

Agenda Item No 4(d)

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

24 March 2020

Report of the Director of Finance & ICT

EXTERNAL AUDIT - UPDATE ON 2018-19 RECOMMENDATIONS

1 Purpose of the Report

This report provides Members with an update of the actions taken in response to the recommendations outlined in the external auditor's Audit Completion Reports and Annual Audit Letters for 2018-19.

2 Information and Analysis

The external auditor presented its 2018-19 Audit Completion Reports at the Audit Committee meeting on 23 July 2019 and its 2018-19 Annual Audit Letters at the Audit Committee meeting on 24 September 2019.

Three recommendations were raised in respect of the Council Accounts. Below is a summary and progress update:

- Valuation process controls – there were a number of issues with land and buildings valuations; a misclassification of agricultural land as residential land, the omission of a school building and an inconsistent approach to the valuation of homes for older people. No material errors were identified. Steps have been taken to correct and address these matters, together with the control weaknesses identified in 2017-18; a valuation manual has been introduced to improve the accuracy and consistency of the valuation work undertaken. The valuation manual is a living document utilised by the asset valuation team to ensure effective valuation delivery. It is fully embedded and a constant reference, informing process in the production, timely checking and completion of valuations. The manual is in the process of being reviewed in preparation for the next valuation period 2020-21, to ensure continued accuracy.
- Contracts of employment controls – two contracts of employment could not be located. The Shared Services Centre (SSC) did not hold the full employee file for two school employees, as this was the schools'

responsibility, as a “traded services client”. Procedures have been reviewed and a change is being introduced from 20 April 2020 whereby HR Shared Services will no longer retain the signed acceptance for traded services clients. These will be returned directly to the school/external client, as it is the responsibility of the school/employer to retain. HR Shared Services is the service provider/payroll provider and therefore will only keep information relating to contract or payroll requests for a period of six years plus the current financial year. Information will be stored in month order and financial year and sent off-site as appropriate.

- Completeness of related party transactions controls – three Members had not declared their membership of another public sector body on their declaration forms. No inherent conflicts of interest were involved. The importance of full disclosures will form part of forthcoming training of Members and Officers. The session dates will be confirmed in the near future.

One recommendation was raised in respect of the Derbyshire Pension Fund Accounts. Below is a summary and progress update:

- Pension payroll to general ledger reconciliations – during the audit a pension payroll to general ledger reconciliation was provided to the external auditor but this took more time than anticipated. The Council has developed and implemented a reconciliation process during 2019-20.

A detailed update on the actions being taken in response to the 2018-19 control recommendations is attached at Appendix One.

The external auditor also revisited recommendations from 2017-18, when two recommendations were raised:

- Council and Pension Fund Accounts – whilst the position has improved with regard to controls over privileged access users of the Council’s SAP financial system, with any changes to the status of users with this access being actively managed by senior finance staff, the Council has additionally drafted and shared with the external auditors a documented incident management policy, which covers user access issues.
- Pension Fund Accounts – recommendations around pension records were to be taken forward with a new Pension Fund Administration System. The new system went live on 4 March 2019. Virtually all of the outstanding system implementation issues have been resolved and responsibility moved from the Pension Project Team to the “Business as Usual” Pension Technical Team on 3 February 2020.

A detailed update on the action being taken in respect of the external auditor’s revisit of 2017-18 recommendations is attached at Appendix Two.

3 Considerations

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

4 Background Papers

Copies of the approved Statement of Accounts are held in Technical Section, Corporate Finance & ICT.

5 Officer's Recommendation

That Audit Committee notes the actions being taken in response to the recommendations outlined in the external auditor's Audit Completion Reports and Annual Audit Letters for 2018-19.

PETER HANDFORD

Director of Finance & ICT

2018-19 Recommendations

Recommendation	Management Response	Responsible Officer	Update
<p>Derbyshire County Council</p> <p>Controls in place in regard to the valuation process</p> <p>The Council has taken steps to address the deficiencies identified in relation to the valuation of land and buildings, however it should now embed the processes set out in its valuation manual to ensure that valuation work is appropriately completed and checked on a timely basis to enable accurate entries to be made in the pre-audit statement of accounts.</p>	<p>Agreed. The valuation manual is a living document utilised by the asset valuation team to ensure effective valuation delivery. The team will focus on fully embedding the processes set out in the manual.</p>	<p>Dave Massingham</p>	<p>The valuation manual is fully embedded and a constant reference. The valuation manual informs process in the production, timely checking and completion of valuations. The manual is in the process of being reviewed in preparation for the next valuation period 2020-21, to ensure continued accuracy.</p>

2018-19 Recommendations

Recommendation	Management Response	Responsible Officer	Update
<p>Derbyshire County Council</p> <p>Controls in place in regard to contracts of employment</p> <p>The Council should ensure that contracts of employment are held and are accessible in relation to all members of staff.</p>	<p>Management accepts the recommendation and acknowledges the importance of contractual documentation. The two cases identified related to employees who work and are employed by Schools and therefore the Shared Services Centre do not hold the full employee file for the employee as this is the responsibility of the School to retain.</p> <p>Procedures for logging and sending paper documentation for employees within Schools who purchase the traded services package offsite will be reviewed in line with the HR retention schedule to ensure that an accurate record is maintained within the Shared Services Centre for all future documentation generated.</p>	<p>Pete Buckley / Lee Gregory (from 30 March 2020)</p>	<p>A change is being introduced from 20 April 2020 whereby HR Shared Services will no longer retain the signed acceptance for “traded services clients”. These will be returned directly to the school/external client, as it is the responsibility of the school/employer to retain.</p> <p>HR Shared Services is the service provider/payroll provider and therefore will only keep information relating to contract or payroll requests for a period of six years plus the current financial year.</p> <p>Information will be stored in month order and financial year and sent off-site as appropriate.</p>

2018-19 Recommendations

Recommendation	Management Response	Responsible Officer	Update
<p>Derbyshire County Council</p> <p>Controls in place in regard to the completeness of related party declarations</p> <p>The Council should ensure that full disclosures are made and should emphasise the importance of full disclosures during the training sessions associated with the implementation of the Council's new constitution.</p>	<p>Agreed. The Council's new constitution came into effect on 15 May 2019 and the importance of full disclosures will form part of the training sessions associated with the new constitution.</p>	<p>Simon Hobbs</p>	<p>It has been agreed that these matters will be included in forthcoming training of Members and Officers. The session dates will be confirmed in the near future.</p>
<p>Derbyshire Pension Fund</p> <p>Controls in place with regard to pensions payroll to general ledger reconciliations</p> <p>Whilst acknowledging that management has taken steps to address this issue for 2018-19 we recommend that pensions payroll to general ledger reconciliations are undertaken, reviewed and authorised on an ongoing basis.</p>	<p>Agreed. The Pension Fund will review, develop and implement a reconciliation process during 2019-20.</p>	<p>Dawn Kinley</p>	<p>A reconciliation process between the payroll system and the general ledger has been developed for both the County and Pension Funds. This has been undertaken successfully for postings in 2019-20 from Periods 1 to 9.</p> <p>This reconciliation process will be undertaken during the year, based on postings for Periods 1 to 3 and Periods 1 to 9. The reconciliation will also be undertaken based on Periods 1 to 12, which will be provided to External Audit.</p>

2017-18 Recommendations – Update

Recommendation	Management Response	Responsible Officer	Update
<p>Controls in place in relation to SAP users with privileged access</p> <p>Our 2018-19 testing noted that whilst the position had improved there was not a documented incident management policy which included user access issues in the organisation. We are therefore recommending that further work takes place to put such a policy in place.</p>	<p>Management agrees with this recommendation and is currently undertaking work to put such a policy in place.</p>	<p>Wayne Sutton/ Neil Worthy</p>	<p>ICT Services has drafted a policy, which is in the process of being finalised. A draft of the policy has been supplied to the external auditors in response to an audit request in respect of the 2019-20 audit.</p>
<p>Derbyshire Pension Fund</p> <p>Implementation of Pensions Administration System</p> <p>The new Altair Pensions Administration System successfully went live on 4 March 2019. As with many major new systems, there have been a number of initial issues for the Pension Fund Team and the supplier to work through. Whilst good progress has been made further work is required to fully embed the operation of the new Altair Pensions Administration System. We recommend the Pension Fund continues to progress this matter with the supplier and report to the Audit Committee on this issue.</p>	<p>Discussions are ongoing with the supplier of the new pension administration system regarding the resolution of a diminishing number of outstanding implementation issues. An update report will be taken to the Audit Committee in December 2019.</p>	<p>Dawn Kinley/ Nigel Dowey</p>	<p>The Pension Fund and the supplier of the Altair system have now resolved virtually all of the outstanding system implementation issues, with just a small number of scripts currently being finalised by both parties. Responsibility for Altair 'Business As Usual' moved from the Pension Project Team to the Pension Technical Team on 3 February 2020.</p>