



Agenda Item

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

21 March 2023

Report of the Interim Director of Finance & ICT

Update on 2021-22 External Audit Internal Control Recommendations

1. Purpose

- 1.1 To provide Audit Committee with an update of the actions taken in response to the internal control recommendations outlined in the external auditor's Audit Findings Progress and Completion Reports for 2021-22.

2. Information and Analysis

- 2.1 The external auditor presented its 2021-22 Audit Findings Progress Report for Derbyshire County Council at the Audit Committee meeting on 29 November 2022.
- 2.2 One internal control recommendation was raised in respect of the external auditor's audit of the Council's Accounts in its 2021-22 Audit Findings Progress Report. This recommendation has a 'medium priority' ranking, which in the view of the external auditor means that 'there is a need to strengthen internal control or enhance business efficiency and the recommendation should be actioned in the near future'. This is a similar position to that reported in 2020-21, when two recommendations were raised in respect of the Council's Accounts, both with a 'low priority' ranking, which in the view of the external auditor means that 'internal controls should be strengthened when practicable'.

2.3 Receiving a small number of internal control recommendations, again with no recommendations with a 'high priority' ranking, is a positive indication of the continued effectiveness of the Council's internal controls.

2.4 Below is a summary and progress update in respect of the 2021-22 internal control recommendation:

- **Controls in place with regard to journals posting** – Three members of staff below Grade 10, which is the expected cut-off grade to be able to post journals, were identified as posting journals. These staff members all work in an accountancy team with responsibility for a particular operational area. The Council confirmed that these staff members were experienced and knowledgeable of the specific operational area and that this was a considered and permitted exception. The Council has since reduced the number of staff below Grade 10 permitted to post journals in respect of this operational area from three to two (both Grade 9) and this continues to be monitored.

Further, the Council's Journal Policy does not mention a specific staff Grade below which journals should not be posted, rather it states that the ability to enter and adjust postings will be limited to a small number of individuals, with an appropriate access level for their grade, and that access to post journals will only be granted to officers nominated by the departmental finance managers, with this list of officers being reviewed on an annual basis prior to financial year-end to ensure the users are appropriate for the needs of the business. The Council has reviewed current arrangements in place and can confirm that this requirement is being followed.

2.5 A detailed update on the actions taken is attached at Appendix Two to this report.

2.6 The external auditor again raised no internal control recommendations in its Completion Report in respect of their audit of the 2021-22 Derbyshire Pension Fund Accounts, consistent with the position reported in respect of the 2020-21 audit. This is testament to the strength of the Derbyshire Pension Fund's internal controls.

3. Consultation

3.1 No consultation is required.

4. Alternative Options Considered

- 4.1 Not Applicable – It is prudent and responsible practice for progress on external audit’s internal control recommendations for the previous year to be reported to Audit Committee. If low/medium priority control recommendations are not reviewed and acted upon then they would be re-reported by external audit in the following year, and the Council’s internal controls would not be as effective as they could be in their design or operation. Although there are none, if any high priority internal control recommendations were not immediately acted upon then there would be potential for financial loss, damage to reputation or loss of information, which may have implications for the achievement of the Council’s business strategic objectives.

5. Implications

- 5.1 Appendix One sets out the relevant implications considered in the preparation of the report.

6. Background Papers

- 6.1 No papers held.

7. Appendices

- 7.1 Appendix One – Implications.
- 7.2 Appendix Two – Update on External Audit Internal Control Recommendations.

8. Recommendation

That Audit Committee:

- 8.1 Notes the actions taken in response to the recommendations outlined in the external auditor’s Audit Findings Progress and Completion Reports for 2021-22.

9. Reasons for Recommendations

- 9.1 It is prudent and responsible practice for progress on external audit's internal control recommendations for the previous year to be reported to Audit Committee.

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Implications

Financial

- 1.1 No high priority internal control recommendations were identified in the external auditor's Audit Findings Progress and Completion Reports for 2021-22. Such high priority recommendations, if not immediately acted upon, could result in financial loss, damage to reputation or loss of information, which could have implications for the achievement of the Council's business strategic objectives. The only internal control recommendation identified for the Council had a medium priority ranking, which in the view of the external auditor means that 'there is a need to strengthen internal control or enhance business efficiency and the recommendation should be actioned in the near future'. The recommendation has been satisfactorily addressed and is reported on in summary at paragraph 4.4, and in detail at Appendix Two. No internal control recommendations were raised for the Derbyshire Pension Fund.

Legal

- 2.1 None.

Human Resources

- 3.1 None.

Information Technology

- 4.1 None.

Equalities Impact

- 5.1 None.

Corporate objectives and priorities for change

- 6.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

- 7.1 None.

Update on External Audit 2021-22 Internal Control Recommendations

Recommendation	Update
<p>Derbyshire County Council</p> <p>Controls in place with regard to journal posting</p> <p>Ranking – Medium Priority</p> <p>Three members of staff were posting journals below Grade 10, which is the expected cut-off grade to be able to post journals. Further enquiries with management confirmed that these staff worked in the same team and although not at the required grade, were experienced and knowledgeable of the specific operational area. Management should review the arrangements in place for the staff identified and ensure that the Grade 10 requirement is being followed in other areas.</p>	<p>The Council's Journal Policy does not mention a specific staff Grade below which journals should not be posted, rather it states that the ability to enter and adjust postings will be limited to a small number of individuals, with an appropriate access level for their grade, and that access to post journals will only be granted to officers nominated by their departmental finance managers (senior finance business partners or equivalent), with this list of officers being reviewed on an annual basis prior to financial year-end to ensure the users are appropriate for the needs of the business.</p> <p>The Council has confirmed that the staff members identified by external audit as being below Grade 10 and posting journals in Corporate Services and Transformation property accountancy were experienced and knowledgeable of the specific operational area, and that these were considered and permitted instances of journal approval. The Corporate Services and Transformation Senior Finance Business Partner has confirmed that these staff members know the system and perform all the appropriate checks. However, the Council has decided to reduce the number of staff below Grade 10 permitted to post journals in respect of this operational area from three to two (both Grade 9) and this has been communicated and will continue to be monitored.</p> <p>The Council has reviewed current arrangements in place, taking journal postings below Grade 10 in 2022-23 as a starting point for review (as it is considered that journal posting at Grade 10 or above is a general requirement of a finance role), and has confirmed by discussion with the relevant teams' finance managers that the Journal Policy requirement that these users posting journals are appropriate for the needs of the business is being followed.</p> <p>In summary, there are two operational areas where staff below Grade 10 are nominated and permitted by the relevant finance managers to post journals – these are in Corporate Services and Transformation property accountancy (as referred to in detail above) and in Exchequer Financial Services.</p>

The Head of Exchequer Financial Services has noted that there is only one permanent Grade 10 within the teams involved in approving and posting the majority of journals in the section, and given large transactional volumes, primarily associated with the clearing of bank statements, it would be impossible and ineffective for that one Grade 10 to deal with all these. Team members below Grade 10 are therefore authorised and required to approve and post journals in these teams as part of their roles. This journal posting structure is in line with the Journal Policy, having been reviewed and approved at the appropriate level. Posting journals is reflected in the evaluation for the accountability and responsibility of the majority Grade 8 roles in these teams. Moving forward, it has been decided that procedures will be strengthened, with only staff members of Grade 8 and above approving journals. Any Grade 6 identified postings will be reviewed and confirmed by a Grade 8 member of staff. This change will be communicated to staff. Further reassurance is gained from the sample checking of postings during annual internal audit reviews, with the section consistently achieving substantial assurance results.

In addition to the above, the review identified a further three staff at schools or colleges of Grade 8 or Grade 9 who have posted journals. One of these staff members posted journals on two occasions only. The other two posted journals fewer than 25 times but have now left these jobs. It is considered that no further action is required in respect of these isolated instances, which are considered unlikely to recur.