

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
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- 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.