphasis of IFRS amendments relating to the application of materiality, and the requirement to avoid obscuring material information.
- implementation of Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement; with guidance on initial proxy assessment of quantitative materiality.
- amendments to reporting by pension funds to align with presentation practices under the Pensions SORP.
- amendments relating to financial instruments.

Importantly, the 2020/21 Code includes a new appendix which sets out the agreed reporting text for the implementation of the deferred IFRS 16 Leases standard. This appendix will apply from 1 April 2021 and it will allow local authority accounts preparers to make effective preparations for the implementation of the standard in the 2021/22 financial year.

<https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202021>

2. Delivering Outcomes in the Public Sector, CIPFA, August 2020

Delivering Outcomes in the Public Sector is a practical guidance for anyone with an interest in making sure public money is used correctly. The book provides advice to practitioners on how to use an outcomes approach to deal with challenges in public spending. Outcomes are a way of defining effectiveness, or benefits, but in order to assess value for money, practitioners need to consider costs as well as benefits. Political judgement is also required to determine spending priorities depending on the relative importance of different outcomes. The rationale for an outcomes approach – a way of thinking and working that focuses on things that customers value – seems self-evident, but public sector organisations face significant challenges in: translating outcomes into measurable indicators of performance and assessing the impact that a particular service or programme has on outcomes. This guidance provides advice about how to navigate these challenges and avoid the various pitfalls that can trap the unwary. Key points are illustrated with examples that give a real insight into the detailed work required to plan and implement an outcomes approach.

<https://www.cipfa.org/policy-and-guidance/publications/d/delivering-outcomes-in-the-public-sector>

3. Whole of Government Accounts 2018-19, NAO, July 2020

The Whole of Government Accounts consolidates the accounts of over 9,000 public sector bodies, including central and local government and public corporations such as the Bank of England, to provide the most complete and accurate picture of the UK's public finances.

<https://www.nao.org.uk/report/whole-of-government-accounts-2018-19/>

4. Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19, NAO, June 2020

Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk. Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for. This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on: annual reports; financial reporting; the control environment; and regularity of expenditure.

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

A. NATIONAL PUBLICATIONS CONTINUED

5. PSAA publishes the outcome of its market engagement exercise, PSAA, July 2020

This exercise sought views from all registered firms to inform PSAA's consideration of whether a further procurement would be appropriate in order to try to attract additional, good quality capacity into the market, and if so, how such a procurement might best be designed. The review reaffirmed the current challenges facing the world of local audit. It also highlighted that there are some subtle differences in the firms' perspectives on the challenges and correspondingly they are adopting different response strategies. Importantly, it identified that there is the potential to attract some additional capacity into the local audit market subject to a lead-in period of around 12-18 months from contract award. However, access to this capacity would be dependent on certain circumstances, not all of which are within PSAA's gift.

<https://www.psaa.co.uk/2020/07/psaa-publishes-the-outcome-of-its-market-engagement-exercise/>

6. Launch of Planning for the future consultation to reform the planning system, MHCLG, August 2020

An overhaul of the country's outdated planning system that will deliver the high-quality, sustainable homes communities need will be at the heart of the most significant reforms to housing policy in decades, the Housing Secretary has announced. Features are envisaged to include:

- plans to streamline process, cut red tape and harness technology to deliver homes faster;
- valued green spaces protected for future generations, with more building on brownfield land;
- building beautiful homes with communities at heart of new planning system; and
- 30% discount through First Homes, with an emphasis on key workers.

<https://www.gov.uk/government/news/launch-of-planning-for-the-future-consultation-to-reform-the-planning-system>

7. Reforming local government exit pay, MHCLG, September 2020

As part of a wider programme of cross-public sector action on exit payment terms, this consultation paper sets out the government's proposals for reforming local government exit payments. It is seeking information on:

- the effects that the proposals for reform will have on the regulations which currently govern exit payments (including both redundancy compensation pay and early access to pensions) in local government; and
- the impact that the proposals for reform will have on the local government workforce.

<https://www.gov.uk/government/consultations/reforming-local-government-exit-pay>

8. Digital innovation in adult social care: how we've been supporting communities during COVID-19, LGA, September 2020

The Local Government Association (LGA) and Association of Directors of Adult Social Services (ADASS) commissioned the Institute of Public Care at Oxford Brookes University to work with councils in capturing examples of social care digital innovation across local government in a new report. This report comes at a time when the health and social care sector has been making repeated calls to the government to resolve the immediate financial pressures arising from COVID-19 and to address the long-term funding and reform of adult social care. The full report has three parts:

- what has been done to support the use of technology for connection, wellbeing and bringing communities closer together;
- what has been learned about the factors which lead to successful digital innovation in adult social care and those that don't; and
- what next if we want to keep up the momentum and sustain new learning, approaches and ways of working?

For councils, it is hoped that this report is a useful stock take of recent digital activity across local government which can be used to promote and stimulate continued work in this area with local communities.

<https://www.justiceinspectorates.gov.uk/hmicfrs/publications/fire-and-rescue-service-inspections-2018-19-tranche-2/>

A. NATIONAL PUBLICATIONS CONTINUED

9. House of Commons: Public Accounts Committee: Local authority investment in commercial property, PAC, July 2020

The Public Accounts Committee has expressed significant concerns over local authority investments in commercial property and has made a series of recommendations, including:

- further strengthening of guidance and the prudential framework; and
- further strengthening of local governance arrangements.

<https://publications.parliament.uk/pa/cm5801/cmselect/cmpubacc/312/31202.htm>

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