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Your Ref

Date: 18 June 2021

Dear Councillor,

Audit-Sub Committee

A Meeting of the **Audit-Sub Committee** will be held at **Council Chamber (Special)**, Greenbank Leisure Centre, Civic Way, Swadlincote, DE11 0AD, on **Monday, 28 June 2021** at **16:00**. You are requested to attend.

Yours faithfully,



Chief Executive

Labour Group

Councillor Dunn (Chair) and Councillor Shepherd (Vice-Chair).

Conservative Group

Councillors Atkin and Ford.

Independent

Councillor MacPherson.

AGENDA

Open to Public and Press

- | | | |
|-----------|---|------------------|
| 1 | Apologies. | |
| 2 | To note any declarations of interest arising from any items on the Agenda | |
| 3 | To receive any questions by members of the public pursuant to Council Procedure Rule No.10. | |
| 4 | To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11. | |
| 5 | AUDIT PLANNING REPORT FOR THE YEAR ENDING 31 MARCH 2021 | 4 - 45 |
| 6 | INTERNAL AUDIT PROGRESS REPORT | 46 - 67 |
| 7 | INTERNAL AUDIT ANNUAL REPORT 2020-21 | 68 - 90 |
| 8 | LOCAL CODE OF CORPORATE GOVERNANCE REVIEW | 91 - 103 |
| 9 | DRAFT ANNUAL GOVERNANCE STATEMENT 2020-21 | 104 - 117 |
| 10 | ANTI-FRAUD AND CORRUPTION POLICY | 118 - 143 |
| 11 | RISK MANAGEMENT | 144 - 162 |
| 12 | COMMITTEE WORK PROGRAMME | 163 - 165 |

Exclusion of the Public and Press:

- 13** The Chairman may therefore move:-
That in accordance with Section 100 (A)(4) of the Local Government Act 1972 (as amended) the press and public be excluded from the remainder of the Meeting as it is likely, in view of the nature of the

business to be transacted or the nature of the proceedings, that there would be disclosed exempt information as defined in the paragraph of Part I of the Schedule 12A of the Act indicated in the header to each report on the Agenda.

- 14** To receive any Exempt questions by Members of the Council pursuant to Council procedure Rule No. 11.

| | | |
|-------------------------|---|-------------------------------------|
| REPORT TO: | AUDIT SUB COMMITTEE (SPECIAL) | AGENDA ITEM: 5 |
| DATE OF MEETING: | 28 th JUNE 2021 | CATEGORY: DELEGATED |
| | | OPEN |
| REPORT FROM: | EXTERNAL AUDITOR | |
| MEMBERS' CONTACT POINT: | KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk | DOC: u/KS/audit/EY/audit plan cover |
| SUBJECT: | AUDIT PLANNING REPORT FOR THE YEAR ENDING 31 MARCH 2021 | REF: |
| WARD(S) AFFECTED: | ALL | TERMS OF REFERENCE: AS 01 |

1.0 Recommendations

- 1.1 That the Audit Plan for the year ending 31 March 2021 is considered and approved.

2.0 Purpose of Report

- 2.1 For Ernst and Young LLP (EY) as the Council's appointed auditors, to present their Audit Plan for the year ending 31 March 2021.

3.0 Summary

- 3.1 The Plan effectively sets how the Auditors will review the Council's Accounts and Financial Statements for 2020/21, including the key elements that will come under review in accordance with accounting standards.
- 3.2 The Auditors will also review the Council's arrangements for securing value for money. The National Audit Office have also placed additional requirements on Auditors for 200/21, to review in greater detail the "going concern" basis of local authorities given Covid 19 and the financial challenges facing many authorities.
- 3.3 The detailed Audit Plan is published alongside this report.

4.0 Financial Implications

- 4.1 None

5.0 Corporate Implications

- 5.1 None directly.

6.0 Community Implications

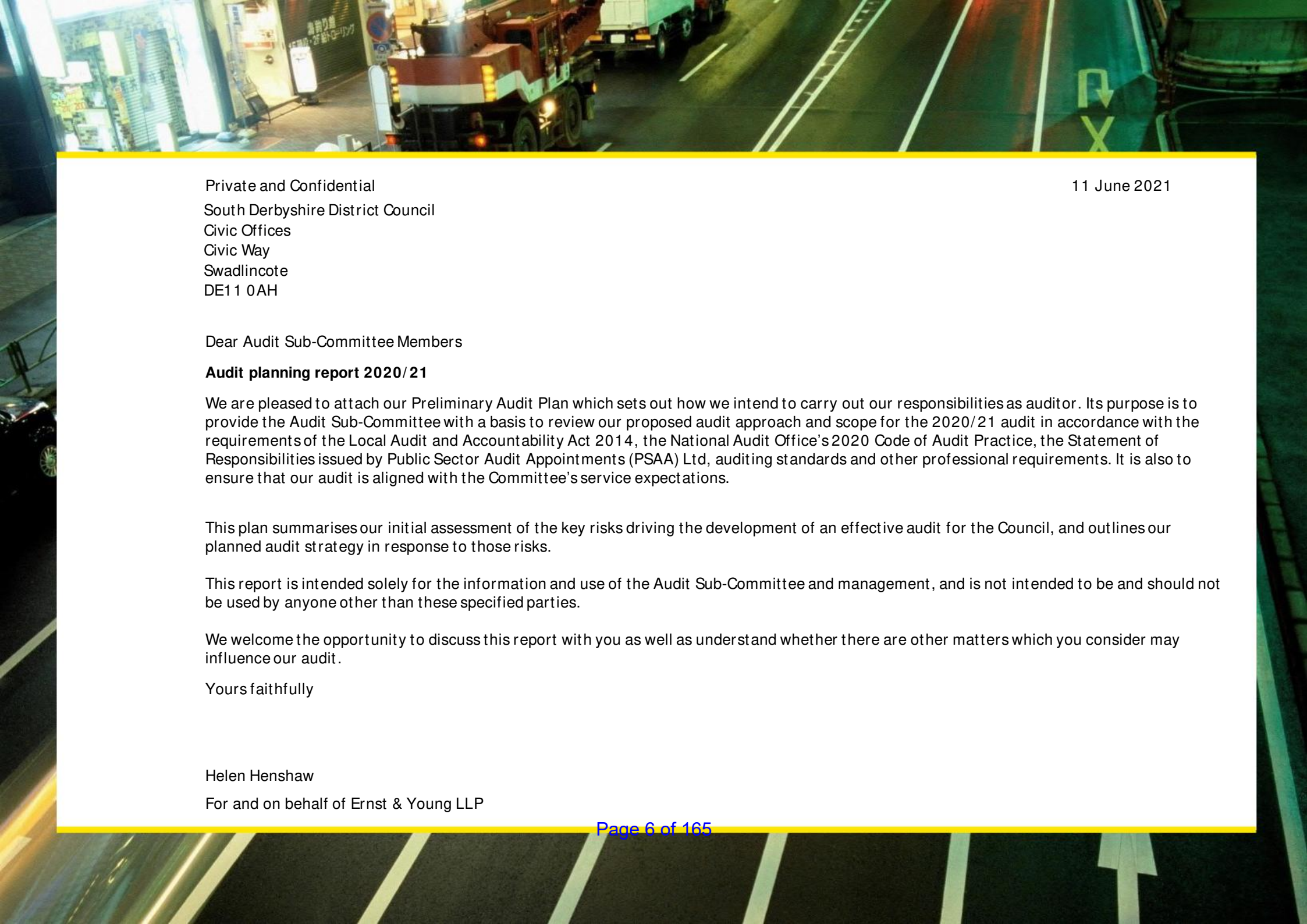
- 6.1 None directly.



South Derbyshire District Council

Audit planning report

Year ended 31 March 2021



Private and Confidential
South Derbyshire District Council
Civic Offices
Civic Way
Swadlincote
DE11 0AH

11 June 2021

Dear Audit Sub-Committee Members

Audit planning report 2020/21

We are pleased to attach our Preliminary Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Sub-Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Sub-Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Henshaw
For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Sub-Committee and management of South Derbyshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Sub-Committee, and management of South Derbyshire District Council, these matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Sub-Committee and management of South Derbyshire District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2020/21 audit strategy



Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Sub-Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

| Risk / area of focus | Risk identified | Change from py | Details |
|--|------------------|--|---|
| Risk of fraud in revenue and expenditure recognition | Fraud risk | Change in focus from Prior Year | Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. See page 10 for details. |
| Misstatements due to fraud or error | Fraud risk | No change in risk or focus from the prior year | As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. Further details are outlined at page 11. |
| Valuation of property, plant and equipment (PPE) –land and buildings | Significant risk | No change in risk or focus from the prior year | Land and buildings assets account for a significant proportion of the Council's assets. The valuation of land and buildings is subject to a number of assumptions and judgements by management's expert. There is a risk that the use of inappropriate assumptions or methodologies may have a material impact on the financial statements. Further details are on page 12. |
| Local Government Pension scheme (LGPS) | Inherent risk | Area of focus in the prior year | <p>Funding of the Council's participation in the LGPS will continue to have an impact on both its cash flows and the liability in the balance sheet.</p> <p>The Council is a members of the LGPS, administered by Derbyshire Pension Fund.</p> <p>The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations requires advice from an external specialists, to provide these actuarial assumptions. A small movement in these assumptions could have a material impact on the value in the balance sheet. Further details are provided at page 13.</p> |

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Sub-Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

| Risk / area of focus | Risk identified | Change from PY | Details |
|--------------------------------------|--------------------------------|---|--|
| Going concern compliance with ISA570 | Area of audit focus | Significant risk in the prior year | <p>ISA570, Going Concern, has been revised by the International Auditing and Assurance Standards Board in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.</p> <p>The revised standard is effective for the audit of the 2020/21 financial statements, and increases the work we are required to perform when assessing whether the Council is a going concern. It imposes significantly stronger requirements on auditors and audited bodies than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.</p> <p>We will discuss the detailed implications of the new standard with finance staff. Further details are set out on page 14.</p> |
| IFRS 16 – accounting for leases | Other financial statement risk | Change in risk or focus from the prior year | <p>The implementation of this accounting standard was identified as an area of audit focus in the 2019/20 Audit Plan as it was due to be implemented on 1 April 2020. However due to pressures on council finance teams as a result of the COVID-19 pandemic the CIPFA LASAAC Local Authority Accounting Code Board has agreed to defer the implementation date to 1 April 2022. This deferral is limited to one year only and no further extensions will be made based on lack of preparedness. Further details of the risk are provided at page 15.</p> |

Overview of our 2020/21 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of South Derbyshire District Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of South Derbyshire District Council's audit, we will discuss these with management as to the impact on the scale fee. Further details are provided at pages 36 and 37.

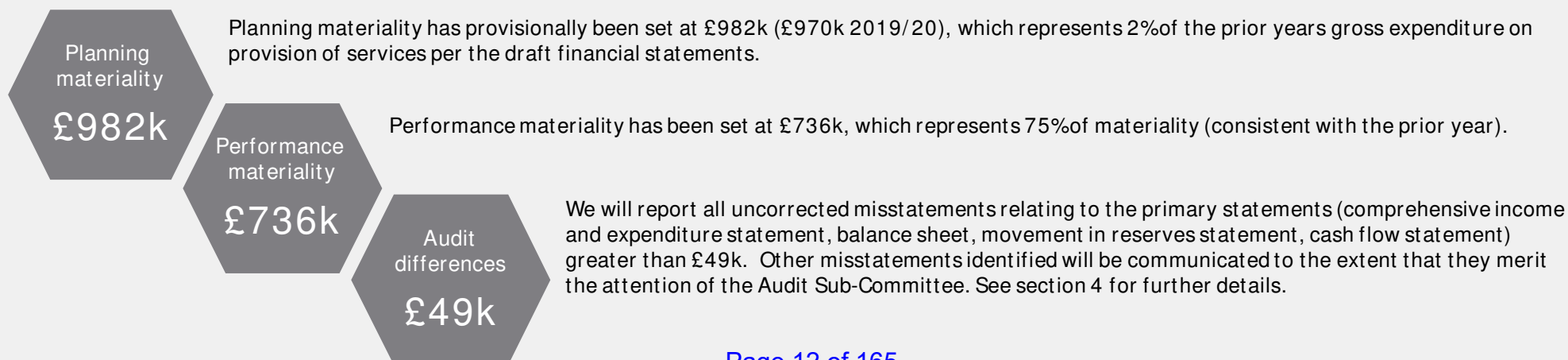
Overview of our 2020/21 audit strategy

Value for money conclusion (VFM)

One of the main changes in the NAO's 2020 Code of Audit Practice is in relation to the value of money conclusion. We include full details in section 3 but in summary:

- We are still required to consider whether the Council has put in place 'proper arrangements' to secure the economy, efficiency and effectiveness on its use of resources
- Planning on VFM and the associated risk assessment is now focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft commentary under the three reporting criteria detailed below. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will be required to provide a commentary on the arrangements of the Council against the following reporting criteria;
 - Financial sustainability – how the Council plans to manage its resources to ensure it can continue to deliver its services;
 - Governance – how the Council ensures that it makes informed decisions and properly manages its strategic risks; and
 - Improving economy, efficiency and effectiveness – how the Council uses information about its costs and performance to improve the management and delivery of services to the public.
- Within the audit opinions we still only report by exception where we are not satisfied that the Council has proper arrangements in place for securing the economy, efficiency and effectiveness in its use of resources.
- The commentary on arrangements will be included in a new Auditor's Annual Report which can be issued after the audit opinions for the financial statements are reported.

Materiality





02

Audit risks



Significant and Fraud Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition*

Financial statements impact

Misstatements that occur in relation to the risk of fraud in both revenue and expenditure that could affect the comprehensive income and expenditure statement.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Taking into account the results of the 2019/20 audit we consider the risk manifests itself in the following areas:

- Recognition of income and expenditure in relation to new covid-19 related grants received in the year;
- Inappropriate cut-off of revenue expenditure and non-grant income at the year-end date resulting in transactions being recorded in the wrong financial period; and
- Inappropriate capitalisation of revenue expenditure which could result in a misstatement of the cost of services reported in the comprehensive income and expenditure statement.

Our audit approach

In order to address this risk we will carry out a range of procedures including:

- Review the appropriateness of the Council's accounting policies for grant income recognition and the processes in place for the consistent application of those accounting policies;
- For a sample, responsive to our risk assessment, of grants received by the Council in the year, review the conditions attaching to the grant and ensure that the income (and associated expenditure) has been appropriately recognised in accordance with the accounting framework;
- Testing the year end cut-off of expenditure and non-grant income to ensure that transactions have been recorded in the appropriate financial period;
- Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, specifically to;
 - i. the accounting entries for pass through grants; and
 - ii. those that move expenditure to PPE balance sheet general ledger codes; and
- Performing sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to confirm recognition is in accordance with accounting policies and standard IAS 16.

Our response to significant risks (continued)

| | What is the risk? | Our audit approach |
|---|---|---|
| <p data-bbox="120 368 495 419">Misstatements due to fraud or error*</p> <p data-bbox="120 727 481 756">Financial statements impact</p> <p data-bbox="112 767 504 1053">Misstatements that occur in relation to the risk of fraud or error could affect both the Comprehensive income and expenditure statement and the balance sheet. We deem the risk most prevalent when reviewing journals involved in the financial statements close process.</p> | <p data-bbox="582 395 1164 486">The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p data-bbox="582 523 1164 778">As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> | <p data-bbox="1209 395 1299 419">We will:</p> <ul data-bbox="1209 435 2105 1137" style="list-style-type: none"> • Identify fraud risks during the planning stages; • Make inquiries of management about risks of fraud and the controls put in place to address those risks; • Understand the oversight given by those charged with governance of management's processes over fraud; • Consider the effectiveness of management's controls designed to address the risk of fraud; • Determine an appropriate strategy to address those identified risks of fraud; • Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements; and • Review and discuss with management any changes the methodologies of existing and new accounting estimates, which include accruals and provisions, for evidence of bias; • Undertake risk based testing of journals from the accounting period that are identified from the application of specified audit risk criteria; and • Consider and evaluate the existence and nature and business rationale of significant unusual transactions; |

Our response to significant risks (continued)

Valuation of land and buildings

Financial statements impact

As the Council's asset base is material, and the outputs from the valuer are subject to estimation, there is a risk land and building assets statement in the balance sheet may be under or overstated.

What is the risk?

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The fair value of other land and buildings represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

The Council has a rolling valuation process, which means that assets are revalued at a minimum every 5 years. The process is subject to a number of assumptions and judgements, which if inappropriate could result in a material impact on the financial statements. There is also a potential that the assets not formally revalued in year may have experienced a material change in value which has not been identified and accounted for appropriately.

Our audit approach

We will:

- Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding;
- Evaluate the competence, capabilities and objectivity of management's specialist;
- Review any terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards, and assess if the instruction includes a specific instruction from the council to the valuer relating to an assessment on the unvalued population;
- Engage our valuation specialists to support our testing strategy and help evaluate the work of the Council's valuer specifically to assess if the movement on the unvalued population has been addressed appropriately;
- Engage our valuation specialists to support our testing strategy and help evaluate the work of the Council's valuer;
- Perform appropriate tests over the completeness and appropriateness of information provided to the valuer;
- Review the classification of assets and ensure the correct valuation methodology has been applied;
- Ensure the valuer's conclusions have been appropriately recorded in the financial statements; and
- Review assets not subject to formal revaluation in 2020/21, to confirm that the remaining asset base is not materially misstated.

Inherent Audit risks

Our response to inherent risks

| | | |
|---|---|--|
| <p>Pension Valuation Liability – LGPS</p> | <p>What is the risk?</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by South Derbyshire District Council.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that the net liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> | <p>Our audit approach</p> <p>We will</p> <ul style="list-style-type: none">• Perform appropriate tests to obtain assurance over the information provided to the actuary;• Write to the Pension Fund auditor requesting a program of work be conducted in respect of South Derbyshire District Council's share of the total fund and to ascertain whether there are material concerns we need to be aware of for our audit;• Ensure accounting entries and disclosures are consistent with the actuaries report; and• Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC- Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. |
| <p>Financial statements impact</p> <p>As the outputs are from the actuary there is a risk that the IAS 19 information is omitted or incorrectly disclosed in the financial statements.</p> | | |

Other areas of audit focus

What is the risk/ area of focus?

Going Concern Compliance with ISA 570

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the South Derbyshire District Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the South Derbyshire District Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Sub-Committee. In order to perform our work under the revised ISA, we will require a robust assessment from management of the financial position and going concern basis of the Authority, which clearly sets out and evidences the key risks, mitigations and assumptions that underpin that assessment.

Our audit approach

The revised standard requires:

- auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect.
- a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

The revised standard extends requirements to report to regulators where we have concerns about going concern.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

| What is the risk/ area of focus? | Our audit approach |
|--|---|
| <p>IFRS 16 – Accounting for leases</p> <p>IFRS 16 accounting for leased was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases.</p> <p>Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as “pay as you go” arrangements, with rentals expensed in the tear the are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.</p> <p>The CIPFA LASAAC Local Authority Accounting Code Board has agreed to defer the implementation of IFRS 16 Leases in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) until the 2022/23 financial year. This aligns with the decision at the Government's Financial Reporting Advisory Board to establish a new effective date of 1 April 2022 for the implementation of IFRS 16.</p> | <p>Although the new standard will not be included until CIPFA Code of Practice until 2022/23, work will be necessary to secure information required to enable Local Government bodies to fully assess their leasing position and ensure compliance with the standard from 1 April 2022.</p> <p>In particular, full compliance with the revised standard is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2022 in order to identify:</p> <ul style="list-style-type: none"> ▪ All leases which need to be accounted for ▪ The costs and lease term which apply to the lease ▪ The value of the asset and liability to be recognised as at 1 April 2022 where a lease has previously been accounted for as an operating lease. <p>We will discuss with management what progress has been made for the implementation of IFRS 16.</p> |



03

Value for Money Risks



Value for money

Council responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

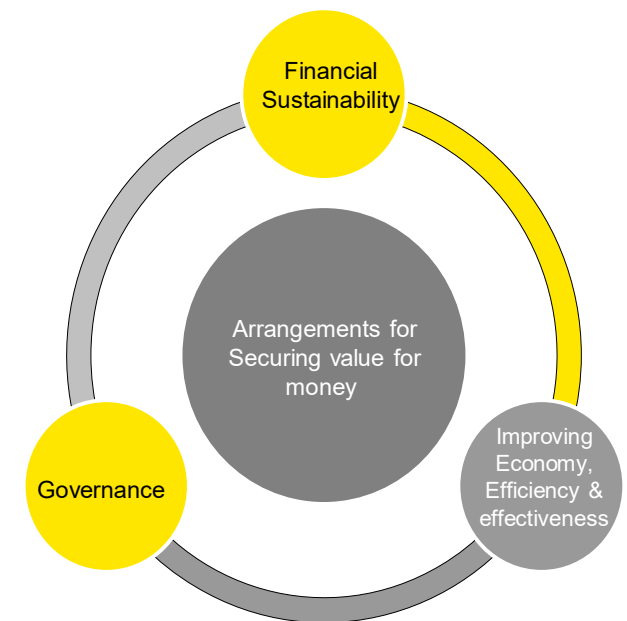
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailor's the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



Value for money risks

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as CQC) and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes –or could reasonably be expected to expose –the Council to significant financial loss or risk;
- Leads to –or could reasonably be expected to lead to –significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to –or could reasonably be expected to lead to –unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.



Value for money risks

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the audit committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

We have yet to commence our detailed VFM planning. However, one area of focus will be on the arrangements that the Council has in place in relation to financial sustainability in light of the impact of Covid-19 on local government financing.

We will update the next Committee meeting on the outcome of our VFM planning and our planned response to any identified risks of significant weaknesses in arrangements.



04

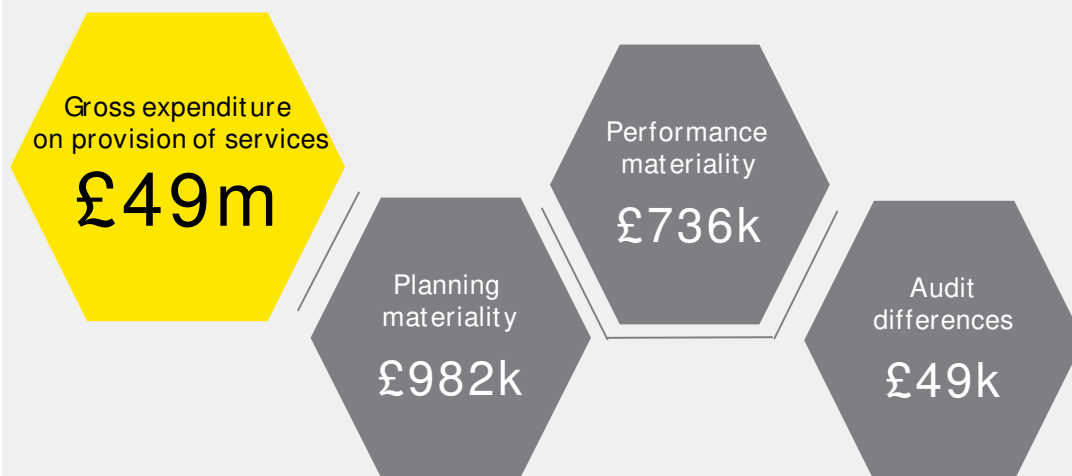
Audit materiality



Materiality

Materiality

For planning purposes, planning materiality for 2020/21 has been provisionally set at £982k. This represents 2% of the Council's prior year gross expenditure on provision of services per the prior year financial statements. This basis is consistent with the prior year. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



We request that the Audit Sub-Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £736k which represents 75% of planning materiality.

We have set performance materiality at 75% to reflect the low level of errors (corrected and uncorrected) experienced in prior year audits of South Derbyshire District Council and therefore our anticipation of error in the current year.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and balance sheet.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit and Standards committee, or are important from a qualitative perspective.

Specific materiality – We have also identified the following areas where misstatement at a lower level than our overall materiality level might influence the reader of the financial statements. The areas identified in our audit strategy applied include: Related

- We assess the Senior officer remuneration disclosures including any severance payments, exit packages and termination benefits as numerically sensitive and set a materiality level of £1k, being the rounding number in the financial statements.
- Related party transactions. For any errors identified in related parties we considered the concept of the materiality of transactions and balances as would be relevant to the related individual or organisation.
- Members' allowances; a figure of £1k is judged appropriate.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider and report by exception whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Sub-Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit and Chief Internal Auditor, and review internal audit plans and the results of their work. We will only use the internal audit reports to assist our audit planning processes.



06

Audit team



Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

| Area | Specialists |
|---------------------------------|---|
| Valuation of Land and Buildings | EY Property Valuations Team. Management specialists – District Valuer (external valuer) and Property services (internal valuer). |
| Pensions disclosure | PSAA consulting actuary, the actuary of the Derbyshire Pension Fund and EY Pension Team. |

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07

Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is an indicative timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21. We will continue to assess the appropriateness of this timetable through regular discussions with Council staff. Given the significant backlog of 2019/20 From time to time matters may arise that require immediate communication with the Audit Sub-Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

| Audit phase | Proposed Timetable (2021) | Deliverables | Audit Sub-Committee timetable |
|---|---------------------------|---|-------------------------------|
| Initial Planning: High level initial planning considerations | April | | |
| Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes | June | Audit Planning Report | 28 June 2021 |
| Year end audit including WGA Audit Completion procedures | August, November | Audit Results Report (ISA 260) | TBC – post 30 November 2021. |
| Auditor's Annual Report | TBC | Annual Audit Results Report Audit opinions and completion certificates | TBC |



08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

| Planning stage | Final stage |
|---|---|
| <ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard. | <ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues. |

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Stephen Clark, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees. We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%

At the time of writing, the current ratio of non-audit fees to audit fees is NIL. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services
 - Remuneration advisory services
 - Internal audit services
 - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2021 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales. We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf



09

Appendices



Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/ LASAAC, and the professional standards applicable to auditors' work.

The Scale Fee for South Derbyshire District Council is set at £37,942.

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. For an organisation such as South Derbyshire District Council the extent of audit procedures now required mean it will take around 1,300 hours to complete a quality audit. Based on our own modelling of the inputs required to complete an external audit of the Council concludes that a more appropriate scale fee for the delivery of an external audit to the Council would be in the region of £62,500. This does not include any potential impact of covid-19 on the audit process for 2020/21. This revised fee is not accepted by management at this stage.

Summary of key factors impacting inappropriateness of the existing scale fee

1. **Status of sector.** Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.
 - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.
2. **Audit of estimates.** There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.
 - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists.

Fees (continued)

Summary of key factors impacting inappropriateness of the existing scale fee (continued)

3. Regulatory environment. Other pressures come from the changing regulatory landscape and audit market dynamics:

- Parliamentary Select Committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors, with the potential for increased financial penalties should audit firms fail to meet the increased regulatory requirements.
- This means continual investment in our audit quality infrastructure in response to these regulatory reviews and to changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

4. Resource Availability

As a result Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables. We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff to enable us to provide the highest performing audit teams, maintain the high standard of client service which you would expect and protect audit quality.




Next steps

- In light of recent communications from PSAA, and the recent consultation in respect of scale fee setting, we will undertake detailed discussions with management in respect of the audit delivery model and associated fee and report back to you at a later date.




Appendix B

Required communications with the Audit Sub-Committee





We have detailed the communications that we must provide to the Audit Sub-Committee.

| | |  Our Reporting to you |
|-------------------------------------|---|--|
| Required communications |  What is reported? |  When and where |
| Terms of engagement | Confirmation by the Audit Sub-Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. | Audit planning report |
| Significant findings from the audit | <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process | Audit results report |

Required communications with the Audit Sub-Committee (continued)




| | |  Our Reporting to you |
|-------------------------|---|--|
| Required communications |  What is reported? |  When and where |
| Going concern | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements | Audit results report |
| Misstatements | <ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management | Audit results report |
| Fraud | <ul style="list-style-type: none"> • Enquiries of the Audit Sub-Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud | Audit results report |
| Related parties | <ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity | Audit results report |

Required communications with the Audit Sub-Committee (continued)

| | |  Our Reporting to you |
|-------------------------|--|--|
| Required communications |  What is reported? |   When and where |
| Independence | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> • Relationships between EY, the Council and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit • Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The Audit Sub-Committee should also be provided an opportunity to discuss matters affecting auditor independence | Audit planning report and Audit results report |

Appendix B

Required communications with the Audit Sub-Committee (continued)

| | | Our Reporting to you |
|--|---|--|
| Required communications |  What is reported? |   When and where |
| External confirmations | <ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures | Audit results report |
| Consideration of laws and regulations | <ul style="list-style-type: none"> Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off Enquiry of the Audit Sub-Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Sub-Committee may be aware of | Audit results report |
| Internal controls | <ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit | Audit results report |
| Representations | Written representations we are requesting from management and/or those charged with governance | Audit results report |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report |
| Auditors report | <ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report | Audit results report |
| Fee Reporting | <ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work | Audit planning report and Audit results report |

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Sub-Committee reporting appropriately addresses matters communicated by us to the Audit Sub-Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. As we proceed with the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

| | | |
|--------------------------------|---|--|
| REPORT TO: | AUDIT SUB COMMITTEE(SPECIAL) | AGENDA ITEM: 6 |
| DATE OF MEETING: | 28th JUNE 2021 | CATEGORY: RECOMMENDED |
| REPORT FROM: | AUDIT MANAGER | OPEN |
| MEMBERS' CONTACT POINT: | ADRIAN MANIFOLD (01332 643281) adrian.manifold@centralmidlandsaudit.co.uk | DOC: u/ks/audit/internal audit/quarterly reports/quarterly report cover |
| SUBJECT: | INTERNAL AUDIT PROGRESS REPORT | REF: |
| WARD(S) AFFECTED: | ALL | TERMS OF REFERENCE: AS 02 |

1.0 Recommendations

- 1.1 That the report of the Audit Manager is considered, and any issues identified are referred to the Finance and Management Committee or subject to a follow-up report as appropriate.

2.0 Purpose of Report

- 2.1 To provide an update on progress against the approved Internal Audit Plan. This details the performance and activity of Internal Audit as at 7 June 2021.

3.0 Detail

- 3.1 The detailed progress report is attached.

4.0 Financial Implications

- 4.1 None.

5.0 Corporate Implications

- 5.1 None directly.

6.0 Community Implications

- 6.1 None directly.

7.0 Background Papers

- 7.1 None

South Derbyshire District Council – Audit Progress Report

Audit Sub-Committee: 28th June 2021



South Derbyshire
District Council



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Our Vision

To bring about improvements in the control, governance and risk management arrangements of our Partners by providing cost effective, high quality internal audit services.

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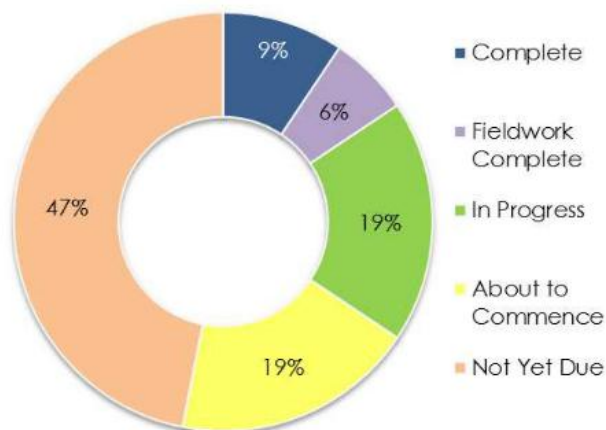
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South Derbyshire District Council – Audit Progress Report

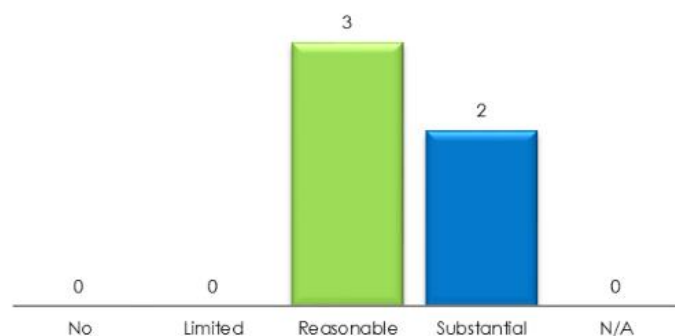
AUDIT DASHBOARD

Plan Progress



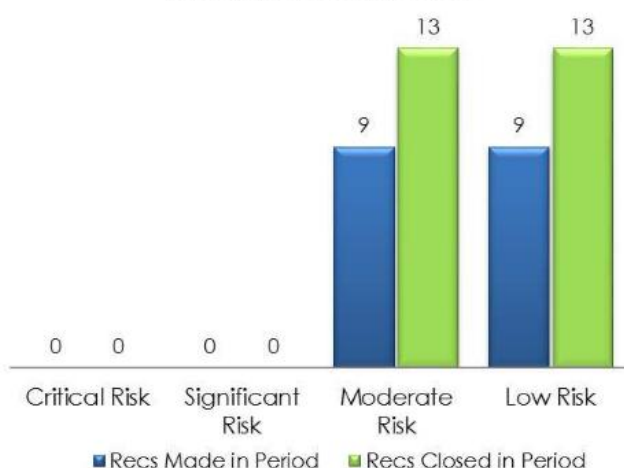
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Control Assurance Ratings During Period



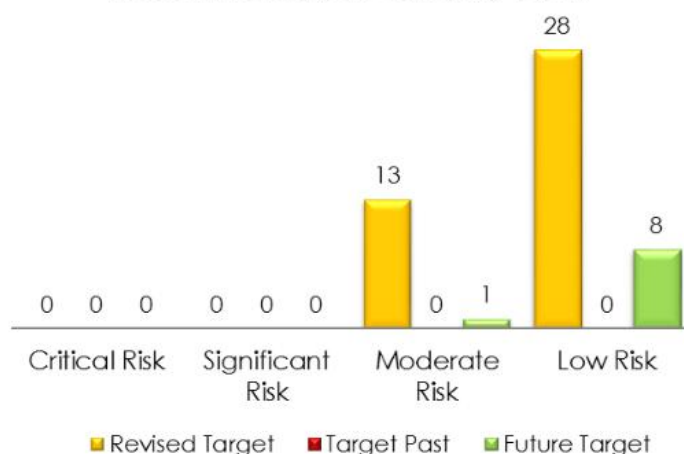
Recommendations

Movement During Period



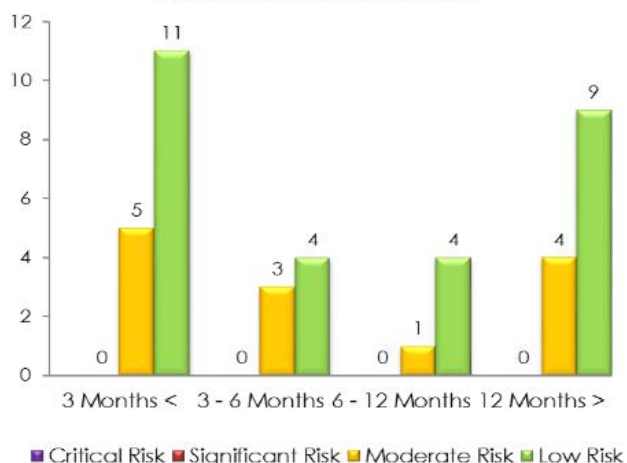
Recommendations

Recommendations Currently Open



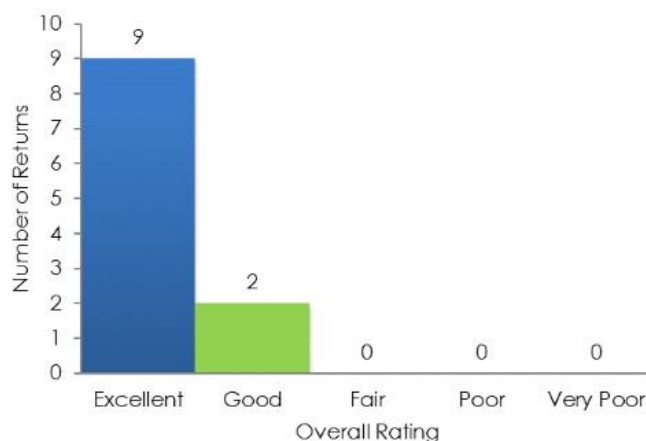
Recommendations

Overdue Recommendations



Customer Satisfaction

Returns Between Jun 20 & Jun 21



South Derbyshire District Council – Audit Progress Report

AUDIT PLAN

Progress on Audit Assignments

The following tables provide Audit Sub-Committee with information on how audit assignments were progressing as at 7th June 2021.

| 2021-22 Jobs | Status | % Complete | Assurance Rating |
|--|--------------------|------------|------------------|
| Data Protection & FOI 2021-22 | In Progress | 55% | |
| Procurement 2021-22 | Not Allocated | | |
| Income Streams 2021-22 | Not Allocated | | |
| Financial Management Standards 2021-22 | In Progress | 10% | |
| Covid Related 2021-22 | Not Allocated | | |
| Insurance 2021-22 | Allocated | 5% | |
| Taxation 2021-22 | Allocated | | |
| Payroll 2021-22 | Not Allocated | | |
| Creditors 2021-22 | Not Allocated | | |
| Asset Management 2021-22 | Not Allocated | | |
| Revenues Systems 2021-22 | Not Allocated | | |
| Cashiering 2021-22 | Allocated | 10% | |
| IT Applications 2021-22 | Not Allocated | | |
| IT Infrastructure 2021-22 | Not Allocated | | |
| Project Management 2021-22 | Allocated | 5% | |
| People Management 2021-22 | Not Allocated | | |
| Data Quality & Performance Management | In Progress | 25% | |
| Development Management 2021-22 | Not Allocated | | |
| Climate Change 2021-22 | Not Allocated | | |
| New Build / Affordable Housing 2021-22 | Not Allocated | | |
| Allocations & Homelessness 2021-22 | Not Allocated | | |
| Rent Accounting 2021-22 | Not Allocated | | |
| Corporate Governance 2021-22 | In Progress | 40% | |
| B/Fwd Jobs | Status | % Complete | Assurance Rating |
| Business Continuity & Emergency Planning | Fieldwork Complete | 90% | |
| Procurement 2020-21 | Final Report | 100% | Reasonable |
| Housing Benefit & Council Tax Support | In Progress | 40% | |
| Microsoft 365 Platform | Final Report | 100% | Reasonable |
| Financial Reporting - Impact of Covid19 | In Progress | 75% | |
| Leisure Centres 2020-21 | Allocated | 5% | |
| Housing Repairs 2020-21 | Draft Report | 95% | |
| Waste Contract - Pre-Procurement Stage | Final Report | 100% | Reasonable |
| Electoral Services 2020-21 | Allocated | 20% | |

Plan Changes

None.

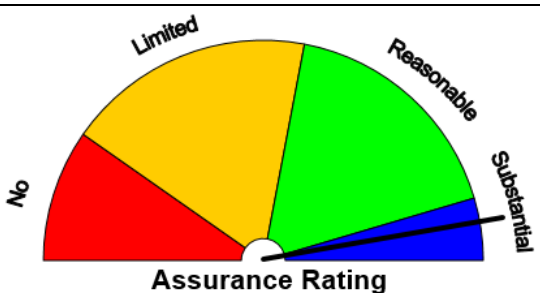
South Derbyshire District Council – Audit Progress Report

AUDIT COVERAGE

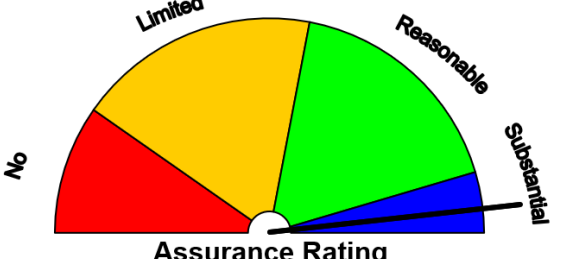
Completed Audit Assignments

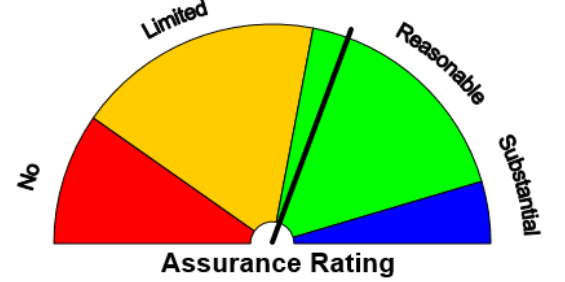
Between 1st March 2021 and 7th June 2021, the following audit assignments have been finalised.

| Audit Assignments Completed in Period | Assurance Rating | Recommendations Made | | | | % Recs Closed |
|--|------------------|----------------------|------------------|---------------|----------|---------------|
| | | Critical Risk | Significant Risk | Moderate Risk | Low Risk | |
| Revenues Systems 2020-21 | Substantial | | | | 3 | |
| Anti-Fraud & Corruption 2019-20 | Substantial | | | | 2 | |
| Microsoft 365 Platform | Reasonable | | | 3 | 4 | 57% |
| Procurement 2020-21 | Reasonable | | | 3 | | 100% |
| Waste Contract - Pre-Procurement Stage | Reasonable | | | 3 | | 100% |

| | | | | | |
|---|--------------------|---|---|---------------|--|
| Revenues Systems 2020-21 | |  | | | |
| Control Objectives Examined | Controls Evaluated | Adequate Controls | Partial Controls | Weak Controls | |
| To ensure that liable persons / parties for Council Tax and National Non-Domestic Rates are identified and any amendments to liability are promptly processed. | 18 | 12 | 6 | 0 | |
| To ensure that charges levied for Council Tax and National Non-Domestic Rates are accurate, in line with regulations. | 9 | 9 | 0 | 0 | |
| TOTALS | 27 | 21 | 6 | 0 | |
| Summary of Weakness | | Risk Rating | Agreed Action Date | | |
| We found that there are generic user accounts on the Council Tax and the Non-Domestic Rates systems that were not assigned to individual officers. | | Low Risk | 31/05/2021 Being Implemented 31/08/2021 | | |
| Controls in place for the management of users' access to the Council Tax and the Non-Domestic Rates systems were not robust enough to ensure that only current officers had access, and that this access was appropriate to their role. | | Low Risk | 31/05/2021 Being Implemented 31/08/2021 | | |
| Staff did not have to formally declare any conflicts of interest with regards family and close friends who were liable for Council Tax or Non-Domestic Rates in the District. | | Low Risk | 31/05/2021 Being Implemented 31/08/2021 | | |

South Derbyshire District Council – Audit Progress Report

| <h2>Anti-Fraud & Corruption 2019-20</h2> |  <p>Assurance Rating</p> | | | |
|--|--|-------------------|-----------------------------|---------------|
| Control Objectives Examined | Controls Evaluated | Adequate Controls | Partial Controls | Weak Controls |
| To ensure that adequate anti-fraud and corruption strategies and policies are in place. | 12 | 8 | 3 | 1 |
| To ensure that appropriate processes are in place to identify and reduced Housing related Fraud. | 3 | 3 | 0 | 0 |
| TOTALS | 15 | 11 | 3 | 1 |
| Summary of Weakness | | Risk Rating | Agreed Action Date | |
| The Corporate Counter Fraud and Corruption Policy had not been recently updated and did not include the Council's policy in relation to cyber fraud. | | Low Risk | 30/06/2021 Future Action | |
| A copy of the Council's Fraud Sanctions Policy & Procedure could not be located. | | Low Risk | 30/06/2021 Future Action | |

| <h2>Microsoft 365 Platform</h2> |  <p>Assurance Rating</p> | | | |
|--|--|-------------------|-----------------------------|---------------|
| Control Objectives Examined | Controls Evaluated | Adequate Controls | Partial Controls | Weak Controls |
| Best practice security controls have been implemented within the Councils' Microsoft 365 tenant to help protect the confidentiality of Council information and communications. | 18 | 9 | 0 | 9 |
| TOTALS | 18 | 9 | 0 | 9 |
| Summary of Weakness | | Risk Rating | Agreed Action Date | |
| Multi-factor authentication (MFA) had not been enforced for a number of accounts, including accounts granted administrative roles. | | Moderate Risk | Implemented | |
| Conditional access policies had not been set in line with recognised security best practices | | Low Risk | 30/06/2021 Future Action | |
| An excessive number of users had been granted Global Admin privileges in the Council's Microsoft 365 tenant, which did not comply with security best practices. | | Low Risk | Implemented | |
| Not all administrator accounts granted membership of high risk security roles had been subject to a recent password reset. | | Low Risk | Implemented | |
| The use of dedicated administrator accounts had not been configured in line with security best practice in both the SDDC domain and the Council's Microsoft 365 tenant. | | Moderate Risk | Implemented | |
| Synchronised accounts with administrative privileges were being used to manage both the on-premises and Microsoft 365 environments, which no longer aligned with recognised best practice. | | Low Risk | 30/06/2021 Future Action | |

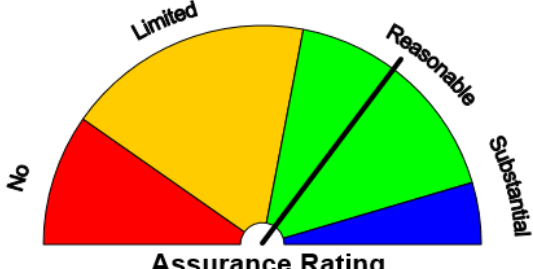
South Derbyshire District Council – Audit Progress Report

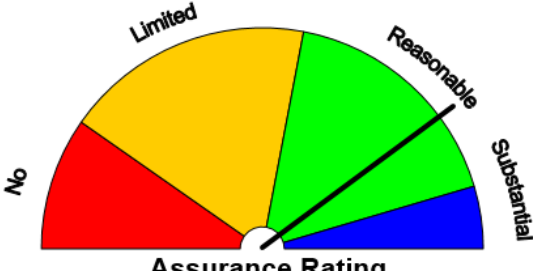
A number of important security issues affecting Azure AD, Exchange Online and Microsoft Teams were listed as yet to be addressed in the Council's Secure Score dashboard.

Moderate Risk

30/06/2021

Future Action

| Procurement 2020-21 | |  <p>Assurance Rating</p> | | |
|--|--------------------|--|---------------------------|---------------|
| Control Objectives Examined | Controls Evaluated | Adequate Controls | Partial Controls | Weak Controls |
| That there are processes in place to ensure that the Procurement Service is monitored and managed by the Council | 4 | 2 | 1 | 1 |
| That there are processes and procedures in place to ensure that the Procurement Service is being delivered effectively | 5 | 3 | 1 | 1 |
| That the impact of the Covid-19 pandemic is being suitably managed by the Council | 1 | 1 | 0 | 0 |
| TOTALS | 10 | 6 | 2 | 2 |
| Summary of Weakness | | Risk Rating | Agreed Action Date | |
| The performance of the Procurement Services contract was not being formally monitored. | | Moderate Risk | 01/07/2021 Implemented | |
| Interviews with Council officers indicated that there was a low level of satisfaction with the procurement support service being provided and the Service Provider was potentially failing to meet the terms of the contract. | | Moderate Risk | 31/05/2021 Implemented | |
| The Procurement Services contract specifies that tender evaluation should be a joint exercise, involving Council officers and the Service Provider. Evidence obtained from interviews with Council officers indicated that the Service Provider was not consistently providing this level of support, even when this was specifically requested by officers. | | Moderate Risk | 31/05/2021 Implemented | |

| Waste Contract - Pre-Procurement Stage | |  <p>Assurance Rating</p> | | |
|---|--------------------|--|------------------|---------------|
| Control Objectives Examined | Controls Evaluated | Adequate Controls | Partial Controls | Weak Controls |
| Work to review waste collection services and consider alternative delivery methods was based on robust data and assumptions | 6 | 6 | 0 | 0 |
| The Council has a viable plan to provide waste collection services until a permanent alternative arrangement is introduced | 7 | 4 | 1 | 2 |

South Derbyshire District Council – Audit Progress Report

| TOTALS | 13 | 10 | 1 | 2 |
|---|---------------|----|---------------------------|---|
| Summary of Weakness | Risk Rating | | Agreed Action Date | |
| The Head of Operational Services was a potential single point of failure for the kerbside collection and recycling project as there were no suitably qualified and experienced staff that he could delegate tasks to or who could provide cover in the event that he was absent from work for whatever reason. | Moderate Risk | | Implemented | |
| There was no intention to produce a formal project plan to manage the procurement of a kerbside collection and recycling solution. | Moderate Risk | | Implemented | |
| The Strategic Risk Register did not recognise that there was a risk that the procurement exercise could fail to deliver a solution by the October deadline. Furthermore, although it was clear that the Council were planning to produce a Risk Register for the kerbside collection and recycling project, there was no indication that it would include non-procurement risks, such as staffing, financial and operational matters. | Moderate Risk | | 31/05/2021 Implemented | |

South Derbyshire District Council – Audit Progress Report

RECOMMENDATION TRACKING

| Final Report Date | Audit Assignments with Open Recommendations | Assurance Rating | Recommendations Open | | |
|-------------------|---|------------------|----------------------|-------------------|---------------|
| | | | Action Due | Being Implemented | Future Action |
| 12-Apr-21 | Microsoft 365 Platform | Reasonable | | | 3 |
| 06-Jan-21 | Tenancy Management | Substantial | | 1 | |
| 27-Jan-21 | Housing Safety Inspections 2020-21 | Reasonable | | 5 | |
| 03-Feb-21 | Waste Management (Trade Waste) | Reasonable | | 1 | 2 |
| 21-Dec-20 | Safeguarding 2020-21 | Reasonable | | 1 | |
| 26-Mar-21 | Revenues Systems 2020-21 | Substantial | | 3 | |
| 09-Jun-20 | Treasury Management 2019-20 | Reasonable | | 1 | |
| 25-Nov-20 | Payroll 2019-20 | Reasonable | | 1 | |
| 06-Aug-20 | Bereavement Services 2019-20 | Reasonable | | 5 | |
| 22-Oct-20 | Grounds Maintenance 2019-20 | Reasonable | | 5 | 2 |
| 03-Mar-20 | Improvement Grants 2019-20 | Reasonable | | 1 | |
| 19-Jan-21 | Revenue Systems 2019-20 | Substantial | | 1 | |
| 03-Nov-20 | Business Change & Transformation | Substantial | | 1 | |
| 29-Mar-21 | Anti-Fraud & Corruption 2019-20 | Substantial | | | 2 |
| 26-Nov-19 | Council House Sales - Right To Buy 2019-20 | Limited | | 1 | |
| 17-Dec-19 | Active Communities & Health | Substantial | | 1 | |
| 26-Mar-19 | Fleet Management | Reasonable | | 2 | |
| 23-Jul-19 | Payroll 2018-19 | Reasonable | | 1 | |
| 29-Aug-19 | Corporate Governance 2018-19 | Reasonable | | 1 | |
| 13-Nov-19 | Development Management 2018-19 | Reasonable | | 1 | |
| 12-Feb-19 | PCI Compliance 2018-19 | Reasonable | | 3 | |
| 14-Feb-19 | Allocations & Homelessness 2018-19 | Reasonable | | 1 | |
| 25-Jan-19 | Section 106 Agreements 2018-19 | Reasonable | | 1 | |
| 13-Nov-17 | Officers Expenses & Allowances | Reasonable | | 1 | |
| 07-Aug-17 | Parks & Open Spaces | Reasonable | | 2 | |
| | | TOTALS | | 41 | 9 |

Action Due = The agreed actions are due, but Internal Audit has been unable to ascertain any progress information from the responsible officer.

Being Implemented = The original action date has now passed and the agreed actions have yet to be completed. Internal Audit has obtained status update comments from the responsible officer and a revised action date.

Future Action = The agreed actions are not yet due, so Internal Audit has not followed the matter up.

South Derbyshire District Council – Audit Progress Report

| Audit Assignments with Recommendations Due | Action Due | | | Being Implemented | | |
|--|------------------|---------------|----------|-------------------|---------------|-----------|
| | Significant Risk | Moderate Risk | Low Risk | Significant Risk | Moderate Risk | Low Risk |
| Tenancy Management | | | | | | 1 |
| Housing Safety Inspections 2020-21 | | | | | 3 | 2 |
| Waste Management (Trade Waste) | | | | | 1 | |
| Safeguarding 2020-21 | | | | | | 1 |
| Revenues Systems 2020-21 | | | | | | 3 |
| Treasury Management 2019-20 | | | | | 1 | |
| Payroll 2019-20 | | | | | | 1 |
| Bereavement Services 2019-20 | | | | | 1 | 4 |
| Grounds Maintenance 2019-20 | | | | | 2 | 3 |
| Improvement Grants 2019-20 | | | | | 1 | |
| Revenue Systems 2019-20 | | | | | | 1 |
| Business Change & Transformation | | | | | | 1 |
| Council House Sales - Right To Buy 2019-20 | | | | | 1 | |
| Active Communities & Health | | | | | | 1 |
| Fleet Management | | | | | | 2 |
| Payroll 2018-19 | | | | | 1 | |
| Corporate Governance 2018-19 | | | | | | 1 |
| Development Management 2018-19 | | | | | | 1 |
| PCI Compliance 2018-19 | | | | | 1 | 2 |
| Allocations & Homelessness 2018-19 | | | | | | 1 |
| Section 106 Agreements 2018-19 | | | | | | 1 |
| Officers Expenses & Allowances | | | | | 1 | |
| Parks & Open Spaces | | | | | | 2 |
| TOTALS | | | | | 13 | 28 |

South Derbyshire District Council – Audit Progress Report

HIGHLIGHTED RECOMMENDATIONS

Being Implemented – Significant or Moderate Risk Recommendations

The following significant or moderate risk rated recommendations, that have not yet been implemented, are detailed for Committee's scrutiny.

| PCI Compliance 2018-19 | Rec No. 8 |
|--|-----------------------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>The Council was not PCI Compliant and was paying non-compliance fees to a third party. Further management fees were being paid to the financial system provider for PCI and they were also charging the Council for a verbal assessment that no-one at the Council knew anything about.</p> <p>We recommend that the Council establishes a PCI Compliance Action Plan which should take account of the non-compliance fees being paid and should look to work with the third party to ensure that they are able to provide compliance to them and remove the non-compliance fee. The Council should also determine what benefits the Council receives for the PCI DSS Management Fee and verbal assessment.</p> | Moderate Risk |
| Management Response/Action Details | Action Date |
| This matter has been raised with Capita360 and there are several issues that have been raised previously about responsibility for the various elements of PCI DSS compliance and which appear to affect compliance. Following the meeting with Capita on 15 th February 2019 a compliance action plan will be drafted for agreement by each team. | 01/04/2019 |
| Status Update Comments | Revised Date |
| The Council has undertaken a comprehensive PCI audit with a specialist consultancy. Two key recommendations were made, namely the delivery of Call Secure Plus and P2PE, as well as the update of a few key policies. These projects and spend were approved by Finance & Management Committee in March 2021, and the PCI questionnaire will be submitted by end of March 2021, with a commitment to deliver these projects in the short-term. The projects are currently underway and will be delivered in quarter 1/2 of 2021, dependent on technical requirements. | 01/10/2021 Future Action |

| Council House Sales: Right To Buy | Rec No. 6 |
|--|-----------------------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>Only one Right To Buy valuer had been utilised for over 10 years during which time there had been no procurement exercise, and the valuer did not hold the expected professional qualification.</p> <p>We recommend that a procurement exercise is undertaken to engage an appropriately qualified valuer(s). Consideration should be given to obtaining more than one independent valuation for Right to Buy property sales.</p> | Moderate Risk |
| Management Response/Action Details | Action Date |
| To be implemented as per recommendation | 01/02/2020 |
| Status Update Comments | Revised Date |
| Procurement exercise in progress, with CNHS. First attempt has been unable to identify qualified surveyor who wishes to complete this work. | 31/07/2021 Future Action |

South Derbyshire District Council – Audit Progress Report

| Officers Expenses & Allowances | Rec No. 2 |
|---|--------------------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>The review of essential user allowances process, which was due to be carried out annually, had not been carried out.</p> <p>We recommend that the Council considers a root and branch review of its approach to the payment of travel expenses, with a view to reducing the number of uneconomic payments made through the essential user scheme.</p> | Moderate Risk |
| Management Response/Action Details | Action Date |
| The payments are contractual for employees and therefore formal consultation will need to be undertaken. The Council is completing a job evaluation project and it is planned to commence discussions with the Trade Unions as part of a wider review of employment conditions and to fit in line with negotiations being completed on a national basis. Position to be reviewed 30 th September 2019. | 30/09/2018 |
| Status Update Comments | Revised Date |
| The payments are contractual for employees and therefore formal consultation will need to be undertaken. A wider review of employment terms and conditions is to be completed as part of the post-Covid actions and this will be considered further as part of this work. | 31/03/2022 Action Due |

| Payroll 2018-19 | Rec No. 1 |
|---|-----------------------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>There was no process in place to check that all changes made on the Resource Link Payroll system were valid and supported by appropriate documentation.</p> <p>We recommend that a standard report should be setup on the Resource Link system that produces a listing of all changes made to Payroll records by all users within the period. This should then be used to ensure that appropriate documentation is held to support all changes made, and that they have been accurately input. Furthermore, the Checked by column in the HR spreadsheet should be regularly completed to evidence each item listed has been checked.</p> | Moderate Risk |
| Management Response/Action Details | Action Date |
| A number of options are being explored to address this issue with the software provider and will subsequently eradicate the level of risk. There is already a report developed that can be used to run reports on all users from Resource Link. The process of running reports was agreed in the previous audit 2017/18. Subject to the implementation of a new reporting tool, reports will be run on all users to identify any new starters and changes made to the system. In addition, the previously agreed arrangements will continue and this will include the exchange of information between HR and payroll to clarify any other changes that impact on an employee's salary. This will include the completion of the checked by column. | 01/10/2019 |
| Status Update Comments | Revised Date |
| <p>Work has been completed to ensure that adequate separation of duties is in place and documented evidence provided.</p> <p>The monthly spreadsheet detailing changes will continue to be produced and exchanged by HR and Payroll.</p> <p>Work is to be progressed during 2021/22 in relation to the ongoing provision of the Payroll service and this will include the establishment of ongoing controls on this area.</p> | 01/04/2022 Future Action |

South Derbyshire District Council – Audit Progress Report

| Improvement Grants 2019-20 | Rec No. 5 |
|--|---------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>No performance targets had been set for the key stages of the DFG process, and there was no regular monitoring or reporting of performance to management.</p> <p>We recommend that appropriate targets are identified for the standard types of adaptation. Performance against these targets should be monitored and reported regularly to management.</p> | Moderate Risk |
| Management Response/Action Details | Action Date |
| This will need to be developed in collaboration with other local authorities within the Derbyshire county council area. To enable comparison and benchmarking | 30/06/2020 |
| Status Update Comments | Revised Date |
| Performance indicators included within service plan for 21/22. Targets being created for inclusion within the newly implemented Foundations Software. | 31/07/2021 |
| | Future Action |

| Bereavement Services 2019-20 | Rec No. 2 |
|--|---------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>Contract opportunities for the provision of a grave digging service had not been advertised on the Contracts Finder website, in line with the requirements of the Public Contract Regulations 2015, and there was no current contract in place.</p> <p>We recommend that the Council pursues one of the following actions: A corporate contract may be required for the area of spend and as such a formal tender exercise should be undertaken. Engage the Council's DSO to provide the service at the rural cemeteries as well as the urban cemeteries. The area of spend may be relevant to an existing or new framework agreement/contract which should be used to formalise the process. If no competitive market is available this should be demonstrated and a formal exemption from the Contract Procedure Rule should be put in place.</p> | Moderate Risk |
| Management Response/Action Details | Action Date |
| All options will be assessed and taken forward after the Covid-19 pandemic is over as the risk of any changes to the service are too great at the present time. | 01/01/2021 |
| Status Update Comments | Revised Date |
| Delay in procurement due to COVID management requirements. Desire to minimise any potential risk to service continuity. | 01/06/2021 |
| | Action Due |

South Derbyshire District Council – Audit Progress Report

| Treasury Management 2019-20 | Rec No. 1 |
|---|-----------------------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>Officers could not locate a contract or similar agreement between the Council and its appointed financial advisor. A letter of appointment had been provided by the advisors that suggested that the current arrangement had been in place for eight years, seemingly without review or reaffirmation. Accordingly, Contract Procedure Rules could have been breached and the procurement could be non-compliant with Procurement Regulations.</p> <p>It is recommended that the Contract Procedure Rules are invoked for the procurement of investment advice, following which the arrangements between the Council and its chosen advisors are made the subject of a formal contract or SLA in which the service expectations for both parties are clearly identified.</p> | Moderate Risk |
| Management Response/Action Details | Action Date |
| A review of potential procurement frameworks alongside a market test of providers and discussions with other Local Authorities across Derbyshire regarding their advisors will be undertaken prior to the renewal date. | 28/02/2021 |
| Status Update Comments | Revised Date |
| Market testing is underway; priorities associated with the Covid-19 pandemic have delayed full implementation. A revised implementation date of 30th September 2021 has been identified. | 30/09/2021 Future Action |

| Grounds Maintenance 2019-20 | Rec No. 3 |
|--|--------------------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>The capacity of Operational Services for carrying out tree maintenance works was insufficient, limiting responsiveness.</p> <p>We recommend that appropriate funds are identified to ensure that the new Tree Strategy and Tree Policy can be adequately resourced and implemented.</p> | Moderate Risk |
| Management Response/Action Details | Action Date |
| Tree Strategy and Policy is planned to go to Committee February 2021 | 01/03/2021 |
| Status Update Comments | Revised Date |
| The Tree Strategy is undergoing internal consultation with key officers and the intention will be to present it to Housing and Community Services Committee in April/May 2021. | 01/06/2021 Action Due |

South Derbyshire District Council – Audit Progress Report

| Grounds Maintenance 2019-20 | Rec No. 6 |
|--|----------------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>Reactive work requested and performed was not consistently recorded.</p> <p>We recommend that reactive work requests should be logged and the outcome recorded. This should include, as a minimum, the following details:</p> <ul style="list-style-type: none"> • Date and time issue was reported. • Location of work. • Details of issue. • Urgency. • Customer details. • Work completed date. • Time spent on work. • Operative name. • Outcome. <p>This information should be monitored to draw out the following:</p> <ul style="list-style-type: none"> • Time spent on reactive work vs planned work, to inform workforce planning. • Responsiveness to requests, to allow effectiveness to be determined. • Trends in the types of work requested, to inform planned maintenance. | Moderate Risk |
| Management Response/Action Details | Action Date |
| Operational Services is currently undertaking a management restructure, a formal process will be developed and implemented following this restructure. | 01/04/2021 |
| Status Update Comments | Revised Date |
| A database system is currently being developed by Business Transformation team and will be implemented by 01/08/21. | 01/08/2021 |
| | Future Action |

| Housing Safety Inspections 2020-21 | Rec No. 1 |
|--|----------------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>Safety inspection certificates and the information contained within them were generally stored on the Council's shared V drive and a series of Excel spreadsheets rather than against individual properties on a central database, and this did not allow efficient retrieval of up-to-date information on a property.</p> <p>We recommend that an asset management software solution is identified and implemented as a matter of priority, to facilitate the appropriate storage of certification and associated information. It is noted that this could present a number of additional benefits, including greater accuracy and efficiency in creating and monitoring inspection cycles, easier tracking of remedial works, and improved management information, which would assist in the achievement of other recommendations within this report.</p> | Moderate Risk |
| Management Response/Action Details | Action Date |
| LifeSpan is to be re launched at least as an interim measure. USO uploading rewires from Jan 2020 and EICR certificates. Gas certs from Jan 2021 being uploaded. Operational responsibility is assigned to Repairs and Improvements Team Leader | 30/04/2021 |
| Status Update Comments | Revised Date |
| Original date was 30/4/21 for decision to be made - this has now been met and agreed to continue with LifeSpan. | 31/12/2021 |
| All new certificates are being uploaded to LifeSpan on receipt. Unit Support Officer is actively working to upload historic records to LifeSpan. | Future Action |

South Derbyshire District Council – Audit Progress Report

| Housing Safety Inspections 2020-21 | Rec No.5 |
|---|----------------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>Fire Risk Assessments had not been reviewed at the required frequency for all relevant properties.</p> <p>We recommend that the intended procurement of a Fire Risk Assessment provider be prioritised and that all overdue Fire Risk Assessments are undertaken and documented as soon as practically possible.</p> | Moderate Risk |
| Management Response/Action Details | Action Date |
| Short term – requested to be completed by SDDC H&S and some urgent properties undertaken by MAGG. Operational responsibility is assigned to Repairs and Improvements Team Leader. | 31/03/2021 |
| Status Update Comments | Revised Date |
| FRAs underway with new suppliers. | 30/08/2021 |
| | Future Action |

| Housing Safety Inspections 2020-21 | Rec No. 6 |
|---|----------------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>While action had been taken to address many of the action points identified in Fire Risk Assessments dating back to 2016 and 2017, issues had not yet been fully addressed.</p> <p>We recommend that the Council ensures the completion of all outstanding points from Fire Risk Assessments as soon as practically possible. A plan should also be put in place to ensure that there is sufficient capacity to address any further fire safety risks identified once FRAs are refreshed following completion of the works.</p> | Moderate Risk |
| Management Response/Action Details | Action Date |
| From the compartmentalisation surveys commissioned via Aquilum (Ventro/OmniZone) a contract was generated. £235k of firestopping works were carried out. Overall number of tasks allocated: 888 tasks completed, 420 Fire doors to be complete. Fire doors to install by Novus. Unfortunately, initial contractor consistently underperformed and have had to source alternative provision for renewal of fire doors. Fitting of these has now commenced. Operational responsibility is assigned to Repairs and Improvements Team Leader. | 25/03/2021 |
| Status Update Comments | Revised Date |
| Fire stopping items complete. Fire doors to be complete by new contractor. | 30/08/2021 |
| | Future Action |

South Derbyshire District Council – Audit Progress Report

| Waste Management (Trade Waste) | Rec No.6 |
|--|-----------------------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>Mandatory Health & Safety training had not been refreshed in line with the required 3-year timescale.</p> <p>We recommend that, whilst being mindful of the current Covid-19 restrictions, the delivery of mandatory Health & Safety training is pursued and delivered as a priority, when safe to do so. To bring the required training up-to-date, this should incorporate all members of the team and include all those Health & Safety training courses which are mandatory. Whilst training delivery continues to be problematic due to the Covid-19 pandemic, toolbox talks should continue in an effort to keep Health & Safety awareness at the forefront of everyone's mind.</p> | Moderate Risk |
| Management Response/Action Details | Action Date |
| Mandatory training, including but not limited to Health & Safety, for all Operational Services employees, without access to Myview, has now been organised. The training will be delivered over the following dates to ensure Covid safety measures are followed during delivery of the training. 3rd February, 23rd February, 10th March, 11th March, 23rd March, 25th March and 1st April | 01/04/2021 |
| Status Update Comments | Revised Date |
| Due to employees having to use up annual leave, the programme of training has been extended until June 2021. To date 48% of all Operational Services staff are up to date with mandatory Health & Safety training. | 30/06/2021 Future Action |

South Derbyshire District Council – Audit Progress Report

Being Implemented - Low Risk Recommendations Over 12 Months

The following low risk rated recommendations, that have not yet been implemented and have exceeded their original action date by more than 12 months, are also detailed for Committee's scrutiny.

| Parks & Open Spaces | Rec No. 5 |
|---|-----------------------------|
| Summary of Weakness / Recommendation | Risk Rating |
| Files and documentation confirming compliance with safety standards was not held centrally, but rather in separate project files in the Cultural Services Department. We recommend that the documentation held by the Council in respect of play equipment and playground surfacing which demonstrates compliance with the relevant safety standards, should be held centrally. Ideally, the relevant documents confirming compliance for each play area should be scanned and stored on separate electronic files, headed up for each play area. Access to the files should be allowed for both the Open Space and Facilities Development Manager and the Street Scene Manager. This would allow all officers involved in the process to access the information as necessary (i.e. for ordering parts) and would serve to ensure that the information was complete and easily accessible. | Low Risk |
| Management Response/Action Details | Action Date |
| Central folder to be set up for all Play Equipment paperwork on S Drive. Scan in all relevant documents. | 31/03/2018 |
| Status Update Comments | Revised Date |
| Cultural Services have a project to bring these together electronically. Staff not visiting the office so project will resume when the Covid 19 risk has reduced. | 31/12/2021 Future Action |

| Parks & Open Spaces | Rec No. 7 |
|--|-----------------------------|
| Summary of Weakness / Recommendation | Risk Rating |
| Signs at play areas did not clearly identify the site operator, relying instead on a display of the Council's emblem, not necessarily identifiable with all users of the play areas. In addition, out of hours contact details differed on one sign compared to the other three we viewed. We recommend that the signs displayed at the children's play areas across the district clearly display, the name of the site operator, i.e. the district council or parish council as appropriate. This would allow users of the play areas to clearly identify the site operators in the event of accident or equipment failure. In addition, all the signs situated in the play areas should display the correct contact numbers, both in and out of office hours. | Low Risk |
| Management Response/Action Details | Action Date |
| Review of signage to be undertaken. New signage to be designed and approved. New signs to be installed on all Council operated play areas – NOTE: subject to budget/cost constraints | 31/03/2018 |
| Status Update Comments | Revised Date |
| This is being actioned as part of the play project programme. | 31/12/2022 Future Action |

South Derbyshire District Council – Audit Progress Report

| PCI Compliance 2018-19 | Rec. No. 4 |
|---|-----------------------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>The Council had not maintained an inventory of hardware and software components relating to equipment used to take card payments.</p> <p>We recommend that the Council either introduces an inventory of hardware and software components relating to equipment used to take card payments or these devices are removed in favour of alternative methods the Council uses to receive card payments.</p> | Low Risk |
| Management Response/Action Details | Action Date |
| We are in the process of removing the android chip and pin devices and replacing with a single digit device. The kiosks will be replaced by December 2019 as not PCI DSS compliant beyond that date Our understanding is that firmware is incorporated with the machines | 01/01/2020 |
| Status Update Comments | Revised Date |
| The Council has undertaken a comprehensive PCI audit with a specialist consultancy. Two key recommendations were made, namely the delivery of Call Secure Plus and P2PE, as well as the update of a few key policies. These projects and spend were approved by Finance & Management Committee in March 2021, and the PCI questionnaire will be submitted by end of March 2021, with a commitment to deliver these projects in the short-term. The projects are currently underway and will be delivered in quarter 1/2 of 2021, dependent on technical requirements. | 01/10/2021 Future Action |

| PCI Compliance 2018-19 | Rec. No. 6 |
|---|-----------------------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>The document which outlined duties and responsibilities in terms of PCI Standards contained out-of-date references.</p> <p>We recommend that the document outlining duties and responsibilities in terms of PCI Standards is updated to reflect the Council's current structure.</p> | Low Risk |
| Management Response/Action Details | Action Date |
| Procedural policies updates including communication and training to staff will be updated by Customer Services. | 01/04/2019 |
| Status Update Comments | Revised Date |
| The Council has undertaken a comprehensive PCI audit with a specialist consultancy. Two key recommendations were made, namely the delivery of Call Secure Plus and P2PE, as well as the update of a few key policies. These projects and spend were approved by Finance & Management Committee in March 2021, and the PCI questionnaire will be submitted by end of March 2021, with a commitment to deliver these projects in the short-term. The projects are currently underway and will be delivered in quarter 1/2 of 2021, dependent on technical requirements. | 01/10/2021 Future Action |

South Derbyshire District Council – Audit Progress Report

| Section 106 Agreements 2018-19 | Rec. No. 1 |
|--|---------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>The Section 106 Agreements version 8 - A guide for Developers document had not been reviewed since April 2010, and contained out-of-date information.</p> <p>We recommend that the Section 106 Agreements version 8 - A guide for Developers document should be subject to a full review and update. Going forward, this document should be subject to regular review and update.</p> | Low Risk |
| Management Response/Action Details | Action Date |
| Review to be undertaken in 2019/2020 - to produce formal supplementary planning document (statutory process) - then reviewed as part of the Local Plan process. | 01/04/2019 |
| Status Update Comments | Revised Date |
| This is included as a target in the Service Delivery Plan for 2021-22. | 31/03/2022 |
| | Future Action |

| Allocations & Homelessness 2018-19 | Rec. No. 1 |
|--|---------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>There were no formal procedure notes detailing the allocation process</p> <p>We recommend that, once a revised Allocations Policy is in place, a formal procedure note is produced detailing the allocations process.</p> | Low Risk |
| Management Response/Action Details | Action Date |
| Procedure notes to be completed after the implementation of new Housing Allocations Policy. | 30/07/2019 |
| Status Update Comments | Revised Date |
| New Allocations Policy approved by Housing Committee for implementation. | 01/07/2021 |
| Restructure of team underway to be followed by re-procurement of Choice Based Lettings Software and process review. | Future Action |

| Fleet Management | Rec. No. 2 |
|--|---------------|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>A number of policies and procedures related to vehicle management and driving were inconsistent with the current regulations, out-of-date or drafted but not formally approved.</p> <p>We recommend that the set of policies / procedures supporting the Vehicle Management Strategy are reviewed and updated to provide staff with clear instructions on the latest working practices.</p> | Low Risk |
| Management Response/Action Details | Action Date |
| All Direct Services employees have had a driving licence check and signed a declaration of fitness to drive. A briefing will be submitted to the Leadership Team to establish the preferred option for checking all employees' driving licences. | 31/03/2020 |
| Status Update Comments | Revised Date |
| Resource issues have delayed some of the progress, all policies are currently being reviewed and updated by the interim Waste and Transport Manager. A drivers handbook /procedures has been completed and will be issued shortly. | 30/09/2021 |
| | Future Action |

South Derbyshire District Council – Audit Progress Report

| Fleet Management | Rec. No. 6 |
|---|--|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>There was no centralised record of the drivers employed by the Council, and no centralised checks were undertaken for validity of driving licences.</p> <p>We recommend that a centralised record of all drivers operating the Council's vehicles should be maintained. This record should evidence regular checks for drivers licence information and other relevant details.</p> | Low Risk |
| Management Response/Action Details | Action Date |
| All Direct Services employees have had a driving licence check and signed a declaration of fitness to drive. A briefing will be submitted to the Leadership Team to establish the preferred option for checking all employees' driving licences. | 30/06/2019 |
| Status Update Comments | Revised Date |
| This is now being dealt with by the Human Resources Manager, following agreement that it is a corporate responsibility and the Head of Operational Services does not have the required access to all driver's personal details. The Head of Operational Services is providing support. However, the Human Resources Manager is delivering the project. Progress has been made on the introduction of a specialist third party system and will need consultation with employees. | <p>30/09/2021</p> <p>Future Action</p> |

| Active Communities & Health | Rec. No. 1 |
|--|--|
| Summary of Weakness / Recommendation | Risk Rating |
| <p>Community consultations were not considered to be appropriately inclusive of all members of the disabled community.</p> <p>We recommend that when conducting community consultations intended to include disabled people, the Active Communities & Health team should contact a local equalities team, such as Access Derbyshire (Derbyshire County Council), for them to assess the appropriateness of the consultation document for the disabled community.</p> | Low Risk |
| Management Response/Action Details | Action Date |
| The 50+ survey is still in draft stage and all information has not been included yet. We will ensure that these are picked up for this consultation which will be launched in January 2020 all being well. | 31/01/2020 |
| Status Update Comments | Revised Date |
| Requested to postpone until end of June- as due to Covid situation not deemed appropriate to releases such a survey at this moment in time due to lockdown three. Hoping to release in Q1 or Q2 of 2021-22 | <p>31/08/2021</p> <p>Future Action</p> |

| | | |
|-------------------------|---|--|
| REPORT TO: | AUDIT SUB-COMMITTEE (SPECIAL) | AGENDA ITEM: 7 |
| DATE OF MEETING: | 28 th JUNE 2021 | CATEGORY: RECOMMENDED |
| REPORT FROM: | AUDIT MANAGER | |
| MEMBERS' CONTACT POINT: | ADRIAN MANIFOLD Adrian.manifold@centralmidlandsaudit.gov.uk (01332 643281) | DOC: u/ks/audit/internal audit/annual reports/summary |
| SUBJECT: | INTERNAL AUDIT ANNUAL REPORT 2020-21 | REF: |
| WARD(S) AFFECTED: | ALL | TERMS OF REFERENCE: AS 02 |

1.0 Recommendations

- 1.1 To consider and note the Annual Internal Audit Opinion for 2020/21.

2.0 Purpose of Report

- 2.1 The Public Sector Internal Audit Standards (PSIAS) sets out the requirements for the Chief Audit Executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

3.0 Detail

- 3.1 The report of the Audit Manager is detailed in a report which is attached.

4.0 Financial Implications

- 4.1 None

5.0 Corporate Implications

- 5.1 None directly

6.0 Community Implications

- 6.1 None directly

7.0 Background Papers

- 7.1 The Accounts and Audit Regulation 2015 Public Sector Internal Auditing Standards.



South Derbyshire DC – Internal Audit Annual Report 2020-21

Audit Sub-Committee: 28th June 2021



South Derbyshire
District Council



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Our Vision

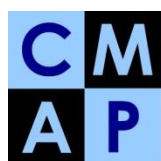
To bring about improvements in the control, governance and risk management arrangements of our Partners by providing cost effective, high quality internal audit services.

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central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

Introduction

Why an Audit Opinion is required

The Public Sector Internal Audit Standards (PSIAS) states:

Public sector requirement

The chief audit executive 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.

Extracted from Public Sector Internal Audit Standards Updated March 2017 - 2450 Overall Opinions

In this instance, the Chief Audit Executive is Adrian Manifold, Audit Manager.

With regard to overall opinions, CIPFA's Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards 2019 Edition (issued February 2019) also states:

"The Public Sector Requirement in PSIAS 2450 requires that the Chief Audit Executive must provide an annual report to the board timed to support the annual governance statement. This must include:

- *an annual Internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework – i.e. the control environment*
- *a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance providers)*
- *a statement on conformance with the PSIAS and the results of the Quality Assurance and Improvement Programme.*

In local government, the annual opinion should be guided by the CIPFA Framework Delivering Good Governance in Local Government.

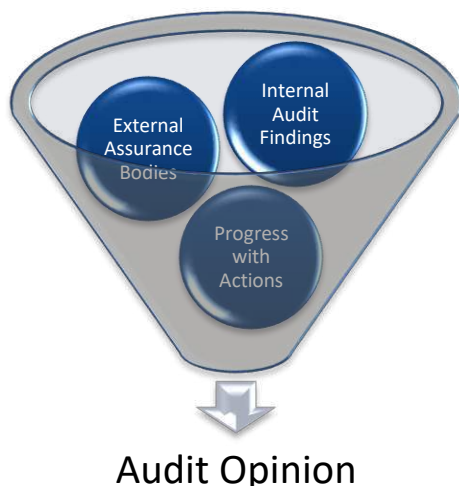
The annual report should also include:

- *disclosure of any qualifications to that opinion, together with the reasons for the qualification*
- *disclosure of any impairments ('in fact or appearance') or restriction in scope*
- *a comparison of the work actually undertaken with the work that was planned and a summary of the performance of the Internal audit function against its performance measures and targets*
- *any issues the Chief Audit Executive judges particularly relevant to the preparation of the annual governance statement*
- *progress against any improvement plans resulting from QAIP external assessment.*

In the context of the PSIAS, 'opinion' means that Internal audit will have done sufficient, evidenced work to form a supportable conclusion about the activity that it has examined. Internal audit will word its opinion appropriately if it cannot give reasonable assurance (e.g. because of limitations to the scope of, or adverse findings arising from, its work)."

How an Audit Opinion is Formed

Internal Audit's risk-based plan must take into account the requirement to produce an annual internal audit opinion. Accordingly, the Audit Plan must incorporate sufficient work to enable the Audit Manager to give an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. Internal Audit must therefore have sufficient resources to deliver the Audit Plan.



Possible Overall Opinions

The Audit Manager's opinion relative to the organisation as a whole could fall into one of the following 3 categories:

- **Inadequate System of Governance, Risk, Internal Control** – Findings indicate significant weaknesses and the need for urgent remedial action. Where corrective action has not yet started, the current remedial action is not, at the time of the audit, sufficient or sufficiently progressing to address the severity of the control weaknesses identified.
- **Adequate System of Governance, Risk, Internal Control Subject to Reservations** – A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.
- **Satisfactory System of Governance, Risk, Internal Control** - Findings indicate that on the whole, arrangements are satisfactory, although some enhancements may have been recommended.

Quality Assurance and Improvement Programme

A quality assurance and improvement programme is designed to enable an evaluation of the Internal Audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the Internal Audit activity and identifies opportunities for improvement.

Public Sector Internal Audit Standards state:

Public sector requirement

The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

Extracted from Public Sector Internal Audit Standards Updated March 2017 - 1320 Reporting on the Quality Assurance and Improvement Programme

Public Sector Internal Audit Standard 1312 also requires that:

"External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation."

Assessments are based on the following 3 ratings:

- **Generally Conforms** - means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards.
- **Partially Conforms** - means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
- **Does Not Conform** - means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

An external quality assessment of the internal auditing activities of CMAP was undertaken during the period February – April 2017 and identified some opportunities for further improvement and development. The consultant provided an update position on our overall conformance with the Standards in September 2017 and was content to re-assess our conformance as follows:

| | Number of standards | Generally Conforms | Partially Conforms | Does Not Conform |
|-----------------------|---------------------|--------------------|--------------------|------------------|
| Code of Ethics | 4 | 4 | 0 | 0 |
| Attribute Standards | 19 | 19 | 0 | 0 |
| Performance Standards | 33 | 33 | 0 | 0 |

As required, we have also undertaken a self-assessment against the Standards in April 2021 using the tool specifically developed by the Institute of Internal Auditors (IIA) for this purpose. As such, the CMAP has identified a number of actions for improvement

some of which are listed in the QAIP – Improvement Plan section to the rear of this report.

In November 2020 we also undertook a self-assessment of our conformance against the Practice Guide - Demonstrating the Core Principles for the Professional Practice of Internal Auditing. The IIA's self-assessment tool was used once again. The resulting IIA Core Principles Action Plan is appended to this report.

We have determined that CMAP **Generally Conforms** ' to the Standards. 'Generally Conforms' means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.

Audit Opinion 2020-21

Based on the work undertaken during the year, I have reached the overall opinion that there is a **Satisfactory System of Governance, Risk, Internal Control** - Findings indicate that on the whole, arrangements are satisfactory, although some enhancements may have been recommended.

In forming this opinion, I am satisfied that no conflicts of interest have occurred which would have any bearing on my independence or objectivity. Also, my organisational independence and objectivity has not been subject to any impairment in fact or appearance; nor has the scope of our work been restricted in any way.

I have arrived at this opinion having regard to the following:

- The level of coverage provided by Internal Audit was considered adequate.

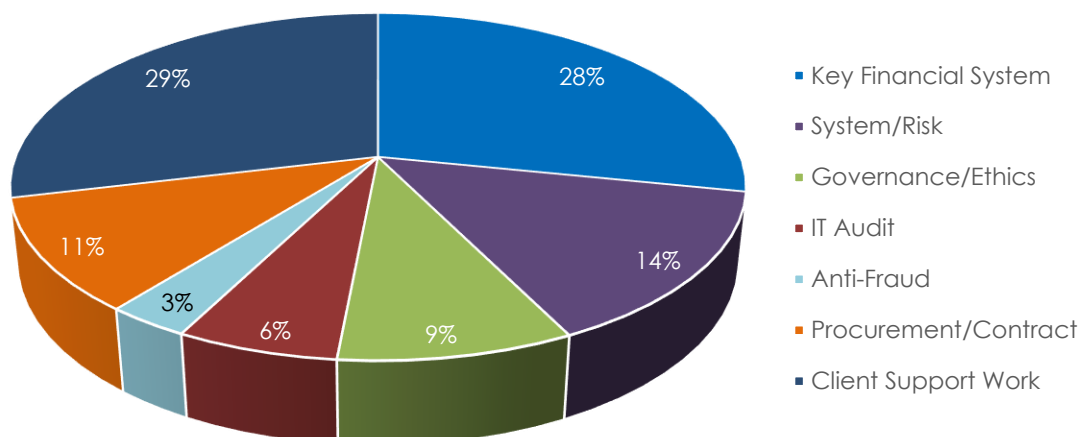
Note: The completion of the key areas of 2020-21 audit work was not significantly disrupted by the COVID-19 pandemic. Those audit reviews that were an essential component to inform the annual opinion were either completed or sufficiently completed to enable the overall opinion to be determined.

- Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the organisation's control environment is operating effectively.
- The changing risk environment within the Council has been taken into account during the 2020-21 financial year.

Note: The impact of the COVID-19 pandemic on the 2020-21 governance, risk and control environment has been considered and has been reflected in the 2020-21 internal audit plan which was reviewed and revised on an on-going basis to reflect the risks faced by the Council.

- Our insight gained from our interactions with Senior Management and the Audit Sub-Committee.
- No adverse implications for the Authority's Annual Governance Statement have been identified from any of the work that Internal Audit has undertaken in 2020-21.
- The 2020-21 Internal audit plan, approved by the Audit Sub-Committee, 13th July 2020, was informed by internal audits own assessment of risk and materiality in addition to consultation with Senior Management to ensure it aligned to the organisation's key risks and objectives. Changes to this Audit Plan have been reported to the Audit Sub-Committee throughout the year. These were brought about by the changing risk environment that the Covid 19 pandemic presented to the Council.
- The following tables summarise the 2020-21 Audit Plan assignments and their outcomes as well as those assignments from the 2019-20 Audit Plan which were still ongoing in 2020-21.

Audit Plan 2020-21 per Type of Audit



| 2020-21 Jobs | Status | % Complete | Assurance Rating |
|--|--------------------|------------|------------------|
| Risk Management 2020-21 | Final Report | 100% | Reasonable |
| Business Continuity & Emergency Planning | Fieldwork Complete | 90% | Reasonable* |
| Procurement 2020-21 | Final Report | 100% | Reasonable |
| Safeguarding 2020-21 | Final Report | 100% | Reasonable |
| Debtors 2020-21 | Final Report | 100% | Reasonable |
| Revenues Systems 2020-21 | Final Report | 100% | Substantial |
| Housing Benefit & Council Tax Support | In Progress | 40% | |
| Microsoft 365 Platform | Final Report | 100% | Reasonable |
| Business Support Grants | Final Report | 100% | Substantial |
| Homes England Grant Certification | Final Report | 100% | N/A |
| Financial Reporting - Impact of Covid19 | In Progress | 75% | |
| Waste Management (Trade Waste) | Final Report | 100% | Reasonable |
| Leisure Centres 2020-21 | Deferred | 5% | |
| Housing Repairs 2020-21 | Draft Report | 95% | Limited* |
| Housing Safety Inspections 2020-21 | Final Report | 100% | Reasonable |
| Tenancy Management (Interventions and Support) | Final Report | 100% | Substantial |
| Waste Contract - Pre-Procurement Stage | Final Report | 100% | Reasonable |
| Electoral Services 2020-21 | Deferred | 20% | |
| Overview & Scrutiny Function | Final Report | 100% | N/A |

* Assurance ratings yet to be finalised

| 2019-20 Jobs B/fwd | Status | % Complete | Assurance Rating |
|---|--------------|------------|------------------|
| Management of Novus Contract | Final Report | 100% | Substantial |
| Procurement of Rosliston Contract 2019-20 | Final Report | 100% | Reasonable |
| Main Accounting System 2019-20 | Final Report | 100% | Substantial |
| Treasury Management 2019-20 | Final Report | 100% | Reasonable |
| Payroll 2019-20 | Final Report | 100% | Reasonable |
| Revenues Systems 2019-20 | Final Report | 100% | Substantial |
| Housing Benefit & Council Tax Support 2019-20 | Final Report | 100% | Substantial |
| Anti-Fraud & Corruption 2019-20 | Final Report | 100% | Substantial |
| ICT Key Controls | Final Report | 100% | Reasonable |
| Business Change & Transformation | Final Report | 100% | Substantial |
| Grounds Maintenance | Final Report | 100% | Reasonable |

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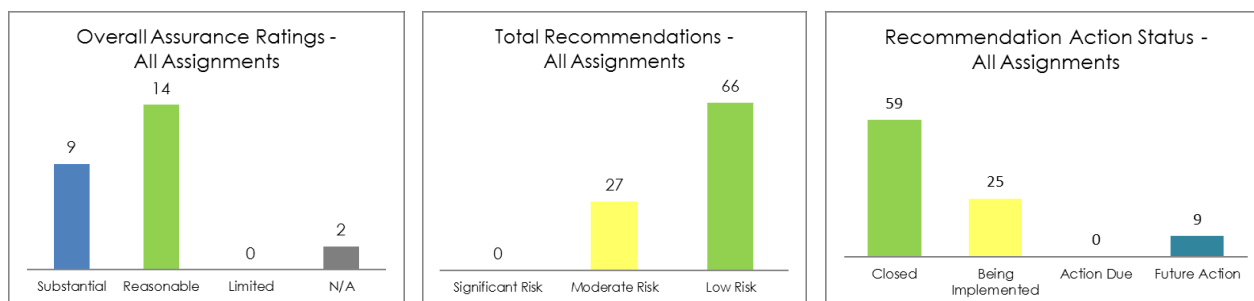
Bereavement Services 2019-20

Final Report

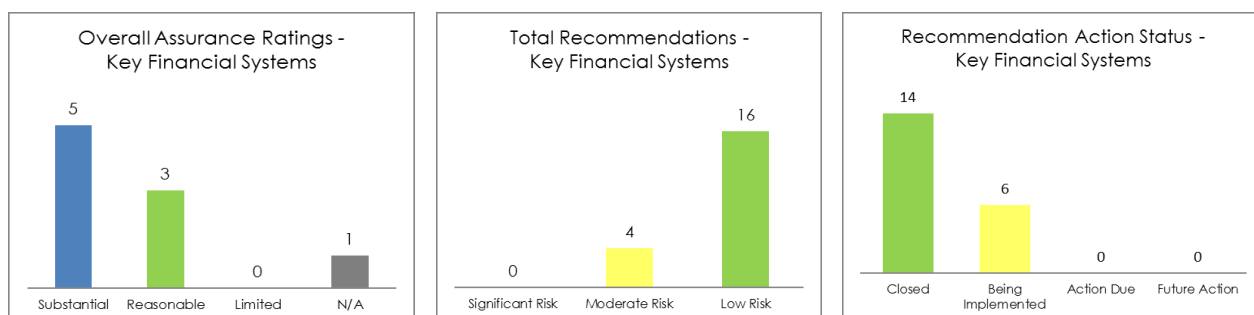
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Reasonable

- Of the 25 substantially completed assignments, 23 attracted either a 'Substantial' or 'Reasonable' assurance rating and 1 has provisionally attracted a 'Limited' assurance rating. Two Audit assignments were given a 'N/A' assurance rating. From the completed assignments a total of 93 recommendations were made; 66 of these were considered to present a low risk; 27 were considered to present a moderate risk; no significant or critical risk recommendations were made.



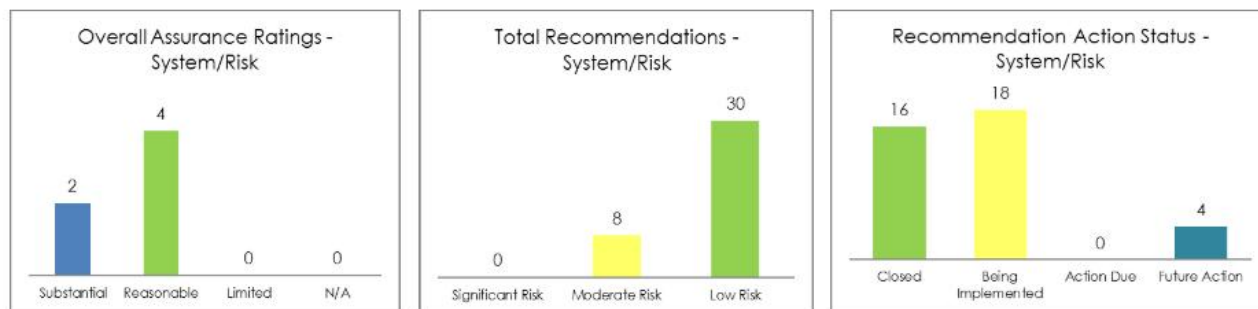
- Of the 11 **Key Financial System** audits undertaken in 2020-21, 8 were significantly completed and attracted either a Substantial or Reasonable overall assurance rating and 1 attracted a N/A rating. The 2 remaining were not yet sufficiently complete to determine an overall assurance rating. The finalised audit assignments identified 17 recommendations, 13 of which were classified as low risk and 4 were a moderate risk. Three of the 4 moderate risks relate to Payroll and 2 have future action dates, whilst the other has passed its original action date and a revised action date in the future has been provided. The 1 remaining moderate risk recommendation relates to Treasury Management and it has passed its original action date and management have suggested another action date in the future.



- Of the 9 **System/Risk** audits undertaken in 2020-21, 6 were finalised and attracted either a Substantial or Reasonable assurance rating and 1 has provisionally attracted a Reasonable rating but the draft report is yet to be issued. From the 6 audits finalised, a total of 38 recommendations were made; 8 of which were considered to present a moderate risk; the remaining 30 were judged as low risk. One of the 8 moderate risk recommendations had been implemented; of the 7 remaining, all had passed their original action date. Management had provided revised action dates for all 7; 5 of which have

South Derbyshire DC – Interim Internal Audit Annual Report 2020-21

future action dates, whilst the remaining 2 have again passed their revised action date and management is yet to provide another update.



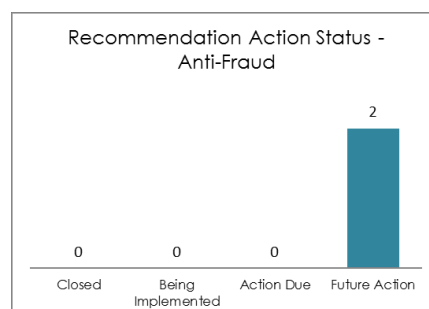
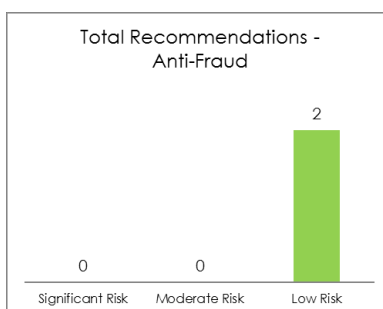
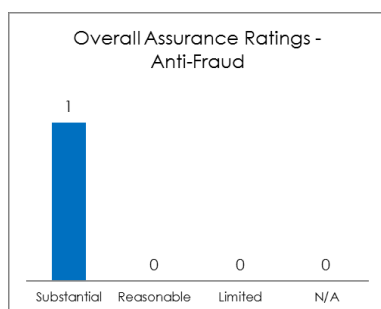
- All 3 **Governance/Ethics** audits undertaken during 2020-21 have been finalised and 2 attracted an overall assurance rating of Reasonable, whereas the review of the Overview & Scrutiny Function was a piece of consultancy work which did not attract an overall assurance rating. The 2 audits produced 9 recommendations; 2 of which were considered to represent a moderate risk, the rest being a low risk. Both of these moderate risk recommendations have now been implemented.



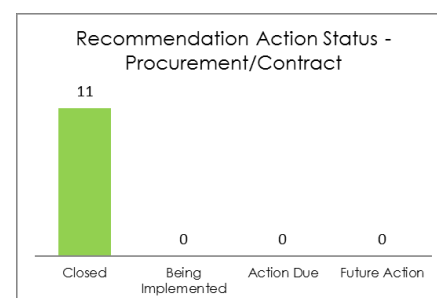
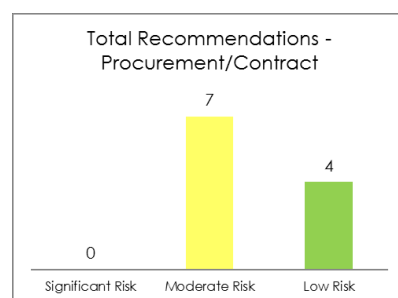
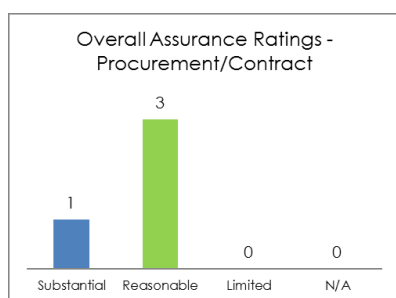
- Of the 2 **IT Audits**, both were significantly completed during 2019-20 and attracted Reasonable assurance ratings. The ICT Key Controls audit raised 6 recommendations; 3 were considered a moderate risk and the remaining 3 were considered to represent a low risk. All 6 recommendations have now been addressed to our satisfaction.



- The one **Anti-Fraud** audit undertaken was complete and attracted a Substantial assurance rating. It raised 2 low risk recommendations which both have future action dates.



- Of the 5 **Procurement/Contract** audits, 4 were finalised and attracted overall assurance ratings of Substantial and Reasonable. The Housing Repairs assignment has provisionally attracted a Limited assurance rating, but the report is yet to be finalised. The 4 finalised audits resulted in 11 recommendations, all of which have been addressed to our satisfaction.



This opinion is provided with the following caveats:

- The opinion does not imply that Internal Audit has reviewed all risks, controls and governance arrangements relating to the Council. The opinion is substantially derived from the conduct of risk-based audit work and as such, it is only one component that is taken into account when producing the Council's Annual Governance Statement.
- No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.
- Full implementation of all agreed actions is essential if the benefits of the control improvements detailed in each individual audit report are to be realised.

Audit Coverage

Assurances Provided

The following table seeks to summarise the extent of audit coverage provided to South Derbyshire District Council during 2020-21 and the assurance ratings associated with each audit assignment.

| Summary of Audit Plan 2020-21 Results (incl. Jobs B/Fwd) | Type of Review | | | | | | Totals |
|--|----------------------------|-----------------|-----------------------|----------|----------------|--------------------------|--------|
| | Key Financial System | System/ Risk | Governance /Ethics | IT Audit | Anti- Fraud | Procurement /Contract | |
| Not Yet Complete | 2 | 3 | | | | 1 | 6 |
| Substantial | 5 | 2 | | | | 1 | 8 |
| Reasonable | 3 | 4 | 2 | 2 | 1 | 3 | 15 |
| Limited | | | | | | | |
| No | | | | | | | |
| N/A | 1 | | 1 | | | | 2 |
| | 11 | 9 | 3 | 2 | 1 | 5 | 31 |

Assurance Ratings Explained

Substantial - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

N/A – The type of work undertaken did not allow us to reach a conclusion on the adequacy of the overall level of internal control.

These assurance ratings are determined using our bespoke modelling technique which takes into account the number of control weaknesses identified in relation to those examined, weighted by the significance of the risks.

Audit Plan Assignments 2020-21

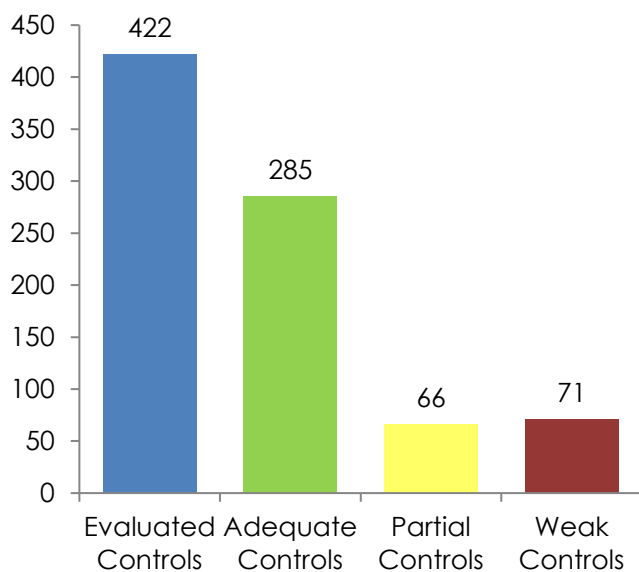
| Audit Assignments Completed in Period | Assurance Rating | Recommendations Made | | | | % Recs Closed |
|---|------------------|----------------------|------------------|---------------|-----------|---------------|
| | | Critical Risk | Significant Risk | Moderate Risk | Low Risk | |
| Debtors 2020-21 | Reasonable | | | | 4 | 100% |
| Revenues Systems 2020-21 | Substantial | | | | 3 | |
| Housing Benefit & Council Tax Support | | | | | | n/a |
| Business Support Grants | Substantial | | | | 1 | 100% |
| Homes England Grant Certification | N/A | | | | | n/a |
| Financial Reporting - Impact of Covid19 | | | | | | n/a |
| Main Accounting System 2019-20 | Substantial | | | | | n/a |
| Treasury Management 2019-20 | Reasonable | | | 1 | 3 | 75% |
| Payroll 2019-20 | Reasonable | | | 3 | 2 | 80% |
| Revenue Systems 2019-20 | Substantial | | | | 3 | 67% |
| Housing Benefit & Council Tax Support 2019-20 | Substantial | | | | | n/a |
| Business Continuity & Emergency Planning | Reasonable* | | | | | n/a |
| Waste Management (Trade Waste) | Reasonable | | | 1 | 5 | 50% |
| Leisure Centres 2020-21 | | | | | | n/a |
| Housing Safety Inspections 2020-21 | Reasonable | | | 4 | 5 | 44% |
| Tenancy Management (Interventions & Support) | Substantial | | | | 1 | |
| Electoral Services 2020-21 | | | | | | n/a |
| Business Change & Transformation | Substantial | | | | 2 | 50% |
| Grounds Maintenance 2019-20 | Reasonable | | | 2 | 8 | 30% |
| Bereavement Services 2019-20 | Reasonable | | | 1 | 9 | 50% |
| Risk Management 2020-21 | Reasonable | | | 2 | 2 | 100% |
| Safeguarding 2020-21 | Reasonable | | | | 5 | 80% |
| Overview & Scrutiny Function | N/A | | | | | n/a |
| Microsoft 365 Platform | Reasonable | | | 3 | 4 | 57% |
| ICT Key Controls | Reasonable | | | 3 | 3 | 100% |
| Anti-Fraud & Corruption 2019-20 | Reasonable | | | | 2 | |
| Procurement 2020-21 | Reasonable | | | 3 | | 100% |
| Housing Repairs 2020-21 | Limited * | | | | | n/a |
| Waste Contract - Pre-Procurement Stage | Reasonable | | | 3 | | 100% |
| Management of Novus Contract | Substantial | | | | 1 | 100% |
| Procurement of Rosliston Contract 2019-20 | Reasonable | | | 1 | 3 | 100% |
| TOTALS | | | | 27 | 66 | 63% |

* Assurance ratings yet to be finalised

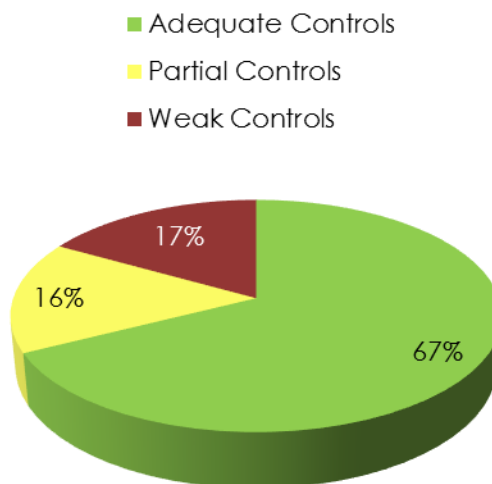
Internal Controls Examined

For those audits finalised during 2020-21, we established the following information about the controls examined:

South Derbyshire DC 2020-21



South Derbyshire



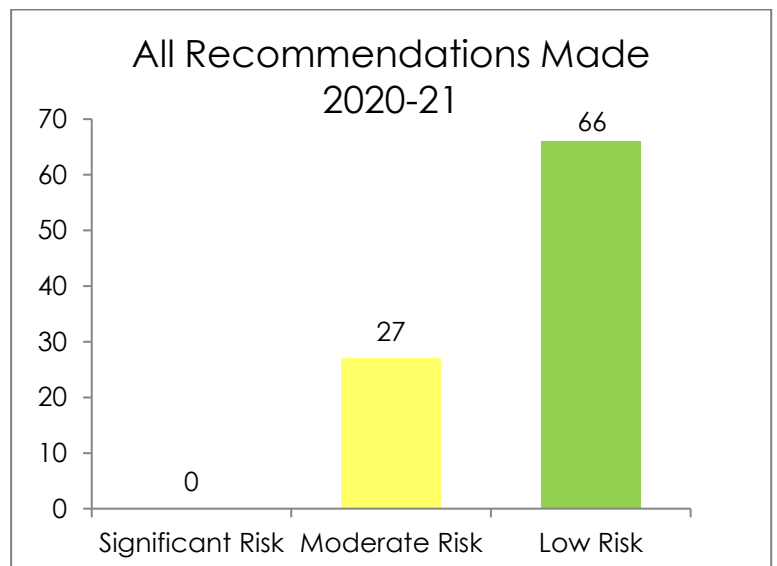
Recommendations Made

The control weaknesses identified above resulted in 93 recommendations which suggested actions for control improvements. The following table and charts show where the recommendations came from, how the recommendations were risk rated and the current status of all recommendations made relating to 2020-21:

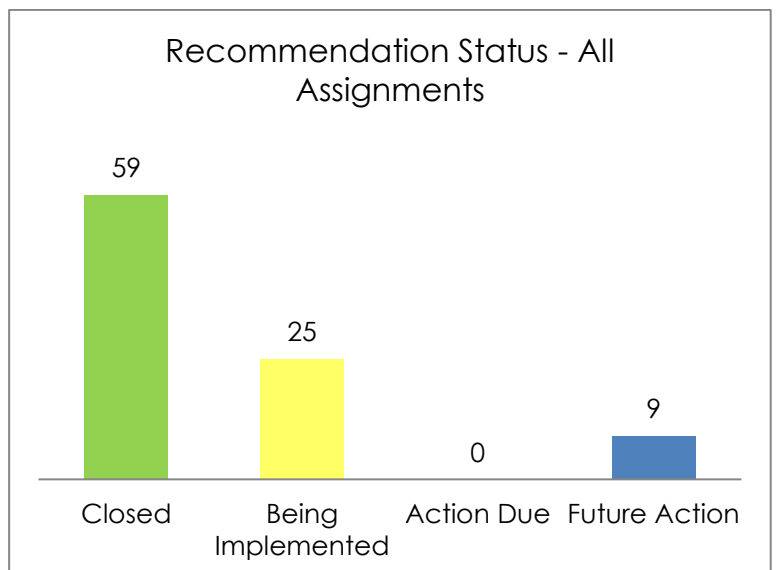
| Audit Assignments | Type of Review | Recommendations Status | | | |
|--|----------------------|------------------------|------------|-------------------|---------------|
| | | Total Closed | Action Due | Being Implemented | Future Action |
| Debtors 2020-21 | Key Financial System | 4 | | | |
| Revenues Systems 2020-21 | Key Financial System | | | 3 | |
| Housing Benefit & Council Tax Support | Key Financial System | | | | |
| Business Support Grants | Key Financial System | 1 | | | |
| Homes England Grant Certification | Key Financial System | | | | |
| Financial Reporting - Impact of Covid19 | Key Financial System | | | | |
| Main Accounting System 2019-20 | Key Financial System | | | | |
| Treasury Management 2019-20 | Key Financial System | 3 | | 1 | |
| Payroll 2019-20 | Key Financial System | 4 | | 1 | |
| Revenue Systems 2019-20 | Key Financial System | 2 | | 1 | |
| Housing Benefit & Council Tax Support 2019-20 | Key Financial System | | | | |
| Business Continuity & Emergency Planning | System/Risk | | | | |
| Waste Management (Trade Waste) | System/Risk | 3 | | 1 | 2 |
| Leisure Centres 2020-21 | System/Risk | | | | |
| Housing Safety Inspections 2020-21 | System/Risk | 4 | | 5 | |
| Tenancy Management (Interventions and Support) | System/Risk | | | 1 | |
| Electoral Services 2020-21 | System/Risk | | | | |
| Business Change & Transformation | System/Risk | 1 | | 1 | |
| Grounds Maintenance 2019-20 | System/Risk | 3 | | 5 | 2 |
| Bereavement Services 2019-20 | System/Risk | 5 | | 5 | |
| Risk Management 2020-21 | Governance/Ethics | 4 | | | |
| Safeguarding 2020-21 | Governance/Ethics | 4 | | 1 | |
| Overview & Scrutiny Function | Governance/Ethics | | | | |
| Microsoft 365 Platform | IT Audit | 4 | | | 3 |
| ICT Key Controls | IT Audit | 6 | | | |
| Anti-Fraud & Corruption 2019-20 | Anti-Fraud | | | | 2 |
| Procurement 2020-21 | Procurement/Contract | 3 | | | |
| Housing Repairs 2020-21 | Procurement/Contract | | | | |
| Waste Contract - Pre-Procurement Stage | Procurement/Contract | 3 | | | |
| Management of Novus Contract | Procurement/Contract | 1 | | | |
| Procurement of Rosliston Contract 2019-20 | Procurement/Contract | 4 | | | |
| TOTALS | | 59 | | 25 | 9 |

Recommendations Summary

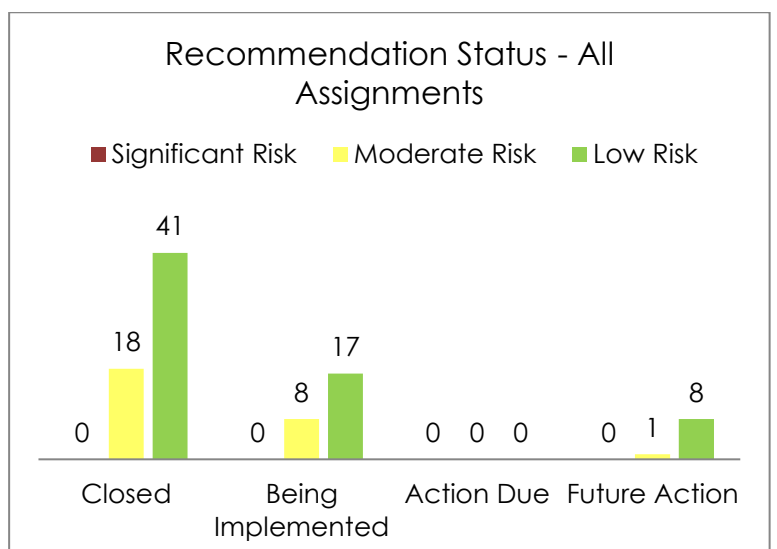
These 93 recommendations have resulted from the 25 audit assignments finalised either during 2020-21 or finalised in the time following the year-end. Approximately 71% of all recommendations made were considered to present a low risk, 29% a moderate risk and 0% a significant risk.



Of the 93 recommendations made, 63% have been closed, 27% have passed their original action date and a revised target has been set, 0% have passed their original action date but we have not yet received information regarding the status of management's action. The remaining 10% have an agreed original action date set in the future.



It is pleasing to note that 18 of the moderate risk recommendations raised have been addressed to our satisfaction, as have 41 of the low risk recommendations. We will continue to monitor all recommendations not yet addressed and will bring those moderate risk recommendations that remain outstanding to the attention of the Audit Sub-Committee throughout the coming year.

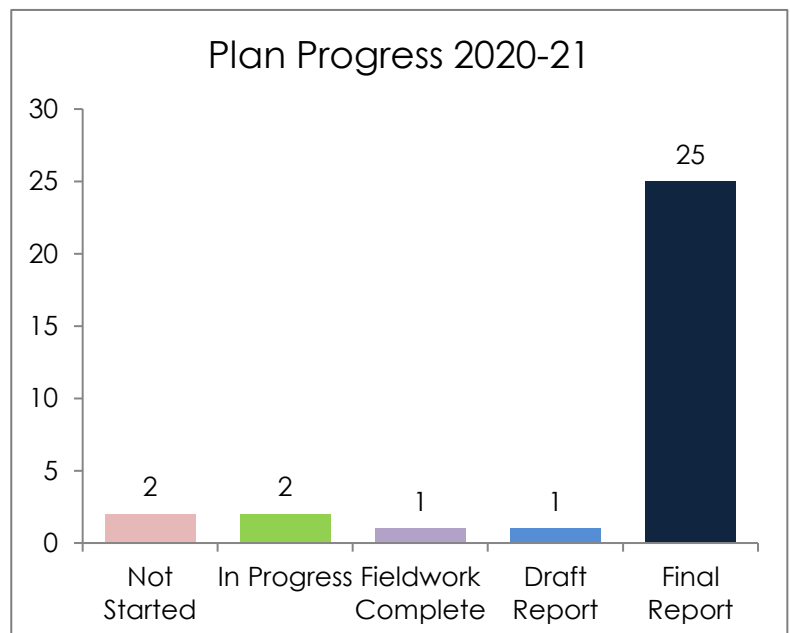


Performance Measures

Of the 21 customer satisfaction surveys sent, only 52% have been returned. Surveys contain 11 questions regarding the audit service provided and asked managers to score each on a scale of 1-5 (1=Very Poor, 2=Poor, 3=Fair, 4=Good, 5=Excellent). From the 9 customer satisfaction returns received, the overall average score out of 55 was 51.5.



By the end of the 2020-21 we estimate that we had completed 92.1% of the revised Audit Plan against a target of 90%. Our progress with certain audit assignments has been significantly impacted by the Covid-19 situation from the middle of March 2020 onwards.



QAIP – Improvement Plan

| ACTIONS |
|---|
| 1. We could seek feedback from Audit Committees & Senior Management on whether the Audit Plan focuses on the things that matter to the organisation and whether our opinion and recommendations are valued and help the organisation or we could seek a formal endorsement from Audit Committee and Client Lead Officer of the Audit Plan and our Opinion when reporting to Committee. |
| 2. We should continue to heighten our profile by building on the relationship management already established with each partner organisation. i.e. Regular meetings with Senior Management combined with a regular on-site presence. Note under the current circumstances (Covid pandemic) this needs to be through regular contact via virtual meetings. |
| 3. We should map competency levels of staff over the various audit disciplines (e.g. contract, IT, probity, investigations etc.) that we can link to audit engagements to demonstrate that the staff assigned are appropriate. |
| 4. We should continue to promote a culture of continuous improvement which considers the needs of individuals by: <ul style="list-style-type: none"> • staff completing the AMS in respect of any training received, • undertaking GPCs in accordance with the hosts requirements and • producing a Training & Development Plan. |
| 5. Our opinion statements should explicitly state whether there are any perceived conflicts of interest with any other assurance providers which the CAE is relying upon when forming an opinion |
| 6. We should ask staff to complete a Personal Development Plan and then produce a Training & Development Plan for the Team. |
| 7. We should aim to increase our knowledge around the use of data analytics and other CAATs and identify the benefits it could bring to the audit processes. |
| 8. To ensure that audit engagements are supported by appropriate tools, we need to develop a strategy for the use of data analytics. |
| 9. Complete this self-assessment annually and produce a revised QAIP and Action Plan for reporting to all necessary parties. |
| 10.To demonstrate stakeholder engagement with the process, we should ensure that the QAIP Action Plan is a standard agenda item on both the CMAP Operational Group and at Audit Section meetings. |
| 11.To demonstrate each work programme has been appropriately approved, we should continue to develop the controls/risk/tests selection from a searchable database in the AMS (which will automatically generate the control evaluation) which incorporates attributes for each control (such as risk type, control type) so we can better demonstrate our coverage and the scrutiny and approval of that coverage by audit management. We should continue to gather control/risk/test data from existing audits ready for import into the database. |
| 12.CMAP needs to explore potential external assessors that can deliver the appropriate level of validation required and that understand the partnership ethos/approach. |

- | |
|---|
| 13. We should continue to develop the process for incorporating other assurance information into our overall risk assessment process and our overall opinion and how the other assurance provider information we gather can be used to demonstrate the overall Assurance 'map' for each organisation. |
| 14. We should ensure that our Audit Manual is complete, up-to-date, readily available and used by all audit staff. |
| 15. To support the improvement of the organisation's governance framework, we should undertake consultancy work to facilitate the self-assessment of the effectiveness of the Audit Committee at all partner organisations. |
| 16. We should consider how we could systematically evaluate the potential for the occurrence of fraud at each partner organisation and how each organisation manages fraud risk. |

IIA Core Principles Action Plan

| |
|---|
| <p>Principle 1. Demonstrates integrity</p> <p>Standards series: 1000 – Purpose, Authority, and Responsibility; 1300 – Quality Assurance and Improvement Programme; 2000 – Managing the Internal Audit Activity</p> |
| <p>Corrective action plan</p> <p><i>To demonstrate continuous improvement, we could:</i></p> <ul style="list-style-type: none"> • include a section on ethics (with a scenario) in our CMAP staff induction process. • Add “and integrity” to our CSS Q5. • Include ethics on the agenda for team meetings. |
| <p>Principle 2. Demonstrates competence and due professional care</p> <p>Standards series: 1200 – Proficiency and Due Professional Care; 2000 – Managing the Internal Audit Activity; 2200 – Engagement Planning; 2300 – Performing the Engagement; 2600 – Communicating the Acceptance of Risks</p> |
| <p>Corrective action plan</p> <p><i>To demonstrate continuous improvement, we should complete the actions 5,6, & 8 included in our QAIP Action Plan, which all relate to staff competencies and training and development.</i></p> <p><i>Need to better analyse our training hours across the team in order to demonstrate CPE/training skills attained.</i></p> <p><i>Need to further develop the Auditor Competencies analysis to demonstrate the matching of assignments to skills.</i></p> <p><i>Need to develop the variable enquiry page in the Windows 10 AMS for the recommendation reports already developed for South Derbyshire.</i></p> |
| <p>Principle 3. Is objective and free from undue influence (independent)</p> <p>Standards series: 1000 – Purpose, Authority, and Responsibility; 1100 – Independence and Objectivity; 2000 – Managing the Internal Audit Activity</p> |
| <p>Corrective action plan</p> <p><i>The different responsibilities of the Host authority and the Operational Board towards the CAEs regarding their appointment / removal and appraisal could be better defined.</i></p> <p><i>We should debate the principle of private sessions between Audit Committees and CAEs at the Operational Board.</i></p> |
| <p>Principle 4. Aligns with the strategies, objectives, and risks of the organisation</p> <p>Standards series: 2000 – Managing the Internal Audit Activity; 2200 – Engagement Planning</p> |
| <p>Corrective action plan</p> <p><i>We should enquire how other audit partnerships demonstrate how they conform with these principles/ standards.</i></p> |
| <p>Principle 5. Is appropriately positioned and adequately resourced</p> <p>Standards series: 1000 – Purpose, Authority, and Responsibility; 1100 – Independence and Objectivity; 1200 – Proficiency and Due Professional Care; 2000 – Managing the Internal Audit Activity</p> |

| |
|--|
| <p>Corrective action plan</p> <p><i>We should consider the benefits of measuring the % plan available for management requests.</i></p> |
| <p>Principle 6. Demonstrates quality and continuous improvement</p> <p>Standards series: 1300 – Quality Assurance and Improvement Programme; 2000 - Managing the Internal Audit Activity</p> |
| <p>Corrective action plan</p> <p><i>We could formally compare annual self-assessments to highlight the actions taken and the overall improvements made.</i></p> <p><i>Progress against the QAIP Action Plan should be monitored and periodically reported to the Operational Board. Supporting evidence should be retained.</i></p> <p><i>We should analyse and report on the balanced scorecards for 2019-20 & 2020-21.</i></p> |
| <p>Principle 7. Communicates effectively</p> <p>Standards series: 1300 – Quality Assurance and Improvement Programme; 2000 – Managing the Internal Audit Activity; 2200 – Engagement Planning; 2300 – Performing the Engagement; 2400 – Communicating Results; 2600 – Communicating the Acceptance of Risks</p> |
| <p>Corrective action plan</p> <p><i>We should consider the benefits of producing promotional information on our work, potentially utilising more modern communication methods.</i></p> |
| <p>Principle 8. Provides risk-based assurance</p> <p>Standards series: 2000 – Managing the Internal Audit Activity; 2100 – Nature of Work; 2200 – Engagement Planning; 2400 – Communicating Results; 2600 – Communicating the Acceptance of Risks</p> |
| <p>Corrective action plan</p> <p><i>We should explore how we can utilise the Controls database to link audit results back to organisational risks.</i></p> <p><i>Undertake further work to facilitate the improvement of each organisations risk management framework.</i></p> <p><i>Continue to develop the Assurance Mapping information for organisations to adopt.</i></p> |
| <p>Principle 9. Is insightful, proactive, and future-focused</p> <p>Standards series: 2000 – Managing the Internal Audit Activity; 2100 – Nature of Work</p> |
| <p>Corrective action plan</p> <p><i>We should consider formally asking our various “Boards” whether they consider us to be insightful, proactive, and future-focused.</i></p> <p><i>We should consider how we can increase the use of data analytics across a wider variety of audit engagements.</i></p> <p><i>Our development of the Controls database should enable a greater analysis of the type of risks identified by our work.</i></p> <p><i>We should consider adopting control maturity models to further explain to provide perspective on the adequacy and scalability of current controls.</i></p> |

We should consider recording emerging risks in the engagement risk assessment document.

Principle 10. Promotes organisational improvement

Standards series: 1000 – Purpose, Authority, and Responsibility; 2000 – Managing the Internal Audit Activity; 2100 – Nature of Work; 2500 – Monitoring Progress; 2600 – Communicating the Acceptance of Risks

Corrective action plan

We should consider monitoring and reporting upon the % of recommendations implemented within the original agreed timescales, then those within 3 months, 6 months, 12 months, greater than 12 months.

We should consider how we could identify best practice information to share across different business units/partners.

We should consider whether we can identify cost savings from our work.

We should consider whether a measurement of consultancy work would be beneficial.

| | | |
|--------------------------------|--|---|
| REPORT TO: | AUDIT SUB-COMMITTEE(SPECIAL) | AGENDA ITEM: 8 |
| DATE OF MEETING: | 28th JUNE 2021 | CATEGORY: DELEGATED |
| REPORT FROM: | HEAD OF LEGAL and DEMOCRATIC SERVICES | OPEN |
| MEMBERS' CONTACT POINT: | ARDIP KAUR (01283 595715) Ardip.kaur@southderbyshire.gov.uk | DOC: h/KS/governance/local code/update report Une 2021 |
| SUBJECT: | LOCAL CODE OF CORPORATE GOVERNANCE REVIEW | |
| WARD (S) AFFECTED: | ALL | TERMS OF REFERENCE: AS 04 |

1.0 Recommendation

- 1.1 That the updated Local Code of Corporate Governance as detailed in **Appendix 1** is approved for publication in the Annual Governance Statement 2020/21.
- 1.2 That progress regarding on-going work to maintain sound governance as detailed in the report is approved.

2.0 Purpose of the Report

- 2.1 To review the Council's governance arrangements against the national framework which the Council has adopted.

3.0 Detail

Background

- 3.1 In 2016, the Chartered Institute of Public Finance (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) published a national framework for ensuring proper and robust governance in local authorities. This was adopted by the Council in December 2016 following a review by the Audit Sub-Committee.
- 3.2 The main aim of corporate governance relates to having a system by which a local authority directs and controls its functions and relates to its local community.
- 3.3 Good corporate governance is essential in demonstrating that there is credibility and confidence in public services. Sound arrangements should be founded on openness, integrity, accountability, together with the overarching concept of leadership.

The National Framework

- 3.4 The Framework is based on a set of core principles and is intended to assist authorities individually in reviewing and accounting for their own approach.
- 3.5 The overall aim of the Governance Framework is to ensure that resources are directed in accordance with agreed priorities, that there is sound and inclusive decision making,

together with clear accountability for the use of resources to achieve intended outcomes for local communities.

- 3.6 Within the Framework, focus is also placed upon demonstrating economic, social and environment sustainability over a longer-term, together with the principles of social value.

The Core Principles

- 3.7 There are seven principles as follows:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- Ensuring openness and comprehensive stakeholder engagement.
- Defining outcomes in terms of sustainable economic, social and environmental benefits.
- Determining the interventions necessary to optimise the achievement of the intended outcomes.
- Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- Managing risks and performance through robust internal control and strong public financial management.
- Implementing good practice in transparency, reporting and audit to deliver effective accountability.

- 3.8 Within each principle there are a series of sub-principles. Guidance with the Framework advocates a self-assessment against each of the sub-principles.

The Council's Assessment against the Framework

- 3.9 **Appendix 1** details the Council's updated assessment.
- 3.10 The assessment itself does not necessarily measure the effectiveness of the Council's Governance arrangements. The effectiveness is assessed on an on-going basis and reported annually in the Annual Governance Statement, with the Local Code ensuring sound and robust arrangements (the core elements) are in place.
- 3.11 However, areas for improvement and work-in-progress reported in the Local Code generally arise from an on-going review of the effectiveness of the core elements of the Council's governance system.

On-going Review

- 3.12 Although core elements to demonstrate good governance may be in place, they will always be subject to review and update. This may be due to changing circumstances, stakeholder expectations and external influences, together with learning and development arising from audits and service reviews, etc.

3.13 In addition, an assessment of the governance framework and ultimately its effectiveness should be made considering the main risks and challenges facing the Council. Currently, these are:

- Continuing growth of the District and its increasing population.
- The general uncertainty regarding national funding beyond 2021/22.
- Delivering a Corporate Plan (2020 to 2024) which was adopted in October 2019.
- Coronavirus Pandemic (Covid-19).

Covid-19

3.14 Clearly the impact of Covid-19 has had a significant impact on the Council. As a global pandemic, this invoked the Council's business continuity arrangements, changed methods of working and operational practices, together with bringing to the fore the Council's wider leadership role in the community.

3.15 A key impact on the Council's governance arrangements related to the decision-making process. Section 78 of the Coronavirus Act 2020 allowed Council meetings to be conducted remotely in 2020/21 through audio or teleconference facilities.

Improvements and On-Going Work

3.16 **Appendix 1** also details work completed, improvements identified, together with on-going work to ensure that the Council's governance arrangements remain sound and robust.

3.17 The main actions approved for 2020/21 included in the Council's Governance Statement from 2019/20 were as follows:

| Action | Progress |
|---|---|
| To review compliance with best practice standards recommended by the Government Committee on Standards in Public Life (<i>Principle 1</i>). | The Council is awaiting guidance relating to a revised Members' Code of Conduct. Once the Code of Conduct document is finalised, this action will be complete. |
| To review outcomes from a staff survey to be conducted (<i>Principle 1</i>). | Some work has been progressed to undertake the survey. It had been planned to undertake this survey in 2020/21 but it has been postponed until a decision has been made on working arrangements post Covid. It is now anticipated that the survey will be undertaken 2021/22. |
| To implement a new Equalities, Diversity and Inclusion Plan 2020 to 2024 (<i>Principle 2</i>). | Completed and approved by the Council in February 2021. |

| | |
|--|--|
| To deliver the work programme for Organisational Development (<i>Principle 5</i>). | Work completed although several work streams will be on-going. |
| An audit of the Council's Risk System (<i>Principle 6</i>). | Completed and reported to the Committee in March 2021. An updated Risk Management Framework is being considered by the Audit Sub Committee in June 2021. |
| A review of the Council's Out of Hours Emergency process (<i>Principle 6</i>). | The process has been scoped and a trial is currently being undertaken to assess the effectiveness of a new system. If this is successful, a longer-term solution will be recommended for approval at Finance and Management Committee later in 2021. |

4.0 Financial Implications

4.1 None

5.0 Corporate Implications

Employment Implications

5.1 None

Legal Implications

5.2 None

Corporate Plan Implications

5.3 There are no direct priorities identified in the Corporate Plan (2020 to 2024). However, "good governance" underpins everything that the Council carries out and ensuring a robust system of corporate governance is a key corporate indicator which demonstrates that the Council is operating on a sound basis.

Risk Impact

5.4 None directly from the assessment itself.

6.0 Community Implications

Consultation

6.1 None required.

Equality and Diversity Impact

6.2 None

Social Value Impact

6.3 Not applicable

Environmental Sustainability

6.4 Not applicable

7.0 Background Papers

7.1 Delivering Good Governance in Local Government; Framework and Guidance Notes 2016 Edition. (*Published by CIPFA and SOLACE*).

APPENDIX 1: LOCAL CODE OF CORPORATE GOVERNANCE: ASSESSMENT AGAINST THE NATIONAL FRAMEWORK

| The Principles and the Council's systems and processes which comprise the Government Framework. | Improvements identified, future developments, on-going work and actions completed in 2020/21. |
|--|---|
| <p>1. <u>Behaving with integrity, upholding ethical values and respecting the rule of law</u></p> <p><i>Behaving with integrity</i></p> <ul style="list-style-type: none"> • Codes of Conduct for Members and Officers. • Separate Standards Committee with Independent Persons. • Register of Interests for Gifts and Hospitality. • Process for declaration of personal interests. • Protocol on Member and Officer Relationships. • Member Codes of Practice for the Planning process, the use of ICT, Licensing Committee, and representation on outside bodies. <p><i>Demonstrating a strong commitment to ethical values</i></p> <ul style="list-style-type: none"> • Ethics Statement setting out Ethical Standards for Officers. • 3 Key Values contained in the Corporate Plan – <i>Pride, Respect and Excellence</i>. <p><i>Respecting the rule of law</i></p> <ul style="list-style-type: none"> • An overall Constitution which governs the Council • Regulatory Committees for Planning and Licensing. • Health and Safety Committee. • Statutory Section 151 (Finance) and Monitoring Officers (Legal) appointed to ensure compliance with the law, regulations, and procedures. • The Council complies with the Statement on the Role of the Section 151 in Local Government, evidence of which is periodically reported to the Audit Sub Committee. | <p>To demonstrate compliance with this Principle, the Council should work towards implementing the 15 best practice standards contained in the “Nolan” principles, as recommended by the Government Committee on Standards in Public Life.</p> <p>Although many of these principles are embedded in the Council's Governance arrangements, it is recommended that this is subject to a separate review.</p> <p>Work has progressed to undertake an employee survey, in order to obtain feedback on ethics, values, culture, together with obtaining a check on communications, morale, health and well-being of staff. It had been planned to undertake this survey in 2020/21 but it has been postponed until a decision has been made on working arrangements post Covid. It is now anticipated that the survey will be undertaken 2021/22.</p> |

2. Ensuring openness and comprehensive stakeholder engagement

Openness

- Published and transparent decision-making process through a Committee system accessible to the Public.
- Communications Plan which uses media campaigns to inform the Public.
- Corporate Equalities and Fairness Scheme to ensure that access to services is available to all.

Engaging with institutional stakeholders

- Consultation Framework which includes Citizens Advice and CVS to undertake consultations and provide feedback.
- Representative groups established for major services such as Housing and Leisure.
- Parish Liaison Forum with Parish Council representatives.

Engaging with individuals and service users effectively

- Area Forums to provide the public with direct access to Members, Officers, and other agencies in the District.
- A publicised Comments, Compliments and Complaints Procedure which allows stakeholders to report feedback and raise issues.

Equalities, Diversity, and Inclusion: The Council is required every four years to review and publish a new Policy and demonstrate that it has due regard to the Equalities Act 2010 when delivering services. A review was undertaken in 2020 which included consultation with Members and Officers, together with interested groups and the voluntary sector. A new Strategy and Action Plan covering 2020 to 2024 was approved by the Council in February 2021. The Action plan is being monitored by the Equalities Steering Group, chaired by the Chief Executive, and includes representatives from outside bodies.

Communication: Given the growing population that the Council serves and the global movement towards “Digital Services”, the Council is reviewing how it engages with its communities.

In the Corporate Plan (2020 to 2024) two priorities were approved under the theme “Our People”.

These priorities relate to ensuring consistency in approach using a customer service standard, together with making greater use of technology to engage with residents.

Indicators have been agreed to measure outcomes against these priorities and they are being monitored in performance reports to the Finance and Management Committee.

A program of development is currently being implemented during 2021/22. This is being monitored through the corporate performance process and the Transformation Plan.

3. Defining outcomes in terms of sustainable economic, social and environmental benefits

Defining outcomes

- Sustainable Community Strategy for South Derbyshire coordinated by the Council and overseen by the South Derbyshire Partnership.
- Medium-term Corporate Plan setting out the Council's vision, values, and priorities.
- Medium Term Financial Plan (MTFP) to ensure resources are aligned to priorities and that the financial position remains sustainable.

Sustainable economic, social, and environmental benefits

- Capital Investment Strategy to guide long term investment.
- Procurement Strategy to drive value for money in purchasing, together with securing environmental, economic, and social benefits where possible.
- Environmental Sustainability Group which is taking forward a range of initiatives to meet an aspiration to make the Council carbon neutral by 2030.

Asset Management Planning: The Council's Asset Management Plan was updated and approved by the Finance and Management Committee in July 2020, to align it with the Corporate Plan (2020 to 2024).

The Council's **Procurement Strategy** was also updated and approved by the Finance and Management Committee in August 2020, to align it with the Corporate Plan (2020 to 2024).

An update to the Contract Procedure Rules was approved by the Council in April 2021. This reflected the Council's commitment to Climate Change, providing guidance to ensure that environmental benefits are included in tender evaluation and contract management.

4. Determining the interventions (courses of action) necessary to optimise the achievement of the intended outcomes

Determining interventions

- Terms of Reference and work programs set for Council Committees.
- Corporate and Service Planning Framework to set targets and intended outcomes.
- Financial Regulations and Procedural Rules govern how public money is controlled and to ensure financial resources are deployed efficiently and effectively.

Planning interventions

- Change Management process to guide Organisational and structural change.
- Service and Financial Planning Working Group to evaluate new spending proposals.
- Business Change Framework to assess major process changes and system developments.

Optimising achievement of intended outcomes

- Annual Budget Round to review and focus resources.
- Transformation plan to prioritise major changes.
- VFM Statement is in place which sets out the principles of VFM and how it applies to the specific aims of the Council and the District. This acts as guidance to enable Officers to demonstrate how they deliver VFM.
- This is enhanced by the requirement for an explicit demonstration of VFM to be an integral part of proposals for service development and restructures, etc.
- A VFM test is included in the Capital Evaluation process.

Financial Management Code

During 2019 CIPFA consulted with local authorities on setting a set of standards that govern financial management and to ensure that local authorities can demonstrate their financial sustainability.

Consequently, a new Code of Practice was issued in October 2019 and this will apply for all local authorities from the financial year 2021/22.

The Audit Sub-Committee considered an initial assessment against the Standards in July 2020. Of 17 individual standards, it was recognised that the Council substantially complies with 16 with only one, regarding consultation with stakeholders on the Council's longer-term financial planning, not currently undertaken.

An independent assessment against the standards will be undertaken by Internal Audit later in 2021, in accordance with their approved work programme.

The Finance and Management Committee approved a Transformation Plan on 9 July 2020. The Committee also approved a Transformation Steering Group to oversee delivery of the Plan.

A VFM Statement was approved by the Finance and Management Committee on 30 July 2020, and this was reported alongside the Councils Accounts and Financial Statements for

5. Developing the entity's capacity, including the capability of its leadership and the individuals within it

Developing Organisational capacity

- An Organisational Development and Performance (ODP) Unit in place led by a Head of Service which focuses on Organisational and individual capacity.
- Use of external organisations such as the LGA and the Housing Quality Network to review resources and make recommendations for improvement.
- Peer Review undertaken in October 2019.

Developing leadership and individual performance

- Overarching Workforce Development Strategy.
- A Personal Development process with annual reviews of training needs for all Officers.
- Training and Development programs for Members and Officers which includes mandatory training courses, together with job specific, softer skills and wider management training as appropriate.

A new post of Head of Organisational Development and Performance was filled in September 2019. Supported by a new post of Learning and Development Manager, their priorities are:

- To review and update the Council's values (completed) and ensure the workforce is fully engaged (on-going).
- To provide training and development opportunities for Elected Members and Senior Managers – this is in progress.
- To increase the use of Modern Apprentices in line with Government targets – this is in progress and a target in the Corporate Plan.
- To review internal communication and feedback channels to ensure all staff are kept informed.
 - ✓ A new “Core Brief” which is published for all staff monthly has been introduced.
 - ✓ The Employees Forum has been re-established.
 - ✓ The redesign of the Council's intranet “**Connect**” was implemented in April 2021. This provides news items, features, blogging and a library for council policies and other documents for managers and staff to help them operate on a daily basis.
- To implement a new Personal Development process (completed).
- To update the Workforce Development Strategy to include succession planning. This is due to be completed later in 2021.

6. Managing risks and performance through robust internal control and strong public financial management

Managing risk

- Risk Management Policy and Framework in place. This guides the identification and assessment of risk, together with the process for monitoring, updating, and reporting.
- Business Continuity arrangements in place in accordance with the Civil Contingencies Act
- Fraud Service delivered through a Shared Service Agreement with a neighboring council.
- Counter-fraud and Corruption Policy with an annual action plan.

Managing performance

- Performance management process with key performance indicators to measure outcomes and identify corrective action where needed.
- An established Overview and Scrutiny Committee which reviews service delivery, policy and has powers to “call-in” decisions.

Robust internal control

- An established Audit Committee.
- Independent Internal Audit function provided through partnership arrangements.
- Publicised Whistleblowing Policy

Audit work was undertaken to review the effectiveness of the Council’s Risk Management arrangements. The outcomes were reported to the Audit sub-Committee in March 2021 and included four recommendations to improve the Council’s process. These recommendations have been implemented and an updated Policy Document is being reported to the Committee in June 2021.

The Out of Hours and Emergency Contact process is being reviewed for reporting and escalating issues during an emergency or business continuity incident. A trial is currently being undertaken to assess the effectiveness of a new system and if this is successful, a longer-term solution will be recommended for approval at Finance and Management Committee later in 2021.

Internal Audit undertook a review of the Council’s Anti-Fraud and Corruption procedures and reported the outcomes to the Audit-Sub Committee in June 2021. The report made three recommendations to strengthen procedures, of which two have been implemented. Subsequently, an updated Anti-Fraud and Corruption Policy was reported to the Committee in June 2021.

In March 2021, the Audit Sub-Committee considered an Internal Audit report which reviewed the effectiveness of the Council’s scrutiny function. Subsequently, Full Council received and noted the report.

The Overview and Scrutiny Committee will use this as a basis for training and setting future work programmes.

Managing data (and ensuring compliance with the Data Protection Act 2018)

- Appointed Data Protection Officer independent of senior management.
- Records Management and Document Retention Policies.
- Data Quality framework which sets out how data is collected, recorded, and reported.
- Compliance with the Public Services Network Standard for ICT data security.

Strong financial management

- Financial Strategy in place which sets out the management of financial resources and sets the overall financial target for the Council.
- Financial monitoring and reporting process to review in year budget performance.

Data quality is a risk identified by the Council. The Council is responsible for a wide range of data which is required to provide and measure service delivery.

If data is advertently being collected and recorded inaccurately, this could lead to performance not being properly recorded and ultimately, incorrect decisions are made.

In September 2019, Internal Audit reviewed the Council's system for collecting and recording data to ensure that performance reports were accurately presented.

Although the Audit provided "reasonable assurance" of the system, it made several recommendations to improve processes which were implemented by December 2020.

7. Implementing good practice in transparency, reporting and audit to deliver effective accountability

Implementing good practice in transparency

- Open Data reporting under the Government's Transparency Code.
- Freedom of Information Publication Scheme.

Implementing good practice in reporting

- Annual Report produced and publicised.
- Annual Statement of Accounts detailing how public funds have been utilised.
- Annual Pay Policy Statement published.
- Equality and Diversity Annual Report.

Assurance and effective accountability

- Scheme of Delegation in place from Full Council, down to Policy Committees and through to Officers.
- Senior Leadership Team and Heads of Service accountable to Members through the Committee system.
- Service planning process in place which assigns responsibilities at an individual level.
- All service-related action plans and recommendations from Audit have a designated responsible officer.

Section 78 of the Coronavirus Act 2020 allowed Council meetings to be conducted remotely through audio or tele conference facilities during 2020/21. The Council conducted meetings using the **Teams** functionality and were live streamed on the internet.

| | | |
|--------------------------------|--|--|
| REPORT TO: | AUDIT SUB-COMMITTEE (SPECIAL) | AGENDA ITEM: 9 |
| DATE OF MEETING: | 28th JUNE 2021 | CATEGORY: RECOMMENDED |
| REPORT FROM: | HEAD OF LEGAL and DEMOCRATIC SERVICES | OPEN |
| MEMBERS' CONTACT POINT: | ARDIP KAUR (01283 595715) ardip.kaur@southderbyshire.gov.uk | DOC: h/KS/governance/AGS/2021/AGS committee report |
| SUBJECT: | DRAFT ANNUAL GOVERNANCE STATEMENT 2020-21 | REF: |
| WARD(S) AFFECTED: | ALL | TERMS OF REFERENCE: AS 04 |

1.0 Recommendations

- 1.1 That the Draft Annual Governance Statement for 2020/21 is approved for Audit.

2.0 Purpose of Report

- 2.1 To submit the Council's Annual Governance Statement (AGS) for 2020/21 in accordance with the Accounts and Audit Regulations 2003 (as amended).
- 2.2 This version is currently in Draft and will be subject to updates before and during its review by External Audit, which is due in November 2021. It is expected that a final version for publication will then be presented to the Committee following Audit.

3.0 Detail

Background

- 3.1 Governance is about how South Derbyshire District Council ensures that it does the right things, in the right way, for the right people in a timely, inclusive, open and accountable manner. As such, it comprises the systems, processes, culture and values by which the Council is directed and controlled and through which it accounts to, engages and leads its local community.

Annual Governance Statement (AGS)

- 3.2 The AGS is the formal statement that records and publishes a council's governance arrangements; it is a statutory requirement to publish an AGS on an annual basis.
- 3.3 Guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) states that the production and publication of the AGS, are the final stages of an on-going review of governance and not activities that can be planned and viewed in isolation. Compilation of the AGS involves the Council in:

- reviewing the adequacy of its governance arrangements

- knowing where it needs to improve these arrangements
- communicating to stakeholders how better governance leads to best quality public services

3.4 The proposed AGS as it currently stands for 2020/21 is presented alongside this report. The Statement is overseen by the Council's Monitoring Officer in consultation with the Council's Leadership Team. The AGS has been produced in accordance with the CIPFA guidelines and includes commentary on:

- the governance environment and how this is reviewed to determine its effectiveness; and
- issues of significance that require addressing as part of the review of effectiveness.

Compiling the AGS

3.6 The aim of the AGS is to set out established processes and to reflect on any matters arising during the year. Much of the content of the AGS will already be known and may have been reported and noted elsewhere in other Council report and forums.

3.7 As the governance framework at the Council is relatively well established, the existing AGS is used as the basis of the annual review. The lead officers in compiling and reviewing the AGS are the Council's statutory offices, i.e. the Monitoring and Chief Finance Officers.

3.8 In monitoring the AGS, these officers review policy committee reports and decisions, together with Leadership Team minutes to ensure that any relevant matters are included in the AGS. Any implications arising from internal and external audits are also reviewed.

3.9 Work in other forums such as the Health and Safety Committee, Licensing and Appeals Committee and the Joint Negotiating Group, where potential matters affecting the AGS are reported, are also reviewed. These committees and forums are usually attended by the Monitoring and Chief Finance Officers.

3.10 In addition, investigations that may have been undertaken by the Information Commissioner, Data Protection Registrar and Local Government Ombudsman are also reviewed. Any legal action brought against the Council is also reviewed to determine its impact on the Council's governance arrangements.

3.11 When the draft statement is complete, the Chief Executive, other corporate directors and Heads of Service are consulted and asked to highlight any other matters or to provide additional feedback.

Style and Format

3.12 The previous Statement for 2019/20, was redesigned to make it more streamlined and less technical. This format has been continued for 2020/21. It is explicitly aligned to the Council's Local Code of Corporate Governance which is based on 7 key principles as detailed in the AGS.

- 3.13 The final Statement will be published as a stand-alone document alongside the Council's Annual Accounts and Financial Statements, which are due to be audited in November 2021.

Work Plans

- 3.14 A work plan, considered and approved by the Committee in July 2020, was progressed during 2020/21 to address matters identified to maintain and strengthen the governance environment. These are detailed within the AGS.
- 3.15 The proposed work plan for 2021/22 is also detailed in the AGS. These actions have been identified to maintain robust governance and to ensure arrangements keep abreast of a changing environment. The work programme is summarised in the following table.

| Principle | Action |
|--|---|
| Behaving with Integrity (P1) | To review and update the Member's Code of Conduct. |
| Demonstrating Ethical Values (P1) | To review outcomes from a staff survey. |
| Determining Interventions (P4) | An Audit review of compliance with the Financial Management Code. |

4.0 Financial Implications

- 4.1 None

5.0 Corporate Implications

- 5.1 Corporate governance affects the whole authority and as part of the process, all members of senior management have been consulted and made aware of its contents. Generally, senior managers are briefed at corporate meetings in respect of governance generally, together with the AGS.
- 5.2 Maintaining good governance underpins delivery of the priorities contained in the Corporate Plan.

6.0 Community Implications

- 6.1 The AGS is designed to act as a public assurance statement that the Council has a sound system of corporate governance, designed to help deliver services in a proper, inclusive, open and accountable manner.

GOVERNANCE STATEMENT 2020/2021

Good Governance

Ethics and Values

Engagement

Development

Decision Making

Leadership

Risk Management

Reporting



Our Environment | Our People | Our Future

www.southderbyshire.gov.uk

INTRODUCTION

Welcome to the Council's Annual Governance Statement for 2020/2021.

As a public authority, the Council is responsible for ensuring that its business:

- ✓ Is conducted in accordance with the law.
- ✓ Operates to the highest standards in public life.
- ✓ Accounts for public resources in an open and transparent manner.

The Council also has a duty to secure continuous improvement in the way in which its functions and services are delivered and to achieve value for money for the Taxpayer.

To meet these objectives, the Council is expected to have the highest possible governance arrangements in place.

Governance is about how the Council runs its business and it underpins everything that the Council achieves; without robust arrangements, there is a greater risk that failures will occur.

Good corporate governance is essential in demonstrating that there is credibility and confidence in public services. Sound arrangements should be founded on:

- Openness
- Integrity
- Accountability
- Leadership

The Council's Governance Framework

The Council adopts a Local Code of Corporate Governance. This sets out the System, which details the associated policies, processes and regulations, etc. which make up the Governance Framework at the Council.

The Governance System is based on established national guidance and is formed on **seven principles**.

| The Principles | What this means |
|---|---|
| Principle 1: Behaving with integrity | Elected Members and Council Officers acting in accordance with national standards regarding Public Office. |
| Principle 2: Engaging with stakeholders | Keeping residents, businesses and other interested parties, etc. informed and seeking feedback through consultation. |
| Principle 3: Setting clear objectives | Having medium term business and financial strategies in place that provide for the sustainability and development of services. |
| Principle 4: Having positive interventions | The detailed plans and procedures, such as terms of reference for decision-making, a change management process and an annual budget, etc. which ensure that objectives are met. |
| Principle 5: Leadership and capacity | Clear direction from senior management and that adequate, trained and empowered staff are in place to deliver services. |
| Principle 6: Managing risks and performance | Having robust internal control and strong financial management to ensure that risk is mitigated, data is secure, and performance is regularly monitored. |
| Principle 7: Good reporting and transparency | Assigning clear accountability and reporting lines, allowing access to information and reporting performance on a regular basis. |



Update and Review

The detailed System which demonstrates compliance with these principles, is reported to and reviewed by the Council's Audit Sub Committee half yearly. The reports for 2020/21 [December 2020](#) and [June 2021](#) provided a regular update on changes and on-going work, which ensured the Council's Governance Framework remains fit for purpose.

The detailed Framework and how the Council complies is detailed in [Appendix 1](#).

This Framework was in place from 1 April 2020 and up to and including when this Statement was published, following a review by External Audit in (tbc)

A Changing Environment

Although the seven basic principles generally remain unchanged, ensuring compliance always requires regular review. The Council operates in a changing environment where external factors can affect how it operates. In turn, this can affect its Governance System.

Risks and Challenges

Governance must also be reviewed in the light of strategic risks and challenges facing the Council. The following key risks have been identified which have an impact on the Council's Governance Framework.

| Risk | Challenge | Effect on Governance |
|---|--|--|
| Continuing growth of the District and an increasing population | The Council is a designated growth area with a Local Plan target of 13,000 new homes between 2010 and 2028. This is increasing the local population and changing the demographics of the District. | <u>Principle 2</u> As more people contact the Council, it is providing opportunities for developing more efficient interaction with customers through digital channels, where this is needed. |
| Government Funding | The continuing uncertainty of the Local Government Funding System from 2022. The Council is at risk arising from changes to the current distribution of the New Homes Bonus and Retained Business Rates. | <u>Principle 3</u> The Council will need to maintain a sustainable financial position through its Medium-Term Financial Plan (MTFP) if it is to deliver the outcomes in the Corporate Plan. |
| New Corporate Plan adopted in November 2019 | An ambitious plan to achieve targets regarding the Climate, Environment, Transformation and the local economy. During 2020/21, the Council approved detailed Transformation and Climate Action Plans to deliver its ambitions in these areas. | <u>Principle 4</u> This has brought the Transformation Agenda to the fore to enable change to be delivered. <u>Principle 5</u> It has also focused the Council towards Organisational Development to ensure sufficient capacity is available. |
| Coronavirus Pandemic (Covid-19) | Business Continuity arrangements have and continue to bring about changes to working practices and the democratic decision-making process. There is also the potential longer-term effect on the Council's finances. | <u>Principle 2</u> Decision-making through the democratic process was undertaken remotely in 2020/21 using virtual technology. <u>Principle 6</u> The Pandemic invoked the Council's Business Continuity arrangements |



Developments in the Year

The challenges specifically identified above brought about a series of developments during 2020/21, in addition to other matters that arose. Resulting actions and on-going work are all designed to strengthen the Council's Governance System.

Principle 1: Ethical Values

Following adoption of a new Corporate Plan in November 2019, 3 key values emerged to support the delivery of the Plan.

*Following staff training sessions in 2019/20, the Values (**Pride, respect and Excellence**) were embedded into the Council's Personal Development Review process in 2020/21.*

It had been planned to undertake a staff survey in 2020/21 to gauge an understanding of the Council's values and organisational culture.

However, this was postponed until a decision has been made on working arrangements post Covid. It is now anticipated that the survey will be

Principle 2: Engagement

The Council is required every four years to review and publish a Strategy which demonstrates that it has due regard to the Equalities Act 2010 when delivering services. A review was undertaken in 2020 which included consultation with Members and Officers, together with external stakeholders and the voluntary sector.

A new Strategy and Action Plan covering 2020 to 2024 was approved by the Council in February 2021. The Action plan is being monitored by the Equalities Steering Group, which includes representatives from outside bodies.

Principle 3: Sustainable Outcomes

To support outcomes in the Corporate Plan, the Council's Asset Management and Procurement Strategies were reviewed and updated in July 2020.

An update to the Contract Procedure Rules was also approved by the Council in April 2021. This reflected the Council's commitment to Climate Change, providing guidance to ensure that environmental benefits are included in tender evaluation and contract management.

Principle 4: Interventions

The Council complies with a national Financial Management Code which contains a range of professional standards designed to ensure financial capacity and resilience. Following an initial assessment in July 2020, an internal audit review of compliance is planned for later in 2021.

In addition, the Council approved a four-year Transformation Plan in July 2020. and various projects were delivered as part of the first-year plan in accordance with an established Business Change process. Cloud-based upgrades to the Finance and Revenues systems, together with the implementation of a Route Optimisation System for Refuse vehicles, are designed to deliver greater efficiencies in service delivery.



Principle 6: Risk Management

Work during the year focused on the Risk Management System itself, together with specific reviews of emergency planning and anti-fraud and corruption.

Audit work was undertaken to review the effectiveness of the Council's Risk Management arrangements. Four recommendations to improve the Council's process were implemented and an updated Policy Document was approved in **June 2021**.

The Out of Hours and Emergency Contact process was reviewed for reporting and escalating issues during an emergency or business continuity incident. A trial is currently being undertaken to assess the effectiveness of a new system and if this is successful, a longer-term solution will be recommended for approval later in 2021.

Internal Audit also undertook a review during the year of the Council's Anti-Fraud and Corruption procedures.

Their report made two recommendations to strengthen procedures, and an updated Anti-Fraud and Corruption Policy was approved in **June 2021**.

Principle 7: Reporting

Due to Covid 19, the Council continued to conduct meetings via video/tele-conferencing in 2020/21, until legislation was rescinded in May 2021.

Coronavirus Pandemic (Covid-19)

Following publication of the Governance Statement for 2019/20, which reported in detail the impact of Covid 19 on the Council's services, revised working arrangements became embedded during 2020/21.

By March 2021, homeworking had been established for 12 months and with previous investment in technology, this enabled services and functions to operate fairly normally.

Operational services such as Waste Collection and Housing continued to be delivered, albeit with some changes in order to comply with Covid Health and Safety requirements.

Although homeworking provided more flexible working arrangements for staff and reduced the Council's "grey mileage", it potentially impacted on the health and well-being of some staff who worked remotely.

This was considered to be a risk to individual performance, capacity and overall service delivery.

Consequently, the Council ensured appropriate resources were in place to support managers and staff through communications, video links, sharing experiences, etc. In addition, mental health first aiders were made available to support staff where necessary.

Lessons Learnt

Following the relaxation of restrictions in June 2021, the Council was considering a future working model based on “*lessons learnt*”.

This initiative is focusing on the future working environment and site locations, together with options of future service delivery.

The Council is keen to ensure that the benefits of new working arrangements are continued as much as possible.

Dealing with the pandemic has provided opportunities for more agile/flexible/hybrid working which is hoped will create efficiencies and increase effectiveness in service provision.

As part of the options appraisal, consideration is being given to the health and well being of staff, IT requirements and potential implications on employment contracts.

Customer Contact Post Covid 19

Tbc

Customer Contact During Covid

Contact with residents and customers face-to-face, was very limited in 2020/21 with special measures put in place to observe safe distancing where contact, for example with vulnerable people and when entering people’s homes, was unavoidable.

Consequently, there was a greater contact with people by telephone, e-mail and over the Internet to deal with queries, make enquiries and payments, etc.

Decision Making During Covid

Section 78 of the Coronavirus Act 2020 enabled Committee meetings to be conducted remotely. The Council used the Teams functionality in Microsoft 365.

All meetings were live streamed and recorded over the Internet so that the decision-making process remained open and transparent.

Due to the rescinding of legislation, meetings were again held in public buildings from May 2021, to allow a physical presence by Elected Members when debating and voting on issues.



The Council's Wider Role During Covid

Covid brought to the fore the Council's wider Leadership role in the local community, for example:

- ✓ Supporting voluntary groups with food parcels and distributing supplies to local residents.
- ✓ Providing buildings for NHS test centres.
- ✓ Administering and paying out various grants to local businesses and individuals from funding provided by the Government.
- ✓ Providing financial support to local community and charitable organisations who were not eligible for other funding.
- ✓ Supporting local business with safe ways of operating during Covid.
- ✓ Taking enforcement action where necessary.
- ✓ The dissemination of general public health messages and being a contact point for concerned residents and businesses.

during Covid in accordance with health and safety guidelines.

Normal income levels reduced mainly due to the curtailment of leisure activities and by subsidising local leisure centres.

However, the overall cost of these additional measures was met by Government funding of approximately £1.4 million and currently, this is meeting all costs incurred during 2019/20 and 2020/21.

At this stage, the longer-term impact is still not known, and it is considered that this will depend on key two factors.

The longer-term impact of people's ability to pay Council Tax and Business Rates following the easing of restrictions.

The knock-on effects to the national and local economies and how this may then affect future local government financial settlements.

However, the Council's medium-term financial position over the next two years remains relatively strong based on current forecasts, but this is being kept under review pending additional cost pressures.

In the meantime, the Council has approved that no new spending will be approved until any further implications of the financial position becomes clearer in 2021/22.

The Financial Implications of Covid-19.

The impact of the Pandemic affected the Council's own finances through additional expenditure and loss of expected income compared to that budgeted.

For example, additional costs were incurred on providing PPE, and to provide additional resources in the form of personnel, equipment and vehicles, etc. to ensure services could still operate



Propriety in the Conduct of Council Business

An indication of how well the Council is performing, is to review any propriety matters that arose in the year, i.e. how well does the Council, its Members and Officers behave compared to accepted standards, values and the rule of law.

An overview for 2020/21 is provided below.

- ✓ **Codes of Conduct:** no reported breaches
- ✓ **Register of Interests:** no issues raised
- ✓ **Whistleblowing:** no matters arose
- ✓ **ICT Security:** No major incidents reported. A global hack of Microsoft systems in March 2021 did affect the Council, although extra security measures were put in place to strengthen the Council's server platform.
- ✓ **Data Protection:** no reported incidents to the Information Commissioner
- ✓ **Litigation:** none and no issues pending
- ✓ **Fraud and Corruption:** there were no reported incidents in the year, either internally or from external sources, against the Council.

Complaints to the Local Government and Social Care Ombudsman

The Ombudsman's most recent [Report](#) highlighted seven complaints about the Council in 2019/20, of which one was upheld.

In this case, which related to how the Council handled a Council Tax matter, fault was found. However, the investigator considered that the actions that the Council had already taken to remedy the situation for the complainant, were satisfactory.

Health and Safety (H&S)

There were two reportable incidents under H&S Regulations in the year. However, none of them required any further investigation by the HSE

However, the Council undertook its own investigation in each case and updated procedures and training where this was necessary.

The HSE also undertook four audits during the year at the Depot (2) Forestry Centre and Civic Offices, the later to ensure that it was Covid compliant.

In each investigation, no issues were raised regarding compliance, or which contravened H&S regulations.

Business Continuity

Being able to maintain public services is vital in an emergency

Under the Civil Contingencies Act 2004, the Council is required to have updated plans in place and to regularly review and test these plans alongside other agencies.

In March 2021, the Council's Kerbside Recycling Contractor, who undertook collections, went into administration.

The Council implemented its contingency arrangements and mobilised resources, successfully managing to continue the service in-house.



Internal Audit

From its work, Internal Audit provide a form of assurance regarding the Council's internal control environment.

During the year, Internal Audit completed 25 audit assignments.

All audits reported either a "**Reasonable or Substantial**" rating, although two of these audits did not attract a rating as the work involved advisory or effectiveness reviews, rather than an assessment of the internal control environment.

The outcome of these audits, together with the implementation and tracking of recommended actions, are monitored by the Audit Sub-Committee.

Opinion of Internal Audit

The Chief Audit Executive reported to the Audit Sub-Committee on 28 June 2021.

"Based on the work undertaken during the year, I have reached the overall opinion that there is a **Satisfactory System of Governance, Risk, Internal Control** - Findings indicate that on the whole, arrangements are satisfactory, although some enhancements may have been recommended."

External Audit Opinion

To be inserted following Audit

Is Current Governance Effective

The Council considers that its System is effective and fit for purpose but is not complacent and continues to face challenges as highlighted in this Statement.

Test of Effectiveness

| | |
|---------------------------|--|
| The Local Code | ✓ Up-to-date and regularly reviewed. |
| Work Plan | ✓ Completed during the year to strengthen Governance in response to risks and challenges. |
| Financial Management | ✓ In all material aspects, the Council complied with CIPFA's Financial Management Code. |
| Internal Audit | ✓ The Chief Audit Executive reached an overall opinion in 2020/2021, that there is a satisfactory system of Governance, Risk and Internal Control. ✓ The Internal Audit Service generally conformed to the Public Sector Internal Auditing Standards. |
| External Audit (Opinions) | ✓ The Accounts and Financial Statements Tbc. ✓ VFM and Governance Tbc. |
| On-going Development | ✓ An approved plan for 2021/22 to maintain good Governance. |
| Propriety | ✓ No major issues and recommended actions arising from external reviews were implemented. |



Action Plan 2021/22

The Council operates within a changing environment with constant development in ICT, together with demand on its services due to the significant growth of the District. In addition, the impact of Covid-19 has itself brought about change.

Frank McArdle (Chief Executive)

Consequently, besides on-going work already being progressed, the following reviews and action will be undertaken in 2021/22.

Councillor Kevin Richards (Leader of the Council)

The Action Plan

| Principle | Action |
|--|---|
| Behaving with Integrity (P1) | To review and update the Member's Code of Conduct. |
| Demonstrating Ethical Values (P1) | To review outcomes from a staff survey. |
| Determining Interventions (P4) | An Audit review of compliance with the Financial Management Code. |

And Finally, Council Sign-off

On behalf of the Council, we are satisfied that our current Governance arrangements remain effective and fit for purpose and that appropriate actions are in place to maintain good Governance at the Council.

We commend the good practice highlighted in this Statement but do not remain complacent given issues and challenges also highlighted. Based on the information reported to us, we therefore commend the Governance Statement for 2020/21 for approval.



| | | |
|--------------------------------|--|--|
| REPORT TO: | AUDIT SUB-COMMITTEE (SPECIAL) | AGENDA ITEM: 10 |
| DATE OF MEETING: | 28th JUNE 2021 | CATEGORY: DELEGATED |
| REPORT FROM: | STRATEGIC DIRECTOR CORPOARTE RESOURCES | OPEN |
| MEMBERS' CONTACT POINT: | KEVIN STACKHOUSE (01283 595811) Kevin.stackhouse@southderbyshire.gov.uk | DOC: h/KS/revenues and benefits/fraud/policy review June 21/ASC policy report |
| SUBJECT: | ANTI-FRAUD AND CORRUPTION POLICY | REF: |
| WARD(S) AFFECTED: | ALL | TERMS OF REFERENCE: AS 04 |

1.0 Recommendations

- 1.1 That the updated Anti-Fraud and Corruption Policy as appended to this report is approved.

2.0 Purpose of Report

- 2.1 To consider an updated Anti-Fraud and Corruption Policy. This follows an Internal Audit review of the Council's processes for preventing and detecting fraud and corruption, which is subject to a separate report to this Committee elsewhere on the Agenda.

3.0 Detail

- 3.1 The objective of this Policy is to encourage and promote the prevention of fraud and corruption, the detection and investigation of suspected fraud and corruption, to deter fraud and corruption and to take appropriate and decisive action against any attempted or actual fraudulent or corrupt activity affecting the Council.
- 3.2 In order for the Council to be effective in its approach to dealing with the problem of fraud and corruption, it is important that it creates a culture of intolerance rather than indifference to such matters.
- 3.3 The Policy should be read in conjunction with the Guidelines for dealing with and reporting fraud and corruption, which are detailed in **Appendix B** of the Policy, together with sanctions that the Council will use in dealing with fraudulent activities (**Appendix C**).

4.0 Financial Implications

- 4.1 None.

5.0 Corporate Implications

Employment Implications

5.1 None

Legal Implications

5.2 None directly from the Plan itself.

Corporate Plan Implications

5.3 None directly.

Risk Impact

5.4 Fraudulent activity is a key risk in the Corporate Services' Risk Register. The adoption of an Anti-Fraud and Corruption Policy is designed to mitigate the risk through the prevention and detection of fraud.

6.0 Community Impact

Consultation

6.1 None required

Equality and Diversity Impact

6.2 It is considered that the Plan does not discriminate against any of the protected characteristics in the Equality Act 2010. The focus is on whether a fraud is or has been committed rather than the type of person or the group of individuals that may be committing fraud.

Social Value Impact

6.3 The prevention and detection of fraud helps to safeguard the "public purse".

Environmental Sustainability

6.4 Not applicable in the context of the report

7.0 Background Papers

7.1 None

Anti-Fraud and Corruption Policy

**Team: Corporate
Resources**

Date: June 2021

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Version Control

| Version | Description of version | Effective Date |
|---------|------------------------|----------------|
| 1.0 | Original Version | March 2012 |
| 2.0 | Update: Minor Changes | November 2013 |
| 3.0 | Update: Minor Changes | December 2014 |
| 4.0 | Update: Minor Changes | April 2016 |
| 5.0 | Audit Review | June 2021 |

Approvals

| Approved by | Date |
|--|------------|
| Finance and Management Committee | April 2012 |
| Audit Sub-Committee (Subject to approval on 28 June 2021) | |

Associated Documentation

| Description of Documentation |
|------------------------------|
| Fraud Sanctions Policy |
| Appendix C |



1.0 Introduction

- 1.1 The purpose of this policy is to set out responsibilities regarding the prevention of fraud, error and corruption and procedures to be followed where a fraud, error or corruption is suspected or detected. The Policy also covers the act of Bribery.
- 1.2 This Policy applies to Members, Employees, the principals and employees of organisations contracted to undertake work on behalf of the Council, agency workers, consultants, suppliers, service users and staff and committee members of organisations funded by the Council.
- 1.3 The Policy is intended to be as comprehensive as possible. However, in the absence of an issue or an act which could be considered to be fraudulent or corrupt, its absence from this policy document does not invalidate it.

2.0 Policy Objective

- 2.1 The objective of this Policy is to encourage and promote the prevention of fraud and corruption, the detection and investigation of suspected fraud and corruption, to deter fraud and corruption and to take appropriate and decisive action against any attempted or actual fraudulent or corrupt activity affecting the Council.
- 2.2 In order for the Council to be effective in its approach to dealing with the problem of fraud and corruption, it is important that it creates a culture of intolerance rather than indifference to such matters.
- 2.3 The Policy also draws attention to the prevention or detection of error, which may detrimentally affect the Council both financially and reputationally.
- 2.4 The Policy should be read in conjunction with the Guidelines for dealing with and reporting fraud and corruption, which are detailed in **Appendix B**, together with sanctions that the Council will use in dealing with fraudulent activities (**Appendix C**).

3.0 Definitions

- 3.1 Full definitions of Fraud and Bribery are contained in **Appendix A**.
- 3.2 The Fraud Act 2006 describes fraud as unlawfully making a gain of money or other property for yourself or someone else losing money or other property. The Act describes three ways in which fraud might be committed:
 - By making false representation
 - By failing to disclose information
 - By abuse of position
- 3.3 This formal definition does not include misappropriation or petty theft without the distortion of financial statements or other records. However, this Policy is intended to cover all financial irregularities, which may affect the Council, including theft.



- 3.4 The Bribery Act 2010 makes it a criminal offence to give a bribe in order to induce or reward an individual for the improper performance of a relevant function or activity. It also provides a criminal offence for an individual to request or agree to receive a bribe for the improper performance of relevant function or activity. The Act also provides a corporate offence of failing to prevent bribery.

4.0 Corporate Framework

- 4.1 The Council has a range of interrelated policies and procedures which link to the Constitution and provide a corporate framework for counter-fraud activity. These have been formulated to comply with appropriate legislative requirements and mainly include:

- Financial Regulations and Procedure Rules
- Anti-Money Laundering Policy
- Whistle Blowing Policy
- Contract Procedure Rules
- Hospitality Register
- Card Payment Procedures
- Disciplinary Procedure
- ICT Security Policy
- Member and Employee Codes of Conduct
- Protocol for Member and Employee Relations
- Procurement Procedures and Guidance
- Recruitment and Selection Policy and Procedure
- Regulation of Investigatory Powers Act 2000 Policy and Guidance

- 4.2 The Council also supports the seven principles of public life set out in the Nolan Committee's report on Standards in Public Life and the three additional principles set out in The Relevant Authorities (General Principles) Order 2001:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership
- Respect for Others
- Duty to Uphold the Law
- Stewardship

Key Contacts

- 4.3 The responsible officer at the Council for Anti-Fraud and Corruption is the Strategic Director of Corporate Resources. This person is also the Council's Chief Finance Officer under Section 151 of the Local Government Act 1972.



4.4 Other lead officers and services are:

- The Head of Legal and Democratic Services and Monitoring Officer
- The Fraud Unit, a service provided to the Council, under a shared service arrangement, by Derby City Council.
- Central Midlands Audit Partnership (CMAP) as the Council's Internal Auditors.

4.5 The above officers and services are the key contacts for reporting suspicions of fraud and financial irregularities, etc. together with obtaining advice and guidance, etc.

Audit Sub-Committee

4.6 This Committee oversees the Council's arrangements for preventing and detecting instances of fraud. The Committee also receives reports regarding fraud action plans together with performance of the Fraud Unit.

5.0 Responsibilities

Elected Members

5.1 Members are expected to act in a manner which sets an example to the community whom they represent and to employees of the Council. In particular, Members are required to operate within:

- The Members' Code of Conduct
- Financial Regulations
- Contract Procedure Rules
- Members' Planning Code of Good Practice
- Licensing Protocol and Procedure
- Protocol on Member/Employee relationships
- Protocol for the use of ICT for Members
- Code of Conduct for Representation on Outside Bodies

5.2 Members are expected to comply with the Members' Code of Conduct, which contains guidance on the disclosure of personal and prejudicial interests, registration of Members' Interests and Gifts and Hospitality.

5.3 Due to their potentially influential position, Members should not use, or be perceived to use, their office for personal gain and should ensure that their actions are not perceived as potentially bringing the Council into disrepute.

5.4 Any allegations of fraud and corruption made against Members will be fully investigated in accordance with provisions contained in Local Government Act 2000.

5.5 The Council's Overview and Scrutiny Committee has a responsibility to review decisions and actions undertaken by the Council. Any matter arising from this process,



in which fraud or corruption is suspected, should be referred immediately to the Monitoring Officer who will review and commission an independent investigation.

- 5.6 Clearly, Members should take seriously and treat with confidence any concerns raised regarding a suspected fraud or corruption.

Management

- 5.7 Management at all levels is responsible for ensuring that their staff are aware of the Policies and Procedures constituting the Council's Framework as detailed in Section 4. They are also responsible for ensuring that appropriate procedures are in place to safeguard the resources for which they are responsible.
- 5.8 It is essential that managers are alert to potential problems in their work areas and that adequate and effective safeguards are in place to prevent financial and other irregularities. Managers should also satisfy themselves that controls and balances are in place at the appropriate levels, so that in the event of a breach any irregularity would be identified promptly, so minimising any loss to the Council.
- 5.9 Separation of duties will be relevant where employees are responsible for cash handling or are in charge of systems that generate payments. Service Heads and their managers should ensure that adequate and appropriate training is provided for staff and that periodic checks are carried out to ensure that proper procedures are being followed.
- 5.10 A key preventative measure in counteracting fraud and corruption exists within the recruitment process. Managers should therefore adhere to the Council's Recruitment and Selection Policy and Procedure in the recruitment of staff. Managers should also have regard to Government requirements to confirm Eligibility to Work in the UK.
- 5.11 For specific pre-determined posts, managers should refer to the Employee Authentication Service Baseline Security Policy, together with the Disclosure and Barring Service checking process, in liaison with the HR Manager.

Employees

- 5.12 Employees are expected to conduct themselves in ways which are beyond reproach, above suspicion and fully accountable.
- 5.13 Employees are responsible for ensuring that they follow the instructions given to them by management, including items contained in job descriptions and personnel policies, particularly in relation to the safekeeping of the assets of the Council.
- 5.14 Employees are expected to abide by the Council's Employee Code of Conduct which sets out the Council's standards on personal conduct. In addition, if they are members of professional bodies, Employees are expected to follow the Code of Conduct related to their professional qualification. The Council will report any known impropriety to the relevant Institute to consider appropriate disciplinary action.



- 5.15 Employees are reminded of their statutory requirements under Section 117 of the Local Government Act 1972. This requires the disclosure of any pecuniary interests by Employees in Council contracts and that Employees must not accept any fees or rewards other than that of their contracted remuneration.
- 5.16 Employees should gain agreement from their manager before engaging in outside business or taking up another appointment for financial gain. This is to ensure that additional work does not conflict or detrimentally affect the Council's business or in any way weaken public confidence in the way the Council conducts its business.
- 5.17 Private work should be included within the Declaration of Interests, must only be carried out during hours when not employed by the Council and should not be conducted from Council premises or using any Council resource.
- 5.18 These resources include items such as electronic communications, vehicles, materials and any other resource that is used to deliver services. Additionally, Council facilities should not be used. Employees should also ensure that private work does not affect their performance with regard to their contractual duties.
- 5.19 In addition to employment contract obligations, each employee is responsible for reporting details immediately to their line manager or the most appropriate employee, if they suspect that fraud or corruption has been committed or if they have seen any suspicious acts or events.
- 5.20 The Council has a Disciplinary Procedure for all employees. Those found to have breached the Employee Code of Conduct will be dealt with in accordance with these procedures. Where criminal activity is suspected or found, the matter will be referred to the police for investigation and possible prosecution.
- 5.21 The Council will also seek to recover all monies obtained through fraudulent activity.

Contractors

- 5.22 The Council will ensure that all contracts conform to the highest standards possible. The Council will also act to ensure that those organisations that work with the Council to deliver services are made aware of the Council's strong anti-fraud and corruption principles and its Confidential Reporting Policy and Procedure.
- 5.23 The Council will seek an assurance that those tendering to provide supplies, goods, services and works to the Council have adequate anti-fraud and corruption recruitment procedures and controls in place; have not colluded with others during the tendering process or canvassed or solicited any elected Member or Employee of the Council in connection with the award or future award of contracts.
- 5.24 Where appropriate, Eligibility to Work and Disclosure and Barring Service checks should also be undertaken.



- 5.25 Where appropriate, the Council may exclude suppliers, contractors and service providers from public contracts following conviction for certain offences including participation in criminal organisations, corruption, bribery, money laundering and fraud.
- 5.26 In awarding a contract, the Council will act in accordance with its Contracts Procedure Rules. Within the terms of a contract, the Council may exercise its right to terminate a contract and recover its losses if there is evidence of fraud in connection within a Council contract by the contractor, its employees or anyone acting on the contractor's behalf.
- 5.27 Where contractors are involved with the administration of council finances, or those for which the Council has responsibility, the Central Midlands Audit Partnership (*the Council's Internal Auditors*) may undertake regular reviews of related processes and the Fraud Investigation Unit may undertake pro-active anti-fraud exercises.
- 5.28 The Council may also require the Contractor to provide evidence of its own control processes of relevant area's as part of the contract management process.
- 5.29 The Council requires that employees of contractors to report any suspicions or knowledge they may have in relation to fraud and/or corruption against the Council. Contractors or their employees should report all concerns to the Council's client-side staff who will in turn report the matter to the appropriate line manager.
- 5.30 Where an employee of a contractor is alleged to be involved in a fraud committed against the Council, the contractor will be required to conduct an investigation into the alleged fraud and will also be required to report to the Council, the findings of the investigation.
- 5.31 The Council will seek the strongest available sanctions against the contractor, their employees or anyone acting on behalf of the contractor who commits fraud against the Council and will request that the relevant organisation takes appropriate action against any individual concerned.

6.0 Whistleblowing (Confidential Reporting)

- 6.1 Despite the presence of internal controls, it is acknowledged that some frauds are discovered by chance or as a result of whistleblowing.
- 6.2 The Council's Whistleblowing Policy and Procedure is available on the Intranet. It aims to provide a path for individuals to raise concerns of malpractice in any aspect of the Council's work without fear of recrimination or victimisation. The Council will take appropriate action to protect any individual who has raised a concern in good faith.
- 6.3 The Policy deals with the reporting of fraud or suspected fraud through formal internal channels and also covers making disclosures to external bodies if there is an unsatisfactory outcome to an internal disclosure.



- 6.4 Employees can raise concerns regarding suspected fraud in the first instance with their immediate line manager but where they feel unable to do so, they can deal directly with any of the following:
- The Strategic Director of Corporate Services (Chief Finance Officer)
 - The Head of Legal and Democratic Services (Monitoring Officer)
 - The Chief Executive
 - Service Director
 - The Central Midlands Audit Partnership
 - The Fraud Investigation Unit
 - A Trade Union Representative
- 6.5 Members, contractors and suppliers are also encouraged to report concerns through any of the above individuals.
- 6.6 If an Employee considers that internal options for raising concerns about suspected fraud are not appropriate or if independent advice is required, the Employee may raise their concerns through “**Protect**” <https://protect-advice.org.uk/homepage/> which is an independent, charity based, whistleblowing organisation.
- 6.7 The Council will not tolerate the victimisation or harassment of anyone raising a genuine concern, and the Public Interest Disclosures Act 1998 affords employees protection from such. Any harassment or victimisation of a whistle-blower is treated as a serious disciplinary offence which will be dealt with under the Council’s Disciplinary Policy and Procedure.

7.0 Investigations

- 7.1 The Fraud Unit, comprising of Accredited Counter-Fraud Investigators, undertake investigations into reports of suspected fraud and corruption. Investigations are carried out in response to referrals of suspected fraud. In addition, proactive exercises target services areas identified as being at a high risk from fraud.
- 7.2 CMAP ensure that sound and effective audit is undertaken of the Council’s control systems and processes.
- 7.3 The Fraud Unit and CMAP work closely to assist the Strategic Director (Corporate Resources) to implement appropriate controls and provide solutions to control failures.
- 7.4 In accordance with Financial Regulations, all irregularities of a financial nature must be notified to the Council’s Section 151 Officer (Strategic Director Corporate Resources) for investigation.
- 7.5 All suspicions of fraud reported to the Fraud will be reviewed and subject to a risk assessment. Some will be followed up by way of investigation whilst others may be considered better dealt with as a management issue.



- 7.6 Where an employee of a contractor is alleged to be involved in a fraud committed against the Council, the contractor will be required to investigate the alleged fraud in accordance with the terms of the contract. The contractor will also be required to liaise with the Fraud Unit where an employee of the Council is also alleged to be involved in a fraud, to enable a joint investigation to be undertaken and to avoid the contamination or destruction of evidence.
- 7.7 Where investigations are undertaken, the Fraud Unit will work closely with Service Directors to ensure that all allegations are properly investigated. All evidence gathered and interviews conducted will be in accordance with the Police and Criminal Evidence Act 1984, the Regulation of Investigatory Powers Act 2000, the Human Rights Act 1998 and the Criminal Procedure and Investigations Act 1996.
- 7.8 Where an employee is interviewed as part of an ongoing investigation, the investigating officer(s) will consult and take advice from the Council's HR Manager, who will advise those involved in the investigation in matters of employment law and other procedural matters.
- 7.9 Where fraud is proven to have taken place involving an employee, the Council's Disciplinary Procedure will be invoked.
- 7.10 Where it is proven that an employee of a contractor has committed an offence that would otherwise fall within the Council's Disciplinary Procedure, the Council will expect the contractor's own disciplinary procedure to be invoked. This includes the possibility of a suspension of the individual from their duties, where appropriate.
- 7.11 Additionally, the Council will expect that the contractor responsible for any individual found guilty of an offence will take appropriate disciplinary action, including dismissal in cases of gross misconduct. In cases involving employees of contractors, the investigating officer will liaise closely with the Council's Fraud Unit.
- 7.12 Under no circumstances should an employee speak or write to representatives of the media or another third party about a suspected fraud, without the express agreement of the Council's Chief Executive Officer.
- 7.13 If it is found that fraud or corruption has occurred as a result of a weakness in the Council's systems or procedures, senior managers will ensure that appropriate improvements in systems or controls and balances are implemented to prevent a recurrence. This may include a systems audit undertaken by CMAP to establish appropriate improvements.
- 7.14 Where a financial impropriety is discovered the matter may be referred to the Police. Such decisions will be made by the Council's Chief Finance Officer (Strategic Director of Corporate Resources). Referral to the Police will not necessarily prohibit action under the Council's Disciplinary Procedure. An internal investigation need not wait for the conclusion of any investigation by the Police.



7.15 Investigations may also be carried out independently by the Council's External Auditors to satisfy their requirements, or jointly with other agencies such as the DWP, where the fraud may have involved/impacted other parties.

8.0 Preventing and Deterring Fraud and Corruption

8.1 There are a number of ways in which the Council may deter potential fraudsters from attempting and committing fraudulent or corrupt acts, whether they are inside or outside of the Council, which include:

- Regular communication of the Council's commitment to dealing with fraud and corruption at every appropriate opportunity. This will include the use of warnings on application forms, statements in contracts, newsletters, internet and other relevant media.
- By publicising the outcome of successful fraud prosecutions where it is considered appropriate and in the public interest to do so.
- Having strong internal control systems in place that allow for innovation and calculated risk, but at the same time minimising the opportunity for fraud, error and corruption. CMAP will regularly undertake audits to test that this is the case.
- The application of efficient and decisive action when an instance of fraud or corruption has been proven. This may include the termination of employment for an offence of gross misconduct, appropriate action under the Members Code of Conduct and criminal prosecution.
- Ensuring that contracts with the Council have provision for termination if fraud and corruption is proven.
- Taking action to recoup losses and costs from the perpetrators of fraud where this is cost effective to do so. Where appropriate, the Proceeds of Crime Act 2002 will be used to maximise the penalty imposed on the fraudster and the level of recovery by the Council.

8.2 It is the responsibility of the Service Directors to communicate the Anti-Fraud and Corruption Policy to their staff and to promote a greater awareness of fraud prevention within their Directorates. This is supported by the Heads of Service.

9.0 Counter-Fraud Intelligence

9.1 The Council is a member of the National Anti-Fraud Network (NAFN) a not-for-profit organisation which operates to support its members in protecting the public purse from fraud, abuse and error.

9.2 In supporting its members, the NAFN provides counter-fraud intelligence, both by way of bulletins issued directly to nominated contacts in organisations and by way of alerts which are published on its website.



9.3 Bulletins containing counter-fraud intelligence are circulated to relevant managers. On receiving this intelligence, managers are responsible for:

- Conducting a risk assessment to establish the potential vulnerability of their service area in respect of fraud.
- Making necessary adjustments to processes and controls to ensure that the risk of fraud is minimised.
- Informing relevant staff of the fraud risks and processes/adjusted processes to be followed.

10.0 Anti- Money Laundering

10.1 The Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering Regulations 2007 place obligations on the Council and its employees with respect to suspected money laundering. The following actions constitute money laundering:

- Concealing, disguising, converting, transferring or removing criminal property.
- Becoming a party in an arrangement in which someone knowingly or suspects or facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person.
- Acquiring, using or possessing criminal property.

10.2 The Council's Anti-Money Laundering Policy, which is contained in the Council's Financial Procedure Rules, provides detailed guidance on money laundering and the relevant procedures that must be followed in all circumstances by employees of the Council, temporary and agency staff, the Council's contractors and partners.

11.0 Cyber Fraud

11.1 Cyber fraud is the crime committed via a computer with the intent to corrupt another person's personal and financial information stored on-line. Cyber fraud is fast becoming the most common type of fraud committed and the Council remains vigilant in protecting the information it holds on local residents, etc.

11.2 Consequently, the Council constantly updates its IT security processes in accordance with best practice to minimise the risk of cyber fraud occurring. Members and Employees play an important role in protecting personal information in the course of their work and should adhere to the Council's ICT Security Policy, together with advice and guidance issued by the ICT Unit.

12.0 Fraud Awareness

12.1 The success of the Council's Anti-Fraud and Corruption Policy and its general credibility will depend largely on the effectiveness of programmed training and responsiveness of employees throughout the organisation.



12.2 The Council recognises the importance of induction training for Members and Employees. As part of the induction process, Members and Employees will be informed of the Council's commitment to dealing with fraud and corruption, its Corporate Anti-Fraud and Corruption Policy and provided with fraud awareness training.

12.3 This is particularly important for those posts involved in internal control systems, to ensure that their responsibilities and duties in this respect are reinforced. All employees will be instructed as to what action to take should they suspect fraud or corruption, through this Policy.

13.0 Training for Investigators

13.1 All Counter-Fraud Investigators employed by the Council are required to be appropriately accredited and will receive regular training to ensure Continuous Professional Development. The training plans of relevant staff will reflect this requirement.

14.0 Policy Review

14.1 This policy will be reviewed on a regular basis and amended to maintain its relevance, to reflect changes in legislation, guidance or standards, etc. The review of the Policy will confirm that:

- The scope and content of the policy is still appropriate in the light of legal requirements and the Council's practical experience of dealing with fraud and corruption.
- Training and awareness is being provided in accordance with the Policy to ensure standards are still being met.
- All responsible people to whom this policy applies are aware of their responsibilities under this Policy and all related legislation, guidance and standards, etc.

15.0 Conclusion

15.1 The Council has put into place a number of arrangements to protect itself from the risk of fraud. It is determined that these arrangements will keep pace with future developments, in both preventative and detection techniques regarding fraudulent and corrupt activity affecting its operation or related responsibilities. Consequently, the Council will maintain a continuous overview of these arrangements.



Appendix A: DEFINITIONS

Fraud

The Fraud Act 2006 provides a definition of fraud, as follows:

- Dishonestly making a false representation and intending, by making the representation to make gain for oneself or another or to cause loss to another or to expose another to a risk or loss; or
- Dishonestly failing to disclose to another person information which they are under a legal duty to disclose and intending, by failing to disclose the information, to make a gain for oneself or another or to cause loss to another or to expose another to a risk or loss; or
- Dishonestly abusing a position in which they are expected to safeguard, or not to act against, the financial interests of another person and intending, by means of the abuse of that position, to make a gain for oneself or another or to cause loss to another or expose another to a risk of loss.

Bribery

The Bribery Act 2010 provides a definition of bribery as follows:

- Where a person offers, promises or gives a financial or other advantage to another person, and intends the advantage to induce another person to perform improperly a relevant function or activity, or to reward another person for the improper performance of such a function or activity.
- Where a person offers, promises or gives a financial or other advantage to another person, and knows or believes that the acceptance of the advantage would itself constitute the improper performance of a relevant function or activity.
- Where a person requests, agrees to receive or accepts a financial or other advantage intending that, in consequence, a relevant function or activity should be performed improperly (whether by that person or another person).
- Where a person requests, agrees to receive or accepts a financial or other advantage, and the request, agreement or acceptance itself constitutes the improper performance by that person of a relevant function or activity.
- Where a person requests, agrees to receive or accepts a financial or other advantage as a reward for the improper performance (whether by that person or another person) of a relevant function or activity.
- Where in anticipation of or in consequence of a person requesting, agreeing to receive or accepting a financial or other advantage, a relevant function or activity is performed improperly by that person or by another person at that persons request or with that persons assent or acquiescence.
- A person associated with a commercial organisation bribes another person intending to obtain or retain business for that commercial organisation, or to obtain or retain an advantage in the conduct of business for that commercial organisation.



Appendix B

Responding to Potential Fraud and Corruption: Guidelines

1. If you Suspect Fraud

The scope of fraud that should be referred for investigation is not limited to that which has a direct financial impact upon the Council. For example, the unauthorised access and/or release of confidential information held on strategic decisions, commercial information relating to contracts let or being let and personal information on staff and/or customers, which could have a damaging or undermining effect are also reportable.

There are a number of ways in which you may be alerted to the possibility of fraud. You may have suspicions passed on to you by others or you may notice something yourself which makes you suspicious.

It is important to be discreet not only to protect people from being harmed by false accusations (covered by the Council's Harassment Policy and Procedure but also to ensure that if fraud is occurring, the perpetrator of the fraud is not forewarned. These guidelines apply not only to frauds involving Elected Members and Employees but also to frauds committed by contractors, their employees, suppliers and members of public.

2. Reporting your Suspicions

Where you have suspicions of fraud or corruption directed against the Council, or directed at others by staff and contractors of the Council, please raise your concerns immediately to one of the following persons:

- Line Manager
- Fraud Unit
- Strategic Director
- Monitoring Officer
- Chief Executive

Alternatively, or if you have any doubts, "**Protect**" <https://protect-advice.org.uk/homepage/> which is an independent, charity based, whistleblowing organisation, will give free and totally independent advice on how to proceed.

Please do not attempt to undertake any investigation of the suspected fraud yourself, however reasonable that it may seem to do so, as this may prejudice any subsequent investigation.

Likewise, please do not put yourself at risk by attempting to obtain evidence to support your suspicions. Instead, concentrate on providing as much information as is readily available, such as names, dates, times, transactions, circumstances involved etc, but without discussing it with colleagues or removing any physical documentation.

The Council undertakes to protect the identity of employees reporting suspicions and will not release the source of notification at any time during a subsequent investigation, unless required to do so on a confidential basis, under a legal obligation.



It is recognised that in some cases it will be necessary to talk to the person reporting a suspected fraud to clarify matters and to establish how this information came to light. The manner in which this is handled will depend on how the referral has initially been made and the willingness of the informant to be interviewed.

3. Counter-Fraud Intelligence

Managers should have regard to all counter-fraud alerts provided to the Council by the National Anti-Fraud Network and conduct risk assessments to establish the potential vulnerability to fraud within their service area.

If as a result of a risk assessment it is suspected that a fraud may have been committed against the Council by an external party, the Manager should report the suspicion to the Fraud Investigation Unit without delay.

4. Preliminary Investigation

The investigative process will commence with a preliminary investigation, which will be carried out as quickly as possible after the suspicion has been reported. The purpose of the preliminary investigation is to confirm or repudiate the suspicions that have arisen so that, if necessary, further investigation may be instigated.

Prompt action is necessary to ensure evidence is secured in a legally admissible form as this may subsequently be required to support a prosecution against the offender.

For the purpose of the preliminary investigation, the services of the Fraud Investigation Unit may be called upon for reports of suspected fraud relating to Elected Members and Employee's. In such circumstances, the Unit will liaise with the Monitoring Officer and the Strategic Director (Corporate Resources) to discuss the enquiries to be undertaken and to report subsequent findings.

If the suspected fraud is committed against the Council by a member of the public, such as in an application for financial assistance, the Fraud Investigation Unit will conduct the preliminary investigation and will report its findings to the Strategic Director (Corporate Resources).

5. Prevention of Further Losses

Should the preliminary investigation confirm the reported suspicions, consideration will need to be given with regard to the prevention of further losses to the Council. Where an employee is involved in a fraud, this may require the suspension of the suspected individual(s) concerned.

The normal circumstances for suspension would be:

- Where the continued employment of the individual(s) could lead to further losses.
- Where the continued employment of the individual(s) could jeopardise the investigation (where the individuals could destroy or remove evidence).



- Where the Police have charged those involved with a criminal offence relating to the Council.

All suspensions will be carried out in line with the Council's Disciplinary Procedure.

Where the preliminary investigation confirms the reported suspicions relating to a fraud by an external party, consideration will be given to the suspension of any further payments due pending the outcome of a formal investigation.

To prevent further losses and where it will not prejudice any subsequent investigation, any identified control weaknesses that have permitted the act of financial impropriety to be undertaken should be rectified. In this case, the Council's Internal Auditors should be contacted.

6. Formal Investigation

The Strategic Director (Corporate Resources) is responsible for making the decision as to whether a formal fraud investigation should be initiated. Should it be decided that a formal investigation is to be undertaken, the Fraud Investigation Unit will conduct the investigation.

For the purpose of suspected frauds which involve employees of contractors, the details of the suspected fraud will be reported to the contractor for investigation. The investigating officer acting on behalf of the contractor will liaise closely with the Strategic Director regarding the investigation.

This is particularly important if the suspected fraud also involves an Employee of the Council or an Elected Member, so as to avoid one investigation compromising the other.

7. Interviews

A decision about whether to interview those suspected of fraud should be taken by the Strategic Director (Corporate Resources) in consultation with the Fraud Unit. All interviews must be conducted under properly controlled conditions in order to ensure that the record of the interview and any statement taken, which are subsequently used as evidence in support of a prosecution, will not be rejected as inadmissible.

The Police and Criminal Evidence Act 1984 Codes of Practice should therefore be applied.

8. Liaison with External Organisations

In some circumstances the Fraud Investigation Unit will liaise with or conduct a joint investigation with external bodies such as the Police, Department for Work and Pensions, HM Revenue and Customs, UK Border Agency and other Local Authorities.

The decision to notify an external agency should be taken at an early stage so that joint investigation and contact arrangements can be made, as necessary. Liaison with an



external agency will be the responsibility of the Officer in Charge of the internal investigation and a record of all relevant contact should be maintained.

9. Police involvement

Where it is appropriate to do so and following consultation with the Strategic Director (Corporate Resources) the Fraud Investigation Unit will involve the Police to assist with an investigation or to assume responsibility for an investigation in its entirety.

The referral of a matter to the Police will be dependent on a number of factors which include the nature of the suspected fraud, those suspected of being involved and resources required to investigate.

If the Police decide that a formal criminal investigation is necessary by them, all staff will cooperate fully with any subsequent requests or recommendations. All contact with the Police following their initial involvement will be via the Strategic Director (Corporate Resources).

When the Police decide to investigate formally this will not prejudice any internal disciplinary action that could be taken by the Council. In such circumstances the Police and Head of Organisational Development will be consulted to ensure that one investigation does not prejudice the other.

A decision by the Police not to undertake a formal investigation does not preclude subsequent criminal prosecution taking place should evidence of an offence emerge.

10. Conclusion of the Investigation

At the end of the Investigation, the Fraud Investigation Unit will prepare a report for the Strategic Director (Corporate Resources) which will describe the circumstances leading to the investigation, the individuals who have been the subject of the investigation together with their position within the Council, their responsibilities, how the investigation was undertaken, facts and evidence identified, any control weaknesses in the operational systems and processes, and any recommendations or action taken to prevent a similar situation happening again.

11. Recovery of Losses

The Council will seek to recover all cash or assets lost or misappropriated as a consequence of the fraud, where it is cost effective and practical to do so. Where a prosecution takes place arising from a fraud committed against the Council, the Council will act in accordance with the decision of the Court.

For frauds committed by Elected Members, Employees, employees of contractors and members of the public, the individual(s) should be notified of the amount of loss to the Council, and they should be asked to repay the loss incurred. In these cases a statement should be prepared which:



- Explains the results of the investigation, including details of the sum/assets lost as a result of the fraud.
- Seeks agreement to pay back or compensate the Council for the loss resulting from the fraud.
- Details the method of recovery.
- Is signed by the individual.

It should also be made clear to the individual that repayment of losses incurred by the Council will not prejudice disciplinary action and/or further proceedings that may be taken against them in respect of the fraud.

If the individual does not agree to repay or recompense the Council for the losses, the Council should consider commencing civil action to recover the losses.

If an external contractor has perpetrated the fraud, it is advisable for advice to be sought from Legal Services as to the content of any correspondence issued to the contractor in respect of the losses and to consider the action that might be necessary if litigation to recover the losses seems likely.

12. Disciplinary Offences by Employees

If the fraud investigation provides sufficient evidence that fraud is likely to have been committed by an employee, the Council's Disciplinary Procedure will be initiated. The information gathered by the Fraud Investigation Unit during their investigation will form the basis of the evidence considered during the formal disciplinary procedure.

13. Disciplinary Action against Managers

A fraud investigation will also consider whether there has been any failure of supervision. Where this has occurred, consideration will be given as to whether disciplinary action should also be taken against those responsible.

14. Disciplinary Offences by Employees of a Contractor

Where it is proven that an employee of a contractor has committed an offence that would otherwise fall within the Council's Disciplinary Code, the Council will expect the contractor's own disciplinary code to be invoked. This includes, where appropriate, the suspension of the individual from their duties and removal from the contract site.

In addition, the Council will expect that the contractor responsible for any individual found guilty of an offence will take appropriate disciplinary action, including dismissal for an offence of gross misconduct.



15. Prosecution

As a deterrent to others, prosecution will be sought where the circumstances of the fraud case meet the evidential and public interest requirements of the Code for Crown Prosecutors. Each case considered for prosecution will be treated on its own merits, ensuring sufficient evidence exists to warrant prosecution. The Strategic Director (Corporate Resources) will consider all relevant cases.

16. Publicity

Any public statements regarding pending, current or completed investigations or allegations of financial impropriety should only be made through the Council's Communications Unit.

Elected Members, Employees, together with contractors acting on behalf of the Council, should not make any public statement regarding suspected financial impropriety in order to avoid making potentially libellous statements, or statements that may prejudice investigations and/or any subsequent disciplinary/legal action.

All such statements will be co-ordinated by the Communications team. If contacted by the public or the press, you should refer those making the enquiry to the Communications Manager.

17. Confidentiality

No investigation report or supporting documentation is to be made available to any person except as outlined in the Anti-Fraud & Corruption Policy and these Guidelines or as required for any legal reason.

18. Learning from experience

Where a fraud has occurred, management must take prompt action to make any necessary changes to systems and procedures to ensure that similar frauds will not recur.

The fraud investigation report will make recommendations for remedial action to address any identified failure of supervision or breakdown in/absence of control. Actions to address these recommendations will be agreed with the relevant manager.



Appendix C

Sanctions Policy

1. Introduction

South Derbyshire District Council takes its responsibility to protect public funds seriously and expects its business to be conducted to the highest ethical and legal standards. The Council has a zero tolerance to fraud, theft and corruption.

Where there is evidence of fraud, theft or corruption against the Council, those responsible, whether internal or external to the Council, will be held accountable for their actions using the full range of sanctions available. The use of sanctions is governed by this Policy that sets out appropriate action to take.

The aims of this Policy are:

- To ensure sanctions are applied fairly and consistently.
- To ensure sanctions are applied in an efficient and cost-effective way.
- To set out the range of sanctions available.
- To ensure the sanction decision making process is robust, transparent and fair.

The Council will investigate allegations of fraud, theft, corruption or irregularity.

Following an investigation, a range of factors will be considered before the appropriate sanction/action is determined, including the individual circumstances of each case, the impact on the individual and the wider community, and the seriousness of the offence.

2. Sanction options

Where there is evidence of fraud, theft or corruption, the following options will be considered:

- No further action
- Referral to professional bodies
- Disciplinary action
- Civil proceedings/recovery of funds
- Criminal prosecution

The Council will consider any of the above options and parallel sanctions may be pursued.

No Further Action

The Council may consider, following an investigation, closing a case without taking any further action.



Referral to Professional Bodies

Where there is adequate evidence that a person or entity has breached professional duties or responsibilities, the Council will refer the matter to the relevant professional body.

Disciplinary Action

In the event that an allegation is made against a Council employee, the Strategic Director (Corporate Resources) will consult with Human Resources and if appropriate, action will be taken through the Council's Disciplinary Process.

If proven, sanctions may include warnings or dismissal and alongside this, additional sanction options will be considered including referral to professional bodies, civil proceedings and criminal prosecutions.

If during the course of disciplinary action, the employee suspected of fraud, theft or corruption chooses to resign, the Council will continue to pursue referral to professional bodies, civil proceedings or criminal prosecution where appropriate.

In the event of an allegation against an Elected Member in relation to fraud, theft or corruption against the Council, this will be reported to the Monitoring Officer, who will agree the action to be taken with the Chief Executive and the Strategic Director (Corporate Resources).

Depending on the circumstances of the case, criminal proceedings may also be instigated.

Civil Proceedings and Recovery of Funds

The Council may take civil proceedings where appropriate. Regardless of whether or not any other sanctions are taken, the Council will seek, where appropriate, to recover any overpaid, misused or unfairly gained monies.

The following measures may be considered in the pursuit of financial recovery:

- Consultation with the Council's Payroll and Pensions Teams to redress financial loss caused by employees. The Council may attempt to recover the loss from the capital value of the individual's accrued benefits in the Pension Scheme if they are a member, which are then reduced as advised by the Actuary.
- Recovery of money through appropriate legal proceedings.
- Legal action such as search orders and freezing/tracing injunctions to preserve evidence and assets.



Criminal Prosecution

Where the Council considers it '*expedient for the promotion or protection of the inhabitants of their area*', Section 222 of the Local Government Act 1972 empowers the Council to:

- Prosecute, defend or appear in legal proceedings and, in the case of civil proceedings, institute them in their own name; and
- In their own name, make representations in the interests of residents at any public inquiry held by or on behalf of a public body under an enactment.

Furthermore, Section 223 of the Local Government Act 1972, allows a '*local authority to authorise any member if its staff to prosecute or defend designated matters in a magistrates' court*'. In the most serious of cases, the Council will consider the prosecution of those offenders suspected to have committed fraud or theft.

Where the Council considers there is sufficient evidence (based on the Code for Crown Prosecutors) to indicate a criminal act has taken place, a decision will be made whether to undertake a criminal prosecution utilising the Council's Legal Services. This decision will be made by the Chief Executive, Monitoring Officer and Section 151 Officers.

Before a decision is taken whether or not to prosecute, the Council will be guided by the Code for Crown Prosecutors and will only initiate legal action if, following legal advice, it has satisfied the following two tests:

1. **Evidential Test – the evidence must be:**

- Clear, reliable and admissible in court; and
- Strong enough for a realistic chance of prosecution. i.e. to prove a case 'beyond reasonable doubt'

2. **Public Interest Test – whether the prosecution is in the public interest, considering:**

- Seriousness and/or monetary value of the offence
- Cost and proportionality of the prosecution
- Age and health of the suspect
- Culpability of the suspect
- Circumstances of and harm caused to the victim
- Impact on the community

Where a case has been referred to the Police to investigate, the final decision as to whether or not to pursue the case will be taken by the Police or the Crown Prosecution Service. The Council will conduct the investigation in accordance with the Criminal Procedure and Investigations Act 1996 and the Police and Criminal Evidence Act 1984.



Criminal proceedings may be brought for a suspected offence under the following legislation:

- The Theft Act 1968 (as amended 1996)
- The Fraud Act 2006
- Forgery and Counterfeiting Act 1981
- Computer Misuse Act 1990
- Identity Documents Act 2010
- The Bribery Act 2010
- Road Traffic Regulation Act 1984
- Any other relevant provision in law.

Any criminal proceedings will include an attempt to recover money under the Proceeds of Crime Act 2002.

3. Parallel Sanctions

It is preferable for the appropriate sanctions to proceed simultaneously, but it is not necessary for anyone to await the result of another before concluding. However, due consideration must be given to all proceedings to ensure that one does not impact improperly upon another.

The decision to run parallel sanctions will be determined on a case-by-case basis.

4. Partnerships

Where appropriate, the Council will work in partnership with other organisations such as the Police, other Local Authorities, Department for Work and Pensions, Her Majesty's Revenue and Customs, UK Borders Agency and the Home Office.

5. Publicity

It is the Council's intention to positively promote this Policy, as well as the outcome of any prosecutions, which will deter others from fraudulent activity and reassure the public that the Council does act against those committing, or attempting to commit, fraudulent and or corrupt acts.

Consideration will be given to whether the outcome of any sanction cases should be reported to the community via various media channels. Publicity, where appropriate, will ensure the profile of counter fraud activity remains at a level which will contribute to ensuring the key objectives of preventing and detecting fraud are met.



| | | |
|-------------------------|---|---------------------------|
| REPORT TO: | AUDIT SUB COMMITTEE | AGENDA ITEM: 11 |
| DATE OF MEETING: | 28 TH JUNE 2021 | CATEGORY: DELEGATED |
| REPORT FROM: | STRATEGIC DIRECTOR (CORPORATE RESOURCES) | OPEN |
| MEMBERS' CONTACT POINT: | KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@southderbyshire.gov.uk | DOC: |
| SUBJECT: | RISK MANAGEMENT | |
| WARD (S) AFFECTED: | ALL | TERMS OF REFERENCE: AS 04 |

1.0 Recommendations

- 1.1 That the Risk Management Framework as detailed in Appendix A is approved.

2.0 Purpose of the Report

- 2.1 To update the Council's risk management process document to reflect the Council's approach to, and management of risk in order that it aligns to the Corporate Plan.
- 2.2 Under the Committee's Terms of Reference, it is responsible for considering and ensuring that the Council has an effective framework in place for managing risk as part of the Council's overall governance arrangements.

3.0 Executive summary

- 3.1 The Risk Management Framework was last submitted to the Audit Sub Committee in December 2020. Since then, some further amendments have been made which are outlined in section 4.0 - Detail.

4.0 Detail

- 4.1 The below bullet points outline the key amendments made to the Risk Management Framework since it was last approved in December 2020:
- Section 4, Identifying Risks. 'The Environment' has been added to the list of factors the Council needs to give regard to.



- Section 6.1, The Key Principle. This section has been updated.
- The unique risk reference will remain with the risk whilst the risk is reported on the register.
- Once a risk has been authorised for deletion from the risk register it will be moved onto an archived risk register for audit purposes.
- The Council will move from four Risk Registers to three. The Strategic Risk Register will be made redundant and the existing risks identified in this register will be moved to the Corporate Risk Register.
- The Leadership Team will undertake quality checks on risks and will seek evidence to show the controls and mitigating actions are being monitored.
- Section 8, Risk Rating has been updated to include 'Risk Category' which includes, Strategic, Resource, Operational, Financial, Knowledge Management and Compliance.
- Section 10, a 'Communication' section has been added to the Framework to outline how all risks will be communicated to Heads of Service and officers.
- The risk register template has been revised and updated in line with best practice, the new template is based on the register used by Central Midlands Audit Partnership Board. Key changes include the addition of a risk category, risk cause and risk effect, current risk rating, risk rating after mitigating actions and risk owner. The new risk register template is included in Appendix A.

5.0 Financial and Implications

None directly.

6.0 Corporate Implications

Risk Management is one of the seven principles of ensuring sound Governance at the Council in accordance with the Local Code of Corporate Governance.

6.1 Employment Implications

None directly.

6.2 Legal Implications

None directly.

6.3 Corporate Plan Implications

None directly.



6.4 Risk Impact

The Risk Management Framework provides transparency and ensures robust controls are in place to mitigate risk to the Council.

7.0 Community Impact

7.1 Consultation

None required.

7.2 Equality and Diversity Impact

Not applicable in the context of the report.

7.3 Social Value Impact

Not applicable in the context of the report.

7.4 Environmental Sustainability

Not applicable in the context of the report.

8.0 Appendices

Appendix A – Risk Management Framework



RISK MANAGEMENT FRAMEWORK

AUTHOR / REVIEWER: CORPORATE RESOURCES

DATE: MAY 2021

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Version Control

| Version | Description of version | Effective Date |
|---------|--|----------------|
| 1.0 | Policy Statement and Framework Fully Revised | December 2012 |
| 2.0 | Review and Update for New Corporate Plan (no major changes) | March 2016 |
| 3.0 | Review and update to reflect new Corporate Plan and recommendations following an Audit | December 2020 |
| 4.0 | New Risk Register Template and amendments to sections 4,6,7,8 and section 10 new. | May 2021 |

Approvals

| Approved by | Date |
|--|---------------|
| Finance and Management Committee | December 2012 |
| Director of Finance and Corporate Services | March 2016 |
| Audit Sub Committee | December 2020 |
| Audit Sub Committee | June 2021 |

Associated Documentation

| Description of Documentation | |
|--|--|
| Performance Management Framework | December 2020 Version 2.0. |
| Annual Governance Statement | |
| Emergency Planning and Business Continuity Framework | Held centrally on the Government's "Resilience Direct" website |



The Process

Articulate the key risks

Highlight key controls

Monitor

Report and scrutinise

Communicate



1.0 INTRODUCTION

The management of risk is one of the seven principles to ensure sound Governance at the Council, contained in its Local Code of Corporate Governance.

This is based on having robust controls and strong financial management in place to ensure that risks are mitigated.

It should be noted at the outset that it is not possible to eliminate all risk and some issues that could manifest themselves into risks for the Council are outside of its control, driven by external factors.

However, the Council must accept and face up to these risks and its responsibility is to put in place measures to manage those risks.

The Council has in place a process that identifies risks, records them, monitors them and reports them to stakeholders.

As part of the Council's Governance Framework, this provides transparency for residents and provides a degree of confidence that the Council has robust controls in place to mitigate risk.

2.0 CONTEXT

South Derbyshire District Council delivers a diverse range of services to the local community.

This is in addition to the traditional statute and regulatory framework that local authorities operate within.

As one of the fastest growing areas outside of London and the South East, South Derbyshire has its own challenges.

Growth, although generating income, puts additional pressure on, and demand for, local services and infrastructure.

To meet these challenges, the Council has a Corporate Plan which is based on 3 priorities of:

- ***The Environment***
- ***Local People***
- ***The District's Future***

The Plan sets out targets to tackle climate change, provide enhanced community facilities and support economic growth..... all in addition to the normal delivery of day-to-day services.

3.0 WHERE RISK MANAGEMENT FITS IN

It is generally accepted that risk is inherent in all that we do to some degree.

Council Officers are managing risk daily, on an informal basis, and this is routine, operational and although important, is perhaps low level for the Council.

3. 1 Focus is on Key Risks

Not all risks can be logged and reported at Council level, to do so would be disproportionate.

Therefore, Risk Management at the Council focuses on the **KEY** issues that have the potential to fundamentally hamper service delivery and the achievement of the Corporate Plan.

For example, to loss of financial stability, reputational damage, impairment of assets, a security breach and even to loss of life.

These risks may be applicable to a particular service only or affect the Council as a corporate body.

4.0 IDENTIFYING KEY RISKS

In assessing risks, the Council has regard to such factors as:

- Key Performance Indicators
- The Environment
- National Funding
- The Economy
- Health and Safety
- Statute and Regulation
- Management of Data
- Organisational Capacity
- IT Systems
- Condition of Assets
- Contracts

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The list is not exhaustive.

The assessment of risk is based on experience, “what’s happening elsewhere” together with local demands, issues and by sharing information across the Council.

4. 1 Performance Management

The Council’s process for Risk Management is integrated into its Performance Management Framework.

Risks are identified firstly at a Service level and this is overseen by Directorate Management Teams.

The Leadership Team have oversight of all key risks identified.

5.0 RESPONSIBILITY FOR RISK

| | |
|----------------------------------|--|
| Full Council | Sets the Corporate Plan and Governance Arrangements, etc. |
| Finance and Management Committee | Sets and review the Performance Management Framework |
| Policy Committees | Set and review service policy, monitor KPIs and scrutinise risks. |
| Leadership Team | Oversight of all risks and articulation of corporate risks for consideration by Committees |
| Directorate Management Teams | Oversight of service risks |

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| | |
|--------------------------|---|
| Heads of Services | Identify and monitor service risks |
| All Staff | Inform risk identification and provide updates as required. |

5.1 The Audit Sub-Committee

Under its responsibility to monitor and review the Council's Governance arrangements, this Committee considers the Council's Risk Management **process** as detailed in this document.

The Committee is **not** responsible for assessing and monitoring specific risks, this is the responsibility of Policy Committees.

6.0 APPROACH TO RISK

This is the Council's risk appetite and how risk is treated, and its approach is straightforward.

Given that risks identified concern key issues, then the Council will accept all these risks and take appropriate action. Even where the likelihood of the risk occurring is out of the Council's control, it will seek to put measures in place to mitigate or reduce the impact.

The Council will generally take a risk averse position and will not simply tolerate these key risks which could severely hamper service provision but seek to treat them in a proportionate way.

In many instances, the Council, through its governance and internal control arrangements, will have mitigating measures in place which are embedded as part of service delivery.

These measures will help to control the inherent risk at its current level.
For example:

- Medium-term financial planning to guard against loss of financial stability.
- Health and Safety Programmes, which also help to reduce the likelihood of an incident occurring in the first place.

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And

- Business Continuity arrangements to mitigate the effects of a flu pandemic.

6. 1 The Key Principle

Although some risks may only be temporary, most key risks will in principle remain over a sustained period, even where there is a change to the policy direction of the Council.

However, depending on the environment that the Council operates within at any one time, the severity or prominence of the risk will change.

The Council will in many instances have work-in-progress to help mitigate and lower a risk further. However, a combination of embedded controls and additional work may never eliminate all risk. It should help to reduce the impact of a risk whilst a residual risk may remain.

Therefore, although the Council may have mitigating measures in place, it is critical that they continue to be monitored, tested and updated to ensure that they remain fit for purpose in accordance with the severity of the risk.

7.0 RISK MONITORING AND REPORTING

The Council records, reports and monitors its risks in “*Risk Registers*” as part of the Performance Management Framework.

These Registers are reported to the Policy Committees on a quarterly basis.

7. 1 Risk Registers

To mirror the Committee and Management structure of the Council, a Risk Register is maintained for:

- **Corporate** (*incorporating support, back-office functions and any risks that have Corporate implications*)
- **Service Delivery** (*incorporating Operational, Environmental, Planning, Housing and Cultural and Community Services*)
- **Chief Executive** (*incorporating Legal, Democratic and Economic Development Services*)

The above registers record risks associated with each Directorate, for example:

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- ✓ Systems
- ✓ Maintenance of assets
- ✓ Service contracts
- ✓ Service income
- ✓ Local authority funding
- ✓ Organisational capacity
- ✓ IT infrastructure
- ✓ Data management

Each risk will be assigned a unique risk reference number (REF) which will commence with the appropriate directorate letters for example, Corporate Risk Register - CR, Chief Executive Risk Register - CE and Service Delivery Risk Register - SD. This risk reference will remain unchanged whilst the risk is reported in the Risk Register.

Deletion of risks must be approved by the relevant member of the Leadership Team. Once the deletion of the risk has been approved, deleted risks will be moved onto the archived Risk Register.

The Leadership Team will review, and sense check all three Risk Registers each quarter before being reported to committees. Random quality checks will be carried out on one or two risks and the relevant Head of Service will be asked to attend the Leadership Team meeting to provide documented evidence to show how the controls and mitigating actions are being monitored.

7.2 Other Risks

It should also be noted that risk is a key consideration in proposals to change services, in evaluating proposals for capital investment and in business cases for transformation projects.

Separate sections exist in the appropriate reporting schedules for the consideration of risk, including the use of risk and issue logs.

In these instances, the Council may be less risk averse when it comes to investment and developing services, to benefit from opportunities, and this will be reflected in the risk analysis.

8.0 RISK RATING

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Our Environment | Our People | Our Future

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The Council uses a standard template recommended by Central Midlands Audit Partnership.
(as shown in **Appendix 1**) for reporting purposes.

The template summarises each risk including the risk reference, risk title and description, risk effect, risk category, current risk rating, controls in place to mitigate the risk, risk rating after mitigation, further actions, summary of changes since last quarter and risk owner.

Risk Category

The risks facing the Council and its operations are categorised. As highlighted, risks can result from both internal and external factors which will include:

| | |
|------------------------------|--|
| Strategic: | These concern the long-term strategic objectives of the Council. They can be affected by political, legal and regulatory changes, reputation and the physical environment. |
| Resource: | These concern anything that is required to achieve compliance for example, time or skilled officers |
| Operational: | These concern the day-to-day issues that the Council is faced with including resources, skills and capacity issues at a detailed service level. |
| Financial: | These concern the effective management and control of the finances of the Council and the effects of external factors such as availability of central government grants, interest rate movement and other market conditions. |
| Knowledge management: | These concern the effective management and control of the knowledge resource, together with the production, protection and communication thereof. Factors might include a system malfunction or loss of key staff. |



Compliance:

These concern such issues as health and safety, environmental, data protection, employment practices and regulatory issues.

8. 1 Use of a RAG System

The Risk Register includes the ‘**current risk rating.**’ The current risk rating should be reviewed every quarter by the risk owner to take into account any changes that have occurred within the Council and to ensure the risk reflects the current climate.

The Risk Register will capture all controls (actions) that have been put in place to mitigate the risk, whilst the likelihood of the risk may remain the same the level of impact should reduce. The ‘**risk rating after mitigations**’ will be reviewed every quarter by the risk owner.

Risks are rated, scored and classed as **Red**, **Amber**, or **Green**. The Risk Matrix Table in Appendix 1 outlines the scoring of impact and likelihood of the risk using the threshold and description as guidance.

The rating score considers the likelihood of a risk occurring and the potential impact if things go wrong.

This classification is intended to prioritise risks at a point in time and ensure that prevailing (**Red**) risks are being given appropriate treatment at that time.

The rating serves as a guide for stakeholders to help understand the extent and severity of risks at a particular time and how they may have changed.

Some risks will remain high, such as health and safety, due to the very nature that an incident could have a serious and significant effect for the Council.

The scoring/rating is a subjective assessment and is not intended to be an indication of the Council’s risk appetite.

Green risks continue to be monitored and reviewed, even where they are being “tolerated” as no further action may be required apart from underlying controls already in place.



8.2 Insurance

Some risks may be insurable and where this is the case, this is highlighted as a mitigation measure.

However, it does not mean that the Council will avoid appropriate controls to prevent or mitigate the risk in the first place.

Insurance only helps to meet any financial liability arising from an incident or accident.

9.0 INDEPENDENT TESTING & REVIEW

The Council's Risk management arrangements are periodically reviewed by:

- **Internal Audit** – who make recommendations for strengthening the process.
- **External Audit** – as part of their annual Value for Money judgement, they review the Council's overall Governance arrangements as published in the Annual Governance Statement, which includes risk management.
- **Zurich Municipal** – provide a service worth £5,000 per year to review risk management; this can focus on specific risks or a generic review of the process. This includes the sharing of best practice.

10 COMMUNICATION

Following Committee approval, the risk registers will be shared across all three Directorates and loaded onto the staff intranet site.



APPENDIX 1 Risk Template (Example Only)

| REF | RISK TITLE & DESCRIPTION | RISK CAUSE | RISK EFFECT | RISK CATEGORY Strategic Resource Operational Financial Knowledge management Compliance , Partnership | Current Risk Rating (See table below for guidance) | | | CONTROLS IN PLACE TO MITIGATE THE RISK | Risk Rating after mitigations (See table below for guidance) | | | FURTHER ACTION REQUIRED | SUMMARY OF CHANGE SINCE LAST QUARTER | RISK OWNER |
|-----|--------------------------|---|--|---|---|--------|-------------|--|---|--------|-------------|---|--|---------------------------|
| | | | | | LIKELIHOOD | IMPACT | RISK RATING | | LIKELIHOOD | IMPACT | RISK RATING | | | |
| CR1 | Universal Credit (UC) | The implementation of UC could have an impact on resources in Benefits and Customer Services. | UC is being rolled out on a phased basis for working age claimants. During 2019/20, this started to have a much bigger impact with claims for HB reducing by over 30%. | Financial | 4 | 3 | 12 | <ul style="list-style-type: none"> Greater automation is currently being progressed to process change of circumstances. The Local Council Tax Reduction Scheme is being redesigned to make it easier to understand and administer. Proposals for a new scheme, in principle, were originally planned for June 2020. However, due to Covid-19, this has been delayed until next year. Where spare capacity arises, off-site support, which is used to deal with peaks in workload, will be transferred in-house to utilise spare capacity. | 4 | 2 | 8 | When future vacancies arise, these will be reviewed in the light of the longer-term position. | No change to rating or mitigating actions. | Head of Customer Services |



Risk Matrix Template

The table below outlines how the impact and likelihood of the risk is scored using the threshold and description as guidance.

| | | | | | | | | | | |
|------------|---------------|------------|--------------|--------------|---------------------|--|-------|-----|-------|---|
| Impact | Very High (4) | 4 | 8 | 12 | 16 | <table><tr><td>12-16</td></tr><tr><td>6-9</td></tr><tr><td>1 - 4</td></tr></table> | 12-16 | 6-9 | 1 - 4 | Significant Risk Medium Risk Low Risk |
| | 12-16 | | | | | | | | | |
| | 6-9 | | | | | | | | | |
| | 1 - 4 | | | | | | | | | |
| High (3) | 3 | 6 | 9 | 12 | | | | | | |
| Medium (2) | 2 | 4 | 6 | 8 | | | | | | |
| Low (1) | 1 | 2 | 3 | 4 | | | | | | |
| | | Remote (1) | Possible (2) | Probable (3) | Highly Probable (4) | Likelihood | | | | |

| Impact | Thresholds and Description |
|------------------------------------|---|
| 1 – Low | Limited impact on service objectives if any, section objectives unlikely to be met, financial loss less than £500k, no media attention |
| 2 – Medium | Slight delay in achievement of service objectives, minor injuries, financial loss over £500k, adverse local media attention, breaches of local procedures |
| 3 – High | Significant threat to Council objectives. Non-statutory duties not achieved, permanent injury, financial loss over £1million, negative national media attention, litigation expected, serious issues raised through inspection, breakdown of confidence of partners. |
| 4 – Very high | Objectives cannot be delivered. Statutory duties not achieved, death, financial loss over £5million, adverse national media attention, litigation almost certain, prosecutions, breaches of law, inspection highlights inadequate service, council unable to work with partner organisation |
| Likelihood | Thresholds and Description |
| 1 – Remote | May occur only in exceptional circumstances (e.g. once in 10 years) |
| 2 – Possible | Unlikely to occur but could at some time (e.g. once in three years) |
| 3 – Probable (in two years) | Fairly likely to occur at some time or under certain circumstances (e.g. once in two years) |
| 4 – Highly probable (in 12 months) | Will probably occur at some time or in most circumstances (e.g. once in 12 months) |



Corporate Risk Matrix

The below table summarises the risk likelihood and impact for risks after controls have been put in place to mitigate the risk.

| | | | | | |
|---------------|----------------------|-------------------|---------------------|---------------------|-----------------------------|
| Impact | Very High (4) | | | | |
| | High (3) | | | | |
| | Medium (2) | | | | CR1 Universal Credit |
| | Low (1) | | | | |
| | | Remote (1) | Possible (2) | Probable (3) | Highly Probable (4) |
| | | Likelihood | | | |

1 Universal Credit

The implementation of Universal Credit could have an impact on resources in Benefits and Customer Services.



| | | |
|--------------------------------|--|------------------------------|
| REPORT TO: | AUDIT SUB-COMMITTEE (SPECIAL) | AGENDA ITEM: 12 |
| DATE OF MEETING: | 28th JUNE 2021 | CATEGORY: DELEGATED |
| REPORT FROM: | STRATEGIC DIRECTOR (CORPORATE RESOURCES) | OPEN |
| MEMBERS' CONTACT POINT: | KEVIN STACKHOUSE (01283 595811) Kevin.Stackhouse@southderbyshire.gov.uk | DOC: |
| SUBJECT: | COMMITTEE WORK PROGRAMME | REF: |
| WARD(S) AFFECTED: | ALL | TERMS OF REFERENCE: G |

1.0 Recommendations

1.1 That the Committee considers and approves the updated work programme.

2.0 Purpose of Report

2.1 The Committee is asked to consider the updated work programme.

3.0 Detail

3.1 Attached at Annexe 'A' is an updated work programme document. The Committee is asked to consider and review the content of this document.

4.0 Financial Implications

4.1 None arising directly from this report.

5.0 Background Papers

5.1 Work Programme.

**Audit Sub-Committee
Work Programme for the Municipal Year 2021/22**

| Work Programme Area | Date of Committee Meeting | Contact Officer (Contact details) |
|--|----------------------------------|--|
| External Audit Plan 2020/21 | 28 June 2021 | Hhenshaw@uk.ey.co |
| Internal Audit Progress Report | 28 June 2021 | Adrian.manifold@centralmidlandsaudit.co.uk |
| Internal Audit Annual Report 2020/21 | 28 June 2021 | Adrian.manifold@centralmidlandsaudit.co.uk |
| Local Code of Corporate Governance Review | 28 June 2021 | Ardip.kaur@southderbyshire.gov.uk |
| Draft Annual Governance Statement 2020/21 | 28 June 2021 | Ardip.kaur@southderbyshire.gov.uk |
| Anti-Fraud and Corruption Policy | 28 June 2021 | Kevin.stackhouse@southderbyshire.gov.uk |
| Risk Management Framework | 28 June 2021 | Kevin.stackhouse@southderbyshire.gov.uk |
| Internal Audit Annual Report 2020/21 | 8 September 2021 | Adrian.manifold@centralmidlandsaudit.co.uk |
| Anti-Fraud and Corruption Annual Plan and Performance | 8 September 2021 | Elizabeth.barton@southderbyshire.gov.uk |
| Audit Results Report for the Year Ending 31 March 2021 | 8 December 2021 | Hhenshaw@uk.ey.co |
| Internal Audit Progress Report | 8 December 2021 | Adrian.manifold@centralmidlandsaudit.co.uk |
| Local Code of Corporate Governance Review | 8 December 2021 | Ardip.kaur@southderbyshire.gov.uk |
| Internal Audit Progress Report | 16 March 2022 | Adrian.manifold@centralmidlandsaudit.co.uk |

Annexe A

| | | |
|---|---------------|--|
| Internal Audit Plan and Charter 2022/23 | 16 March 2022 | Adrian.manifold@centralmidlandsaudit.co.uk |
| External Audit Plan 2021/22 | 16 March 2022 | Hhenshaw@uk.ey.co |