



**F. McArdle**  
**Chief Executive**

Civic Offices, Civic Way,  
Swadlincote, Derbyshire DE11 0AH

[www.south-derbys.gov.uk](http://www.south-derbys.gov.uk)

**Please ask for: Democratic Services**  
Phone: (01283) 595722 / 595848  
Minicom: (01283) 595849  
DX 23912 Swadlincote  
Email :  
[democraticservices@south-derbys.gov.uk](mailto:democraticservices@south-derbys.gov.uk)

Date: 8 December 2016

Dear Councillor,

### **Audit-Sub Committee**

A Meeting of the **Audit-Sub Committee** will be held in the **Council Chamber**, on **Wednesday, 14 December 2016 at 16:00**. You are requested to attend.

Yours faithfully,

Chief Executive

To:- **Conservative Group**  
Councillor Grant (Chairman), Councillor Ford (Vice-Chairman) and Councillor Mrs Wyatt.

**Labour Group**  
Councillors Dunn and Shepherd.



## **AGENDA**

### **Open to Public and Press**

- 1** Apologies.
- 2** To receive the Open Minutes of the Meeting held on 21st September 2016  
  
Audit Sub-Committee 21st September 2016 Open Minutes **4 - 6**
- 3** To note any declarations of interest arising from any items on the Agenda
- 4** To receive any questions by members of the public pursuant to Council Procedure Rule No.10.
- 5** To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 6** LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING **7 - 17**
- 7** INTERNAL AUDIT PROGRESS REPORT **18 - 34**
- 8** INTERNAL AUDIT CHARTER **35 - 48**
- 9** LOCAL CODE OF CORPORATE GOVERNANCE **49 - 68**
- 10** AUDIT AND ACCOUNTS - FORTHCOMING CHANGES **69 - 74**

### **Exclusion of the Public and Press:**

- 11** 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.
- 12** To receive any Exempt questions by Members of the Council pursuant to



AUDIT SUB-COMMITTEE

21<sup>st</sup> September 2016

**PRESENT:-**

**Conservative Group**

Councillor Grant (Chairman) and Councillor Ford (Vice Chairman)

**Labour Group**

Councillors Shepherd and Dunn

AS/11 **APOLOGIES**

Apologies for absence were received from Councillor Mrs Wyatt (Conservative Group)

AS/12 **MINUTES**

The Open Minutes of the Meetings held on 30<sup>th</sup> March 2016 and 15<sup>th</sup> June 2016 were taken as read, approved as a true record and signed by the Chairman.

AS/13 **DECLARATIONS OF INTEREST**

Councillor Ford declared a personal interest in Item 6 by virtue of his acquaintance with Mr Clarke of the external auditors.

AS/14 **TO RECEIVE ANY QUESTIONS FROM MEMBERS OF THE PUBLIC PURSUANT TO COUNCIL PROCEDURE RULE NO.10**

The Committee was informed that no questions from members of the public had been received.

AS/15 **TO RECEIVE ANY QUESTIONS FROM MEMBERS OF THE COUNCIL PURSUANT TO COUNCIL PROCEDURE RULE NO.11**

The Committee was informed that no questions from Members of the Council had been received.

**MATTERS DELEGATED TO SUB-COMMITTEE**

AS/16 **AUDIT RESULTS REPORT ISA 260 REPORT FOR THE YEAR ENDING 31st MARCH 2016**

The external audit representatives presented the report to the Sub-Committee, highlighting certain elements, including risks, adjustments, asset valuations, bad debt provision, financial instruments, contracts of employment, the Letter of Representation contents and value for money issues and pressures.

Councillor Ford queried when new housing assets were valued, the response being on their completion. The Chairman queried the lessons learned from this year's audits. The main issue identified related to the calculation and impact of financial adjustments.

Councillor Ford also cited having some employees on unsigned contracts as a concern. The Director of Finance and Corporate Services confirmed that the Human Resources Section were aware of this issue, but understood that whilst any such incident was unfortunate, they all related to part-time or temporary employees, many of which are no longer employees. A tightening of procedures in this area was seen as desirable.

Councillor Shepherd also requested and received clarification on the efficiency savings figures quoted in the report.

**RESOLVED:-**

***Members considered and approved the report of the External Auditor.***

AS/17 **INTERNAL AUDIT PROGRESS REPORT**

The internal auditor presented the report to the Sub-Committee, drawing particular attention to audits completed to date, along with alterations to the audit schedule as a consequence of other commitments.

The auditor noted the further fall in outstanding recommendations, also referencing the higher risk and aged items still marked as outstanding. The aged items are to be subject to a discussion with the Director of Finance and Corporate Services, to determine whether or not they should still be presented to Members.

**RESOLVED:-**

***Members considered the report of the Audit Manager and agreed that any issues identified are referred to the Finance and***

***Management Committee or subject to a follow-up report as appropriate.***

AS/18 **LOCAL GOVERNMENT ACT 1972 (AS AMENDED BY THE LOCAL GOVERNMENT [ACCESS TO INFORMATION] ACT 1985)**

**RESOLVED:-**

***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.***

**EXEMPT QUESTIONS BY MEMBERS OF THE COUNCIL PURSUANT TO COUNCIL PROCEDURE RULE NO.11**

***The Committee was informed that no questions from Members of the Council had been received.***

The Meeting terminated at 4.35pm.

COUNCILLOR J GRANT

CHAIRMAN

<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 6</b>
<b>DATE OF MEETING:</b>	<b>14<sup>th</sup> DECEMBER 2016</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE and CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:kevin.stackhouse@south-derbys.gov.uk">kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/audit/EY/quarterly update cover
<b>SUBJECT:</b>	<b>LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING</b>	
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 01</b>

---

---

## **1.0 Recommendation**

1.1 That the Committee consider the key questions raised by the Council's External Auditors contained in their quarterly sector update.

## **2.0 Purpose of Report**

2.1 To provide a quarterly report from the Council's External Auditors. This is aimed at briefing the Committee on the latest developments and audit matters affecting the Local Government Sector.

## **3.0 Detail**

3.1 The quarterly update is attached.

## **4.0 Financial Implications**

4.1 None

## **5.0 Corporate Implications**

5.1 None

## **6.0 Community Implications**

6.1 None

# Local government audit committee briefing

## Contents at a glance

### Government and economic news

### Accounting, auditing and governance

### Regulation news

### Key questions for the audit committee

### Find out more

This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please contact your local audit team.



## Government and economic news

---

### EY Item Club

The latest EY Item Club forecast (Autumn 2016) focuses on the United Kingdom's decision to leave the European Union and highlights that it believes the relatively small impact on the economy to date may be deceptive. The Sterling's performance could be an indication that troubles lie ahead.

At the moment, growth in the economy is being driven entirely by the consumer, supported by rising employment and real wages, as well as ultra-low interest rates. However, sterling's devaluation will push inflation up to 2.6% temporarily next year. With average earnings still subdued, which will slow the consumer. In the meantime, many firms have put investment and recruitment on hold whilst they assess the likely impact of the Article 50 negotiations on their business and consider their long-term options.

Policy uncertainty is feeding through into lower levels of business confidence which we expect to translate into lower investment in 2017. This together with a squeeze on margins from input cost inflation and a tightening labour market in some areas is leading to investment projects that are seen as marginal either being cancelled or delayed, with some of this capital being diverted to other geographies.

Now is the time to update strategies and associated business plans to reflect the slowing macro-environment and emerging policy outlook. Slowing growth and rising inflation together with a depreciating currency which could negatively impact the economy.

### Sustainability and transformation plans

The NHS Planning Guidance issued in December 2015 included the requirement for Sustainability and Transformation Plans (STPs). NHS organisations were asked to work together to come up with a 5-year plan for their area for all areas of NHS spending.

A named individual has been identified to lead each STP. In most cases this is from CCGs, NHS Trusts and Foundations but there are a smaller number from local government bodies.

These STPs have now been delivered and are designed to articulate how individual organisations will play their part in delivering their locally agreed STP objectives, including sustainable financial balance across the health economy.

From April 2017, access to NHS transformation funding will be linked to effective delivery of the STP. STPs represent a shift in focus from the role of competition within the health system to one of collaboration – referred to as 'place-based planning'. NHS organisations are telling us that the changing needs of their populations are best met through integrated models of care, with the delivery of care being best met by different areas of the NHS working in a co-ordinated way. The King's Fund has argued that a place based approach to planning and delivering health and social care services is the right approach – and that this should also include collaborating with other services and sectors outside the NHS – with the aim of improving the health and wellbeing of local populations.



## Government and economic news

---

Development and delivery of STPs is a complex task, with large footprints, involving many different organisations, in an already stretched environment in terms of finances and capacity. There are further challenges with the need to address weaknesses in NHS incentives to work together and to avoid organisations focussing on individual goals rather than the effective implementation of STP objectives – for example, NHS Trusts are closely monitored on their own performance targets.

The STPs have been delivered in a relatively short timeframe and propose major changes to services. With the growing financial challenges in the system, the STPs are required to show how they will bring the NHS back into financial balance. Given the short timeframes, the submitted plans will need further development and engagement before they can be effectively implemented.

Four of the STPs have been published early and these demonstrate the significance of the changes being considered under these plans, including reducing the number of acute hospitals and the consolidation of services. Such changes are likely to lead to public and political opposition.

The challenge for STP partners will be to move from the planning phase to implementation in order to realise the objectives agreed.

### Treasury confirms public sector pay offs to be capped at £95,000

The Treasury have confirmed that public sector exit packages will be capped at £95,000. The announcement follows a consultation period which heard replies from over 350 interested parties. The changes will apply to the majority of the five million public sector workers. Reflecting on the announcement the Treasury noted that the reduction in exit packages across the public sector would result in significant savings but would still offer a comparable and competitive settlement process similar to that in the private sector.

The proposals include the following:

- ▶ A cap on the salary level at which exit packages can be calculated. It is likely that this will fall in line with the current NHS cap of £80,000
- ▶ The tariff for calculating exit packages will be based on three weeks' pay per year of service with a maximum of 15 months being the cap
- ▶ A clawback proposal would also come into effect which would mean that anyone returning to a public service post soon after leaving with an exit package would be required to repay their redundancy payment



# Government and economic news

---

## Pension investment schemes

There is a proposal to replace the Local Government Pension Scheme 2009 with new draft regulations as set out below:

The two main areas of reform are:

- ▶ A package of reforms that propose to remove some of the existing prescribed means of securing a diversified investment strategy and instead place the onus on authorities to determine the balance of their investments and take account of risk
- ▶ The introduction of safeguards to ensure that the more flexible legislation proposed is used appropriately and that the guidance on pooling assets is adhered to. This includes a suggested power to allow the Secretary of State to intervene in the investment function of an administering authority when necessary

## Revaluation of business rates

The next revaluation of all properties for business rates will take effect from 1 April 2017. From next April, businesses will benefit from the biggest ever cut in business rates in England-worth £6.7bn over the next five years. £3.4bn worth of transitional relief will be available to provide support for the changes. By 2020 councils will be able to keep 100% of all local taxes to fund local services. Invoices will be issued by councils, and the valuations carried out by the VOA, as is currently done, to avoid conflict of interest.

The small business rate multiplier is expected to fall from April 2017 by 1.7p to 46.7p, the standard rate multiplier is also expected to fall by 1.7p to 48.0p.

## Schools no longer required to convert to academies

The government will no longer pursue a bill making it compulsory for all schools to convert to academies after protest from Councils, the bill will now only encourage converting.

The original plans required all schools to have converted, or have plans in place to do so by 2022. The announcement coincides with draft plans to introduce more grammar schools in England, reversing the 1998 ban on new grammar schools. And proposals suggesting more schools will be allowed to select pupils based on academic ability which is under consultation until mid-December.

In addition a bill on technical and further education has been published with the aim of boosting the countries productivity by addressing skills shortages by providing high quality technical education. This stems from the independent panel chaired by Lord Sainsbury, which undertook a review of the post-16 skills system and advised Government on measures to improve technical education in England, this led to the Post-16 Skills Plan published in July 2016, which set out the plan to replace thousands of courses with 15 routes into technical employment.



## Government and economic news

### Public sector borrowing

Public sector borrowing for August has decreased by £0.9bn to £10.5bn compared with the same month last year. This is due largely to a decrease in central government net borrowing of £0.4bn as well as a fall in local government borrowing of £0.2bn.

Public sector net debt at the end of August was £1,621.5bn which is equivalent to 83.6% of UK GDP. This is an increase of £52bn compared with August 2015.

The latest figures come 2 months after the vote to leave the European Union in June.

### The Emergency Services Network

In 2011 the Government set up the Emergency Services Mobile Communications Programme to look at options to replace the current provider, Airwave Solutions Limited, for communications between personnel in the field and control rooms. The current contract is set to expire in 2019 and the objective was to replace the current service with one that:

- ▶ Makes high speed data easily available to the emergency services
- ▶ Provides more flexibility and takes advantage of new technologies as they emerge
- ▶ Costs less

The chosen option to replace the Airwave service and meet the three objectives is the Emergency Services Network (ESN). The provision of this service has been contracted out to three main providers Kellogg Brown and Root, Motorola Solution and EE Ltd.

The plan is emergency services will start moving to this new network in September 2017 and the process will be complete by December 2019.

It is estimated to cost £1.2bn from April 2015 to March 2020. After this date the ESN is expected to save money compared to Airwave, the current provider.

### Barclays changes LOBO loans to fixed rate loans

Following a period of public scrutiny Barclays has changed its Lender Option Borrower Option (LOBO) Loans to Councils and Local Authorities to a fixed rate basis. The LOBO's had initially been offered at lower rates than the other main source of public sector funding the Public Works Loan Board (PWLB) however Barclays always retained the right to adjust the interest rate. This had come under scrutiny and it was argued didn't offer value for money for taxpayers. A series of objections by local electors have been made to the 2015-16 accounts of 24 local authorities that have taken out LOBO loans. The objections predominantly argued that the decision to take out LOBO loans was irrational and unreasonable, and thereby unlawful. Appointed auditors are currently considering these objections under the legal framework for objections contained in the Local Audit and Accountability Act 2014.

Under the changes Barclays has stated that over 100 local authorities and housing associations will benefit from the change. It will also give such bodies much more certainty over their finances in the future as it will remove an element of uncertainty attached with the nature of the loans by locking the loans in at a fixed rate for the duration of the loans. Barclays said that clients impacted had been notified of the change in June 2016.



# Accounting, auditing and governance

---

## PSAA as appointing person

In July 2016, the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation three of the Local Audit (Appointing Person) Regulations 2015. This means that PSAA can make auditor appointments for audits of the accounts from 2018/19 of principal authorities that choose to opt into its arrangements.

Appointments for 2018/19 must be made by 31 December 2017. Details of the scheme as well as a timetable will be available soon.

## Governing culture: practical considerations for the board and its committees

Corporate culture has been a hot topic for many years now and we are finding Boards and Audit Committees are starting to question more and more how they can ensure proper oversight. The EY Corporate Governance team have prepared a report that summarises the findings of the recent EY and FT board survey on culture and their own work at individual organisations.

We would define culture as the collective values and beliefs that exist in an organisation, or parts of an organisation, that inform and influence behaviours, actions and decision making. Culture can then be split into four organisational pillars:

- ▶ Political architecture: where does power lie and how is it used?
- ▶ Performance architecture: how do economic and performance objectives drive behaviour?
- ▶ Social architecture: what values govern relationships and what behaviours do these drive?
- ▶ Operational architecture: how do organisational frameworks, systems and processes affect behaviour?

Audit committees have a unique role to play in the governance of culture, which can directly affect internal control processes, risk management and the integrity of the financial statements. The Corporate Governance team included the following key messages for the audit committee:

- ▶ The audit committee should understand how culture can impact the effectiveness of risk mitigation strategies and support decision making throughout the company in line with the risk appetite determined by the board
- ▶ The committee should consider the cultural context for performance and results and the integrity of the financial statements
- ▶ Data analytics can help the committee create a picture of culture throughout the company, including across international locations. This data should form part of the overall analysis that is used to drive further assurance and oversight efforts
- ▶ The committee should be aware of cultural factors that can influence the relationship with the external auditor. It should use internal audit as a resource for monitoring and championing the desired culture throughout the organisation

If you have any questions on culture or corporate governance then please speak to your external audit team who will be able to provide information on the various pieces of work we have done, and could do, for your organisation.



# Regulation news

---

## Gender Pay Gap

Subject to the approval by Parliament the regulations for mandatory reporting on the gender pay gap will come into force during October 2016. However, employers will have around 18 months from commencement to publish the required information for the first time.

Employers with 250 or more employees will fall within the scope of the regulations.

### Pay

The regulations will require employers to publish their overall mean and median gender pay gaps as they are complementary indicators. As well as giving employers a better understanding of any pay gaps identified, this will facilitate comparisons with national and international figures.

### Bonus

Employers within scope will need to publish the difference between the mean bonus payments paid to men and women (regulation 6). The mean takes into account the full distribution of bonuses paid by an employer. Only those employees who receive 10 bonuses should be included in the calculation. Employers will also be required to publish the proportion of male and female employees that received a bonus.

## Salary Quartiles

Employers will be required to report on the number of men and women in each quartile of their pay distribution (regulation 7). Quartiles split into four equal groups, where each group contains a quarter of the data. Employers will calculate their own salary quartiles based on their overall pay range. The objective is to identify the numbers of women and men in each quarter by the overall pay distribution. This is straightforward to produce and will help employers consider where women are concentrated in terms of their remuneration, and if there are any blockages to their progression.

### Impact

This is not yet a disclosure requirement but is something that could emerge in the future.



## Key questions for the audit committee

---

### **What questions should the Audit Committee be asking itself?**

What actions are being taken to consider the impact of the UK's decision to leave the European Union?

Do we have appropriate governance arrangements in place to facilitate the delivery of the STP?

Are we ready for the changes to exit package calculations?

If you are an administering authority has the impact of the proposed changes to the new pension investment scheme been considered and how the local authority will go about determining the value of their own investment?

Did your local authority have a Barclays LOBO and if so have the impact of the changes made by Barclays been considered by your organisation?

Has the local authority got a plan in place to appoint an external auditor before 31 December 2017?

How thoroughly has the committee discussed the impact of culture on risk, risk management and the internal control environment?

Are there systems in place to be able to calculate the gender pay gap, ensuring your organisation is prepared if this does become a requirement?



## Find out more

---

### **EY Item Club**

<http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections>

### **Sustainability and transformation plans**

<https://www.england.nhs.uk/wp-content/uploads/2016/02/stp-footprints-march-2016.pdf>

<https://www.kingsfund.org.uk/projects/sustainability-and-transformation-plans>

### **Exit packages**

<http://www.publicfinance.co.uk/news/2016/09/treasury-confirms-public-sector-pay-offs-be-capped-ps95k>

### **Pension investment schemes**

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/479642/Consultation\\_on\\_investment\\_reform.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479642/Consultation_on_investment_reform.pdf)

### **Revaluation of business rates**

<https://www.gov.uk/government/news/government-promises-fairer-bills-for-business-across-the-country>

### **Schools conversion to academies dropped**

<http://www.bbc.co.uk/news/education-37791282>

and

<https://www.gov.uk/government/collections/technical-and-further-education-bill>

### **Public sector borrowing**

<http://www.publicfinance.co.uk/news/2016/09/public-sector-borrowing-falls-august>

### **The Emergency Services Network**

<https://www.nao.org.uk/wp-content/uploads/2016/09/Upgrading-emergency-service-communications-the-Emergency-services-Network.pdf>

### **Barclays changes LOBO loans to fixed rate loans**

<http://www.publicfinance.co.uk/news/2016/09/barclays-ditches-lobo-loans>

### **PSAA as appointing person**

<http://www.psaa.co.uk/2016/08/news-release-psaa-specified-as-appointing-person/>

### **Governing culture: practical considerations for the board and its committees**

<http://www.ey.com/uk/en/issues/governance-and-reporting/corporate-governance/ey-governing-culture---practical-considerations-for-the-board-and-its-committees>

### **Gender Pay Gap**

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/504398/GPG\\_consultation\\_v8.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504398/GPG_consultation_v8.pdf)

#### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

#### Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2016 Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

ED None

EY-000014045.indd (UK) 11/16. Artwork by Creative Services Group Design.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

[ey.com/uk](http://ey.com/uk)

<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 7</b>
<b>DATE OF MEETING:</b>	<b>14<sup>th</sup> DECEMBER 2016</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE and CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:kevin.stackhouse@south-derbys.gov.uk">kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/audit/internal audit/quarterly reports/quarterly report cover
<b>SUBJECT:</b>	<b>INTERNAL AUDIT PROGRESS REPORT</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 02</b>

## **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 between 1<sup>st</sup> September and 30<sup>th</sup> November 2016.

## **3.0 Detail**

- 3.1 The detailed 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 – Internal Audit Progress Report

Audit Sub-Committee: 14<sup>th</sup> December 2016



## Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

## Contacts

Richard Boneham  
Head of the Audit Partnership  
c/o Derby City Council  
Council House  
Corporation Street  
Derby  
DE1 2FS  
Tel. 01332 643280  
richard.boneham@derby.gov.uk

Adrian Manifold  
Audit Manager  
c/o Derby City Council  
Council House  
Corporation Street  
Derby  
DE1 2FS  
Tel. 01332 643281  
adrian.manifold@centralmidlands  
audit.co.uk

## Contents

## Page

Summary	3
Audit Coverage	4
Plan Changes	7
Audit Performance	8
Audit Performance	10
Recommendation Tracking	11



# South Derbyshire District Council – Internal Audit Progress Report

## Summary

### Role of Internal Audit

The Internal Audit Service for South Derbyshire District Council is provided by the Central Midlands Audit Partnership (CMAP). The Partnership operates in accordance with standards of best practice applicable to Internal Audit (in particular, the Public Sector Internal Audit Standards – PSIAS). CMAP also adheres to the Internal Audit Charter.

The role of internal audit is to provide independent assurance that the organisation's risk management, governance and internal control processes are operating effectively.

### Recommendation Ranking

To help management schedule their efforts to implement our recommendations or their alternative solutions, we have risk assessed each control weakness identified in our audits. For each recommendation a judgment was made on the likelihood of the risk occurring and the potential impact if the risk was to occur. From that risk assessment each recommendation has been given one of the following ratings:

- Critical risk.
- Significant risk.
- Moderate risk
- Low risk.

These ratings provide managers with an indication of the importance of recommendations as perceived by Audit; they do not form part of the risk management process; nor do they reflect the timeframe within which these recommendations can be addressed. These matters are still for management to determine.

### Control Assurance Definitions

Summaries of all audit reports are to be reported to Audit Sub-Committee together with the management responses as part of Internal Audit's reports to Committee on progress made against the Audit Plan. All audit reviews will contain an overall opinion based on the adequacy of the level of internal control in existence at the time of the audit. This will be graded as either:

- **None** - We are not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks were not being well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Limited** - We are able to offer limited assurance in relation to the areas reviewed and the controls found to be in place. Some key risks were not well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Reasonable** - We are able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks were well managed, but some systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Comprehensive** - We are able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls were in place and operating effectively and risks against the achievement of objectives were well managed.

This report rating will be determined by the number of control weaknesses identified in relation to those examined, weighted by the significance of the risks. Any audits that receive a None or Limited assurance assessment will be highlighted to the Audit Sub-Committee in Audit's progress reports.

## South Derbyshire District Council – Internal Audit Progress Report

### Audit Coverage

#### Progress on Audit Assignments

The following table provide Audit Sub-Committee with information on how audit assignments were progressing as at 30<sup>th</sup> November 2016.

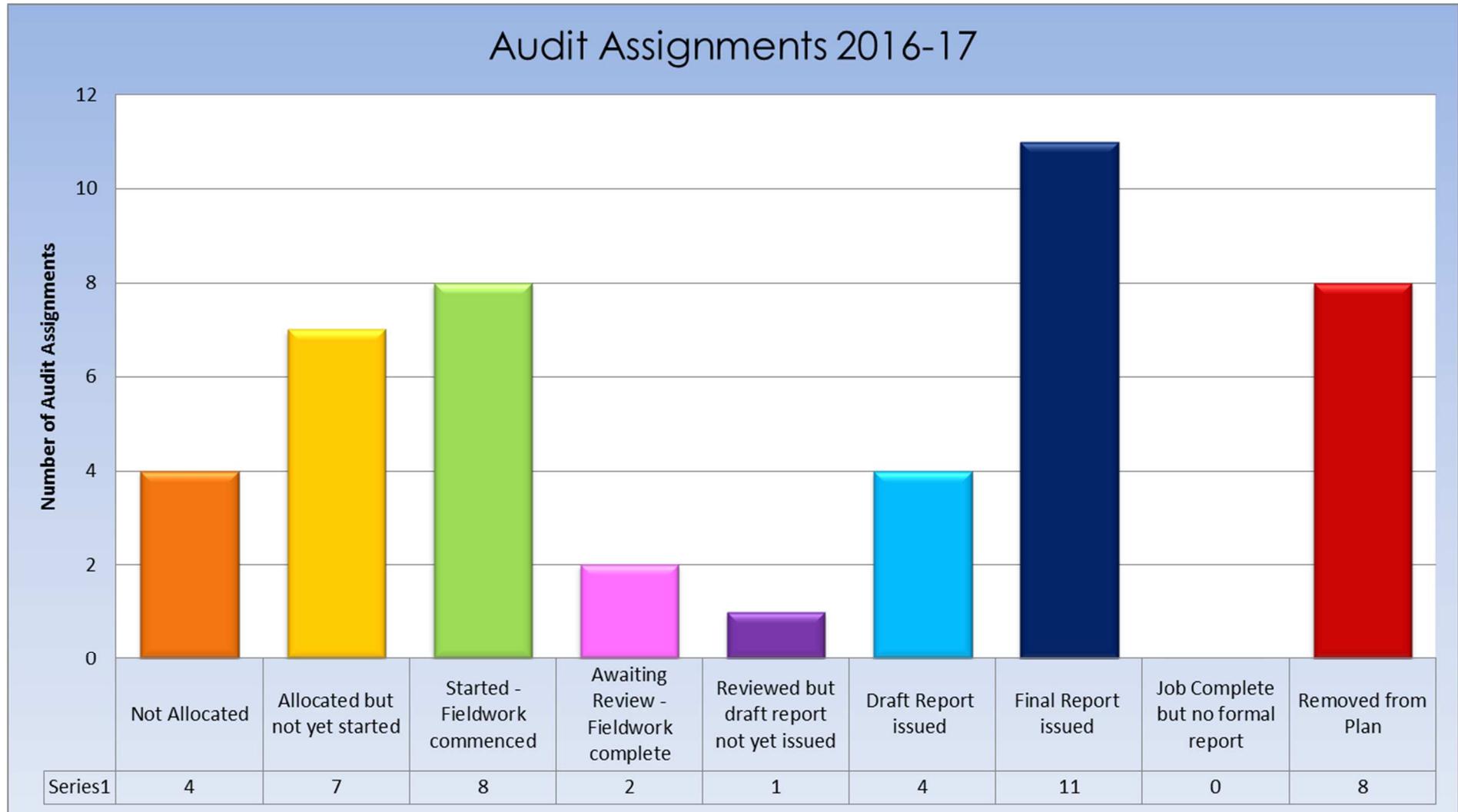
Audit Plan Assignments	Type of Audit	Current Status	% Complete
Treasury Management 2016-17	Key Financial System	In Progress	70%
Banking Services	Systems/Risk Audit	In Progress	65%
Taxation	Systems/Risk Audit	Allocated	20%
Council Tax 2016-17	Key Financial System	Reviewed	90%
NDR 2016-17	Key Financial System	Fieldwork Complete	80%
Housing Benefit & Council Tax Support 2016-17	Key Financial System	In Progress	70%
Creditors 2016-17	Key Financial System	Allocated	20%
Debtors 2016-17	Key Financial System	Allocated	20%
Data Quality & Performance Management	Governance Review	Allocated	15%
Safeguarding	Governance Review	Allocated	10%
Land Charges	Systems/Risk Audit	Draft Report	95%
Leisure Centres	Systems/Risk Audit	In Progress	25%
Allocations & Homelessness	Systems/Risk Audit	Final Report	100%
Parks & Open Spaces	Systems/Risk Audit	In Progress	30%
Gypsy Sites	Systems/Risk Audit	Fieldwork Complete	80%
Empty Homes HCA Grant 2016-17	Grant Certification	Draft Report	95%
Main Accounting System (MTFP) 2015-16	Key Financial System	Final Report	100%
Change & Configuration Management	IT Audit	In Progress	75%
Client Monitoring - Corporate Services Contract	Procurement/Contract Audit	In Progress	55%
Petty Cash & Inventories	Systems/Risk Audit	Draft Report	95%
Fixed Assets 2015-16	Key Financial System	In Progress	70%
Whistleblowing Investigation	Investigation	Draft Report	95%
Whistleblowing Investigation 2	Investigation	Allocated	5%
Housing Contracts Review	Investigation	Allocated	5%

Another 4 planned assignments (not shown above) have not been allocated yet. Another 9 finalised assignments (not shown above) have already been reported to this Committee.

# South Derbyshire District Council – Internal Audit Progress Report

## Audit Coverage

Progress on Audit Assignments Chart



# South Derbyshire District Council – Internal Audit Progress Report

## Audit Coverage

### Completed Audit Assignments

Between 1<sup>st</sup> September 2016 and 30<sup>th</sup> November 2016, the following audit assignments have been finalised since the last Progress Report was presented to this Committee (the overall control assurance rating is shown in brackets):

- Housing Allocations & Homelessness (**Comprehensive**).
- Main Accounting (MTFP) 2015-16 (**Comprehensive**).

No audits attracted a 'Limited' control assurance rating during the period and as such it is not necessary to bring any particular assignment to the Sub-Committee's attention.

The following paragraphs summarise the internal audit work completed in the period.

#### Housing Allocations & Homelessness

Overall Control Assurance Rating: **Comprehensive**

This audit focused on reviewing the adequacy of controls within the housing allocations process which ensure that allocations and tenancies created are valid and that measures to manage homelessness are appropriate.

From the 25 key controls evaluated in this audit review, 23 were considered to provide adequate control and 2 contained partial weaknesses. The report did not contain any recommendations. Only 2 minor risk issues were highlighted for management's consideration and we do not intend to formally follow up either of these issues.

#### Main Accounting (MTFP) 2015-16

Overall Control Assurance Rating: **Comprehensive**

This audit focused on ensuring that the model underpinning the Council's Medium Term Financial Plan (MTFP) was accurate and free

from error. It also sought to ensure that there was an established protocol in respect of the Council's earmarked reserves.

From the 21 key controls evaluated in this audit review, 12 were considered to provide adequate control and 9 contained weaknesses. The report contained 6 recommendations, all of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- The password configuration for access to the MTFP spreadsheet was weak and therefore provided the potential for unauthorised officers to access the information and make unsanctioned changes to the financial data. (**Low Risk**)
- The "tracked changes" facility within the MTFP spreadsheet had not been activated, to allow for an audit trail of changes made to the information to be held. (**Low Risk**)
- Changes made to the Council's MTFP model were not being verified to original source data to confirm their accuracy. (**Low Risk**)
- The MTFP model was not subject to review or logic inspection by an officer who was independent of its use. (**Low Risk**)
- Critical information within the MTFP spreadsheet model had not been protected to prevent accidental change or unauthorised amendment. (**Low Risk**)
- The Council had not established a protocol setting out specific details regarding its earmarked reserves in accordance with best practice guidance issued by CIPFA's Local Authority Accounting Panel and the Council's Financial Procedure Rules. (**Low Risk**)

All 6 issues raised within this report were accepted. Action had already been taken to address 3 of the issues raised by the end of the audit, with action being agreed to be taken by 31<sup>st</sup> October 2016 to address the remaining 3 issues.

## South Derbyshire District Council – Internal Audit Progress Report

---

### Plan Changes

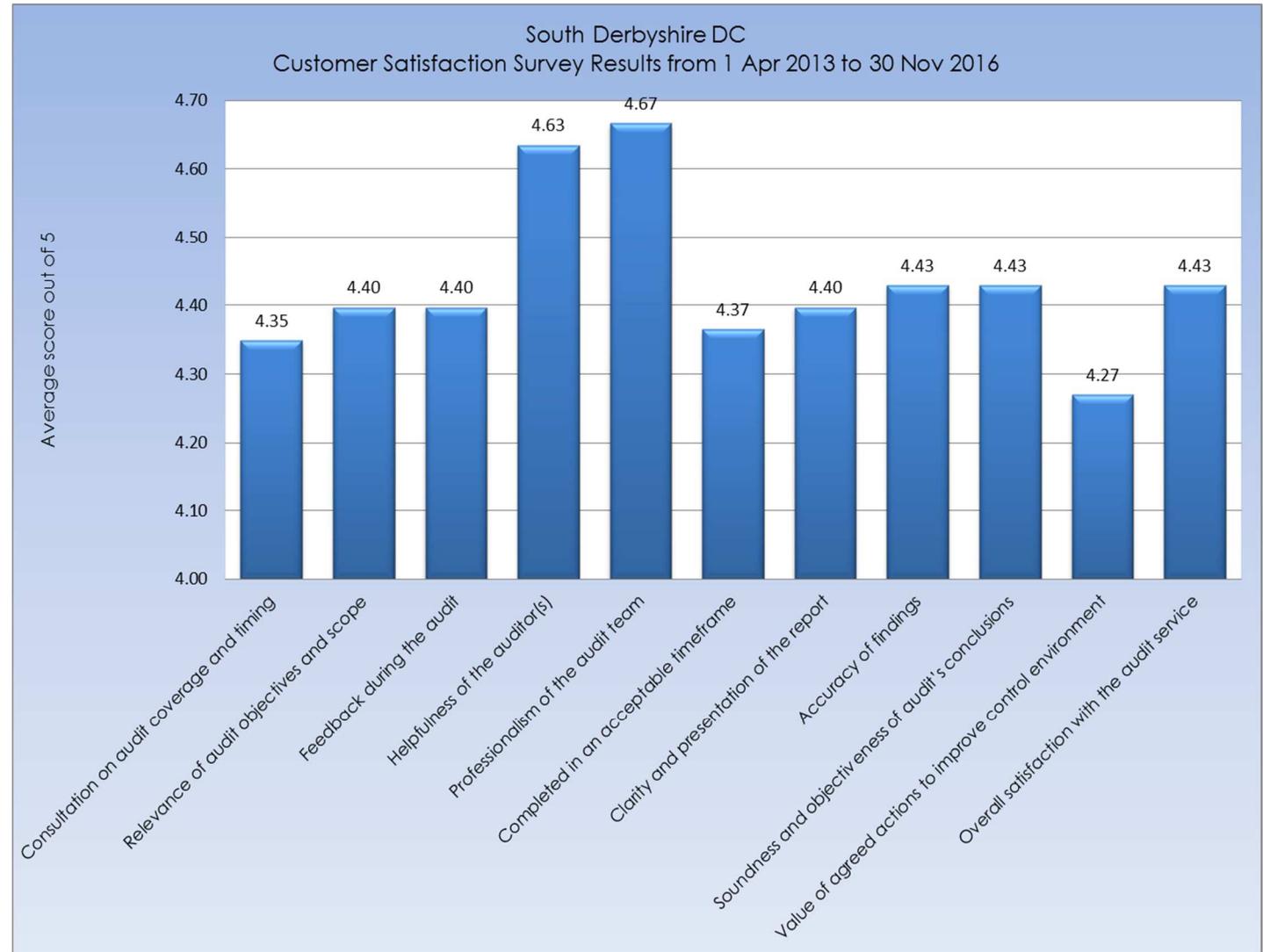
During this period it has again been necessary to make some alterations to this year's Audit Plan. This is due to the ongoing assistance being provided to support the Council's Whistleblowing Investigation. As such it has now been necessary to remove the Records Management, Anti-Fraud & Corruption and some planned IT Audit work from this year's Plan to accommodate the time already spent dealing with the Whistleblowing issue and further matters identified by the Whistleblower and supplementary work requested by the S151 Officer.

# South Derbyshire District Council – Internal Audit Progress Report

## Audit Performance

### Customer Satisfaction

The Audit Section sends out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent. The chart across summarises the average score for each question from the 63 responses received between 1<sup>st</sup> April 2013 and 30<sup>th</sup> November 2016. The overall average score from the surveys was 4.88 out of 5. The lowest score received from a survey was 4.0, whilst the highest was 5.5 which was achieved on 7 occasions.



# South Derbyshire District Council – Internal Audit Progress Report

## Audit Performance

### Customer Satisfaction

Since 1<sup>st</sup> April 2013, we have sent 93 Customer Satisfaction Surveys (CSS) to the recipients of audit services. Of the 93 sent we have received 63 responses.

30 Customer Satisfaction Surveys have not been returned which have already been reported to this Committee and relate to assignments undertaken in previous plan years. Responses to these surveys will no longer be pursued as responses are unlikely to be reliable after this length of time.

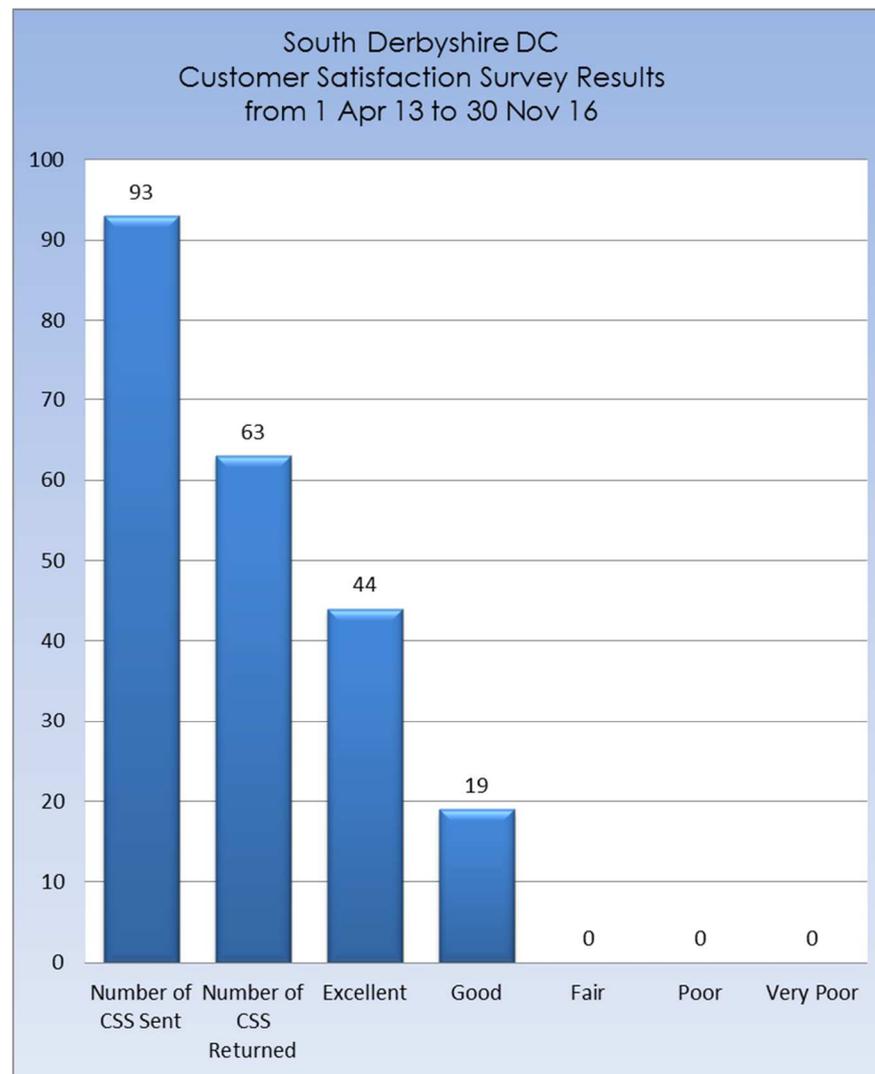
The following Customer Satisfaction Survey has yet to be returned from the period:

Job Name	CSS Sent	Officer
Allocations & Homelessness	14-Sep-16	Director of Housing

The overall responses are graded as either:

- Excellent (scores 47 to 55)
- Good (scores 38 to 46)
- Fair (scores 29 to 37)
- Poor (scores 20 to 28)
- Very poor (scores 11 to 19)

Overall 44 of 63 responses categorised the audit service they received as excellent, another 19 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.



# South Derbyshire District Council – Internal Audit Progress Report

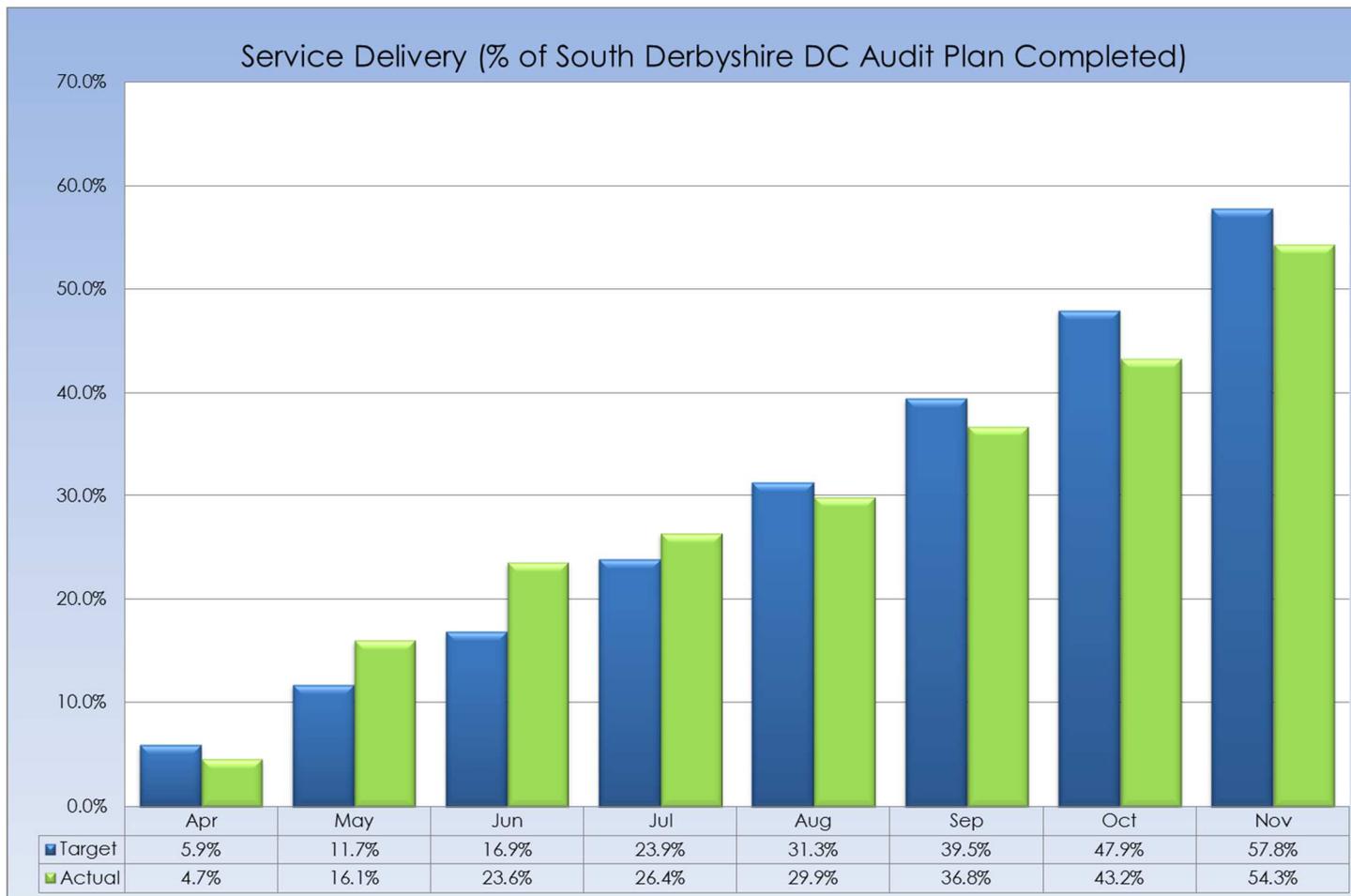
## Audit Performance

### Service Delivery (% of Audit Plan Completed)

At the end of each month, Audit staff provide the Audit Manager with an estimated percentage complete figure for each audit assignment they have been allocated. These figures are used to calculate how much of each Partner organisation's Audit Plans have been completed to date and how much of the Partnership's overall Audit Plan has been completed.

Shown across is the estimated percentage complete for South Derbyshire's 2016-17 Audit Plan (including incomplete jobs brought forward) after 8 months of the Audit Plan year.

The monthly target percentages are derived from equal monthly divisions of an annual target of 91% and do not take into account any variances in the productive days available each month.



# South Derbyshire District Council – Internal Audit Progress Report

## Recommendation Tracking

### Follow-up Process

Internal Audit sends emails, automatically generated by our recommendations database, to officers responsible for action where their recommendations' action dates have been exceeded. We request an update on each recommendation's implementation status, which is fed back into the database, along with any revised implementation dates.

Prior to the Audit Sub-Committee meeting we will provide the relevant Senior Managers with details of each of the recommendations made to their divisions which have yet to be implemented. This is intended to give them an opportunity to provide Audit with an update position.

Each recommendation made by Internal Audit will be assigned one of the following "Action Status" categories as a result of our attempts to follow-up management's progress in the implementation of agreed actions. The following explanations are provided in respect of each "Action Status" category:

- **Action Due** = Action is due and Audit has been unable to ascertain any progress information from the responsible officer.
- **Future Action** = Action is not due yet, so Audit has not followed up.
- **Implemented** = Audit has received assurances that the agreed actions have been implemented.
- **Superseded** = Audit has received information about changes to the system or processes that means that the original weaknesses no longer exist.
- **Risk Accepted** = Management has decided to accept the risk that Audit has identified and take no mitigating action.

- **Being Implemented** = Management is still committed to undertaking the agreed actions, but they have yet to be completed. (This category should result in a revised action date).

### Implementation Status Details

The table below is intended to provide members with an overview of the current implementation status of all agreed actions to address the control weaknesses highlighted by audit recommendations that have passed their agreed implementation dates.

	Implemented	Being implemented	Risk Accepted	Superseded	Action Due	Future Action	Total
Low Risk	456	12	13	6	0	6	<b>493</b>
Moderate Risk	94	5	2	4	1	0	<b>106</b>
Significant Risk	7	0	0	0	0	0	<b>7</b>
Critical Risk	0	0	0	0	0	0	<b>0</b>
	<b>557</b>	<b>17</b>	<b>15</b>	<b>10</b>	<b>1</b>	<b>6</b>	<b>606</b>

The table below shows those recommendations not yet implemented by Dept.

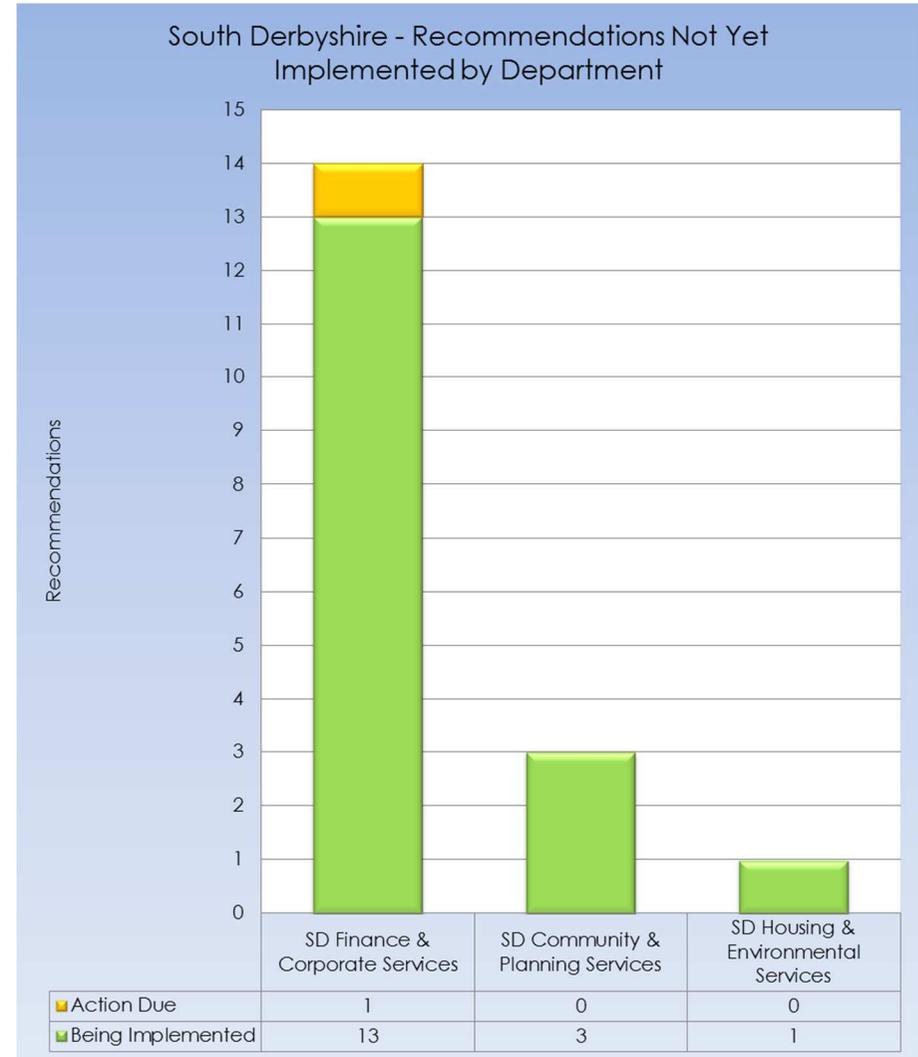
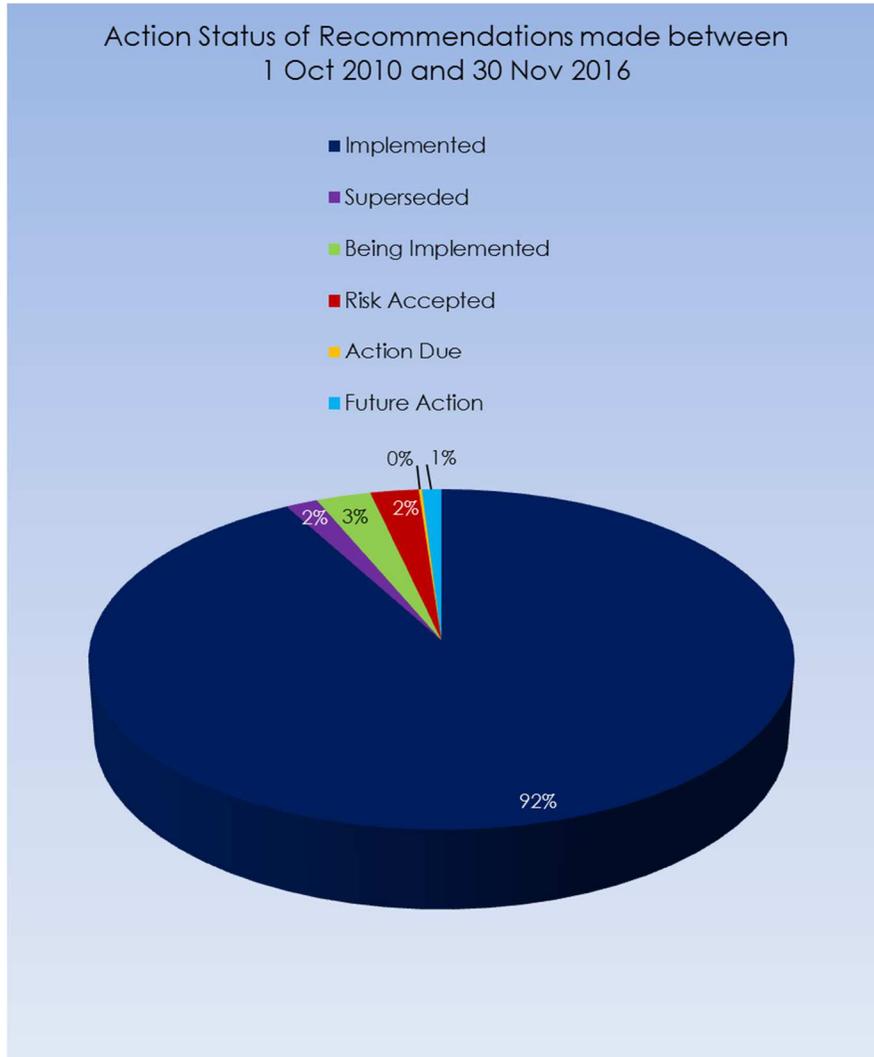
Recommendations Not Yet Implemented	Corporate Services	Community & Planning Services	Housing & Environmental Services	TOTALS
Being Implemented	13	3	1	<b>17</b>
Action Due	1	0	0	<b>1</b>
	<b>14</b>	<b>3</b>	<b>1</b>	<b>18</b>

Internal Audit has provided Committee with summary details of those recommendations still in the process of 'Being Implemented' and those that have passed their due date for implementation. As stated earlier in this report, we will now only provide full details of each moderate, significant or critical risk issue where management has decided not to take any mitigating actions (shown in the 'Risk Accepted' category above). All the risk accepted issues shown above have already been reported to this Committee.

# South Derbyshire District Council – Internal Audit Progress Report

## Recommendation Tracking

### Implementation Status Charts



# South Derbyshire District Council – Internal Audit Progress Report

## Recommendation Tracking

### Recommendations Not Yet Implemented

At a previous meeting we agreed that we would no longer bring every outstanding recommendation in detail to this Committee. Instead we have sought to highlight those which we believe deserve Committee's attention, either through the level of risk associated with the control issue or the length of the delay in implementing agreed actions or our inability to obtain satisfactory progress information from Management. Accordingly, the following are detailed for Committee's scrutiny:

#### Corporate Services

##### Car Allowances

**Control Issue 4** - A neighbouring Authority has revised its car user allowance scheme and introduced a new scheme which has removed the essential user lump sum and pays one mileage rate to both types of user. This will enable the Authority to make significant savings in future years.

**Risk Rating** – Low Risk

**Status Update** - This will be considered as part of the pay and grading review in 2016/17.

**Original Action Date** 30 Jun 11      **Revised Action Date** 1 Apr 17

##### Council Tax / NNDR / Cashiering 2013-14

**Control Issue 3** – The error reports and zero liability bills highlighted by the Council Tax billing runs had not been corrected.

**Risk Rating** – Low Risk

**Status Update** –The exercise is being treated as data cleansing from the implementation of Academy, and will be a task allocated to apprentices. Staff shortages led to this being returned to a low priority status, to revisit in summer once annual billing and year end are out of the way. Continued lack of resource has impacted on progress. Further request for a 12 month extension due to NDR revaluation taking priority.

**Original Action Date** 31 Dec 14      **Revised Action Date** 31 Oct 17

##### Risk Management

**Control Issue 4** – Although the FIU Annual Report acted as a Fraud Plan and an Internal Audit Plan was developed on an annual basis, there was not a clear link between the two, and officers working in the Fraud Investigation Unit indicated that there was opportunity for clo.

**Risk Rating** – Low Risk

**Status Update** – Recruitment to the DCC Fraud Service has now been completed and the new team established, which the Council will be buying into. It is planned to develop a Fraud Plan in conjunction with the Annual Audit Plan which will be reported to the Committee on 29<sup>th</sup> March 2017.

**Original Action Date** 31 Dec 15      **Revised Action Date** 29 Mar 17

##### Information@Work

**Control Issue 1** – There were 224 accounts within the SDDC\Domain Images and/or SODOR\Domain Images groups which did not have an active application account in Information@Work. This could be exploited to bypass the application and expose the highly personal and sensitive data.

**Risk Rating** – Low Risk

**Status Update** – No Response Received.

**Original Action Date** 31 Oct 16      **Revised Action Date**

## South Derbyshire District Council – Internal Audit Progress Report

### Council Tax / NNDR / Cashiering 2014-15

**Control Issue 2** – Credit balances on accounts were left until claimed by the customer, but the only action to notify the customer of the credit was when an adjustment notice was issued. If this was not responded to, the credit would stay on the account with no further action being taken.

**Risk Rating** – Low Risk

**Status Update** Progressing but not yet complete.

**Original Action Date** 31 Mar 16      **Revised Action Date** 31 Dec 16

### Declaration of Interest

**Control Issue 2** – A Declarations of Interest Policy did not exist and the Employee's and Members Codes of Conduct did not cover all of the expected areas within a Policy of this kind.

**Risk Rating** – Low Risk

**Status Update** Planning to put this policy before Full Council in April for approval.

**Original Action Date** 31 May 16      **Revised Action Date** 30 Apr 17

### Council Tax / NNDR / Cashiering 2015-16

**Control Issue 2** – Recovery of Council Tax debt was being hindered as data on Council Tax accounts were not being cleansed, to maintain relevance and accuracy. It was not immediately obvious which debts were longstanding irrecoverable debts on indefinite hold (which could be written off) and which were current debts on hold that needed to be progressed.

**Risk Rating** – Moderate Risk

**Status Update** – The review of outstanding debts and cleansing of records is a large-scale job which requires resource allocation – a revised action-by date has been agreed for the end of March 2017 and will be included going forward as an end-of-year task.

**Original Action Date** 30 Jun 16      **Revised Action Date** 31 Mar 17

**Control Issue 6** – Permanent recovery holds were in place on accounts for precepting bodies which prevented simple reminders being issued when a debt remained unpaid. As recovery action was not taking place, the accounts should have been subject to review and any unpaid amounts pursued.

**Risk Rating** – Moderate Risk

**Status Update** – Initial discussions have commenced in the best way to carry out a yearly review of internal and precepting bodies accounts. This needs to be a cost effective work process dealing with the accounts in bulk not individually.

**Original Action Date** 1 Aug 16      **Revised Action Date** 31 Mar 17

### Business Continuity

**Control Issue 11** – The Business Impact Assessment had received no recent formal update. There was no documentation to support any updates in recent years.

**Risk Rating** – Moderate Risk

**Status Update** - I was hoping to have the BC plan closer to completion but as reported to the resilience liaison group on 23<sup>rd</sup> I intend to have the updated version available before the Christmas break. The target for completion of outstanding items (except test of the plan) is now Dec 31<sup>st</sup>. The testing is expected during early 2017. Termination of the Northgate contract has been brought forward to 31<sup>st</sup> January 2017. During early 2017 a revision of many emergency documents will be necessary to reflect this change.

**Original Action Date** 30 Sep 15      **Revised Action Date** 31 Dec 16

## South Derbyshire District Council – Internal Audit Progress Report

### CRM Security Assessment

**Control Issue 1** – The CRM databases were housed on a SQL Server 2005 SP2 system. Support for SQL Server 2005 SP2 ended in 2007. Unsupported database software is exposed to newly discovered security vulnerabilities or functionality bugs, which could be exploited to jeopardise the confidentiality, availability and integrity of the CRM user data.

**Risk Rating** – Low Risk

**Status Update** – Currently testing the new CRM upgrade. Remaining effort before go-live is 10 days of IT testing. In addition the customer services team are also testing, and so are the Depot team. Go-live estimate October / November 2016.

**Original Action Date** 30 Apr 15      **Revised Action Date** 30 Nov 16

**Control Issue 3** – There were a number of configurations and maintenance issues exposing the SQL Server to serious performance and reliability issues. This could ultimately impact on the performance and availability of the Councils CRM application which would affect service delivery.

**Risk Rating** – Moderate Risk

**Status Update** - Currently testing the new CRM upgrade. Remaining effort before go-live is 10 days of IT testing. In addition the customer services team are also testing, and so are the Depot team. Go-live estimate: October / November 2016.

**Original Action Date** 31 Aug 15      **Revised Action Date** 30 Nov 16

### Data Quality & Performance Management 2014-15

**Control Issue 6** – There was no documented methodology for producing the Speed of Planning Applications performance figures.

**Risk Rating** – Low Risk

**Status Update** – The Planning Section were originally waiting for Northgate PS to supply the necessary software required for a system update before they recorded the required process. Northgate have now provided the upgrade (in a fashion) to accommodate the statutory requirements. This

only occurred within the last few months and we have still been working out how our processes work around these updates. A new member of staff has started mapping the process but it became very complicated so we stopped. The government have now also told us that they have changed the report again. We think that this will mean Northgate changing their report again. We will still continue to map the process assuming that Northgate will comply. This won't be completed until the end of January 2017.

**Original Action Date** 1 Jul 15      **Revised Action Date** 1 Feb 17

## Housing & Environmental Services

### Depot Health & Safety

**Control Issue 5** – Not all managers had undergone Health and Safety training specifically geared towards managers and their responsibilities as the employer.

**Risk Rating** – Low Risk

**Status Update** - Direct Services has just undergone a restructure and new posts established due to the nature of the restructure a revised date for completion is required.

**Original Action Date** 31 Mar 16      **Revised Action Date** 31 Dec 16

## Community & Planning Services

### Planning & Building Control Fees

**Control Issue 3** – Income received via the planning portal was not readily identifiable within the Council's Financial Information system.

**Risk Rating** – Low Risk

**Status Update** – NGPS call logged but no suitable / practical solution provided.

**Original Action Date** 31 Jul 15      **Revised Action Date** 31 Dec 16

## South Derbyshire District Council – Internal Audit Progress Report

---

### Bereavement Services

**Control Issue 2** – The Council's website did offer the option of extending the exclusive rights of burial for a further 25 years at the end of a 50 year term, but it was not clear as to what the procedure or cost would be should the request be made.

**Risk Rating** – **Low Risk**

**Status Update** – A policy decision from members would be required as to a charge being set as not one currently listed in the Fees & Charges structure. We will include a charge in this year's budget setting, web site has been updated and policy and charges will be updated once formalised. Seeking advice on policies and pricing through APSE. Once feedback/advice has been received a new policy will be written on the extension of Grants. Hopefully this will be ready Sept/Oct to be included within the fee setting programme for 2017/18.

**Original Action Date** 31 Mar 15      **Revised Action Date** 1 Dec 16

---

### Rosliston Forestry Centre

**Control Issue 5** – There was not a maintenance plan in place for Rosliston Forestry Centre. Historic inspections and Condition Surveys flagged multiple issues at the site over a number of years, but these were not addressed due to financial restrictions.

**Risk Rating** – **Moderate Risk**

**Status Update** – Further to the departure of the Facilities Development Officer who led on the Condition survey this action has not been followed up. However a meeting was being set up with Aurora, Forestry Commission and the Council's new Project Officer to follow up with regard to both the existing and new contract.

**Original Action Date** 31 Aug 16      **Revised Action Date** 31 Jan 17

---

---

<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 8</b>
<b>DATE OF MEETING:</b>	<b>14<sup>th</sup> DECEMBER 2016</b>	<b>CATEGORY:</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE and CORPORATE SERVICES</b>	<b>RECOMMENDED</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:richard.boneham@derby.gov.uk">richard.boneham@derby.gov.uk</a>	<b>DOC:</b> u/ks/internal audit/derby city/PSIA/audit charter cover
<b>SUBJECT:</b>	<b>INTERNAL AUDIT CHARTER</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 02</b>

---

## **1.0 Recommendations**

- 1.1 That the Internal Audit Charter for the Central Midlands Audit Partnership (CMAP) is approved.

## **2.0 Purpose of Report**

- 2.1 In accordance with the Public Sector Audit Standards that came into force on 1<sup>st</sup> April 2013, the report sets out an updated Audit Charter for Internal Audit.

## **3.0 Detail**

- 3.1 In accordance with Auditing Standards, Internal Audit is required to work under a Charter. This is designed to provide the Council and other stakeholders with a formally defined purpose, authority and responsibility of their Internal Audit activity as well providing arrangements for avoiding conflicts of interest.

- 3.2 The original Charter was approved by the Committee in December 2013. It has been updated to reflect that the Audit Partnership (CMAP) which provides the Council's Internal Audit Service, has been expanded to include other partners. CMAP is now comprised of:

- Derby City Council
- South Derbyshire District Council
- Derby Homes
- Amber Valley Borough Council
- Derbyshire Fire and Rescue Service
- Ashfield District Council

- 3.3 The updated Charter is appended. It will be reviewed on an annual basis.

## **4.0 Financial Implications**

4.1 None.

## **5.0 Legal Implications**

5.1 The Authority is obliged under the Accounts and Audit Regulations (England) 2015 to maintain an effective internal audit. The Charter sets out the broad framework for delivering good governance in this area.

## **6.0 Corporate Implications**

6.1 None

## **7.0 Community Implications**

7.1 None

## **8.0 Background Papers**

8.1 None

# Internal Audit Charter

## Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

Richard Boneham  
Head of Governance & Assurance  
c/o Derby City Council  
Council House  
Corporation Street  
Derby  
DE1 2FS  
Tel. 01332 643280  
richard.boneham@derby.gov.uk

Adrian Manifold  
Audit Manager  
c/o Derby City Council  
Council House  
Corporation Street  
Derby  
DE1 2FS  
Tel. 01332 643281  
adrian.manifold@centralmidlandsaudit.co.uk



## Table of Contents

1	Introduction.....	4
1.1	Background.....	4
1.2	Content.....	4
1.3	Definitions.....	4
2	Standards .....	6
2.1	Responsibilities.....	6
2.2	Objectives.....	6
2.3	Independence .....	7
2.4	Reporting Lines & Relationships.....	7
2.5	Professionalism .....	8
2.6	Internal Audit Remit.....	8
2.7	Review of Control Environment.....	8
2.8	Resources.....	9
2.9	Audit Opinion .....	9
2.10	Anti-Fraud / Consultancy Work.....	10
2.11	Authority (Rights of Access) & Confidentiality .....	10
2.12	Quality Assurance & Improvement Programme (QAIP) .....	10
2.13	Charter Review .....	11

## 1 Introduction

### 1.1 Background

- 1.1.1 This Charter provides partner organisations and stakeholders with a formally defined purpose, authority and responsibility of their Internal Audit activity as well providing arrangements for avoiding conflicts of interest.

It has been developed in accordance with the Public Sector Internal Audit Standards (PSIAS) which took effect from 1<sup>st</sup> April 2013 and demonstrates that the Central Midlands Audit Partnership is adhering with this Standard.

The PSIAS are based upon the Institute of Internal Auditors (IIA) mandatory guidance which includes a Definition of Internal Auditing, a Code of Ethics and the International Standards for the Professional Practice of Internal Auditing.

Each year, the Head of the Audit Partnership will, in consultation with the Operational Management Board, review this Charter, and submit any recommended amendments, to the Partnership Board for review and approval.

- 1.1.2 Annually the Head of the Audit Partnership will assess Internal Audit's compliance with PSIAS by completing the Compliance Checklist prepared by CIPFA. The results of this self assessment will be reported to the Partnership Board.

A Quality Assurance and Improvement Programme (QA&IP) will need to be in place requiring both internal and external assessments. The external assessment will be required at least every 5 years. The Head of the Audit Partnership is required to include a statement on the results of the QA&IP in the annual report. The external assessment must be carried out by a qualified and independent assessor from outside the organisation. It can be a full external evaluation or a self-assessment with independent external validation.

### 1.2 Content

- 1.2.1 This document will:

- Define the terms "Board" and "Senior Management".
- Define the responsibilities and objectives of Internal Audit.
- Define the organisational independence of Internal Audit.
- Detail the reporting lines and relationships between Internal Audit and other internal and external parties.
- Define Internal Audit's remit in respect of each organisation's control environment.
- Identify Internal Audit's contribution to the review of the effectiveness of the control environment.
- Describe how the Head of the Audit Partnership will deliver annual audit opinions.
- Define the role of Internal Audit in relation to any anti-fraud or consultancy work.
- Explain how Internal Audit's resource requirements will be assessed.
- Establish Internal Audit's right of access to all records, assets, personnel and premises, including those of customer organisations outside of the partnership, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

### 1.3 Definitions

- 1.3.1 PSIAS specify that the purpose and definition of Internal Audit is as follows:

# Internal Audit Charter

*“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

- 1.3.2 The PSIAS require that this Charter must define the terms “Board” and “Senior Management” for the purposes of internal audit activity. The PSIAS defines the Board as:

*“The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically this includes an independent group of directors (e.g. a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the “Board” may refer to the head of the organisation, “Board” may refer to an audit committee to which the governing body has delegated certain functions.”*

The following bodies shall be defined as the Board for each of the organisations where we provide their internal audit services:

Organisation	Board
<b>Derby City Council</b>	Audit & Accounts Committee
<b>South Derbyshire District Council</b>	Audit Sub-Committee
<b>Derby Homes</b>	Audit Committee
<b>Ashfield District Council</b>	Audit Committee
<b>Amber Valley Borough Council</b>	Governance & Audit Board
<b>Derbyshire Fire &amp; Rescue Service</b>	Governance & Performance Working Group

- 1.3.3 The PSIAS defines Senior Management as *“Those responsible for the leadership and direction of the Council.”*

The following bodies shall be defined as Senior Management for each of the organisations where we provide their internal audit services:

Organisation	Senior Management
<b>Derby City Council</b>	Chief Officer Group
<b>South Derbyshire District Council</b>	Senior Management Team
<b>Derby Homes</b>	Executive Team
<b>Ashfield District Council</b>	Corporate Leadership Team
<b>Amber Valley Borough Council</b>	Management Team
<b>Derbyshire Fire &amp; Rescue Service</b>	Senior Leadership Team

## 2 Standards

### 2.1 Responsibilities

- 2.1.1 The Responsible Financial Officer at each organisation has a statutory responsibility for the overall financial administration of the organisation's affairs and is responsible for maintaining an adequate and effective Internal Audit of the financial and other records, systems and procedures for control of the organisation's resources.
- 2.1.2 Internal Audit is responsible for:
- Checking that management's arrangements for the control of finance, stocks and assets are adequate.
  - Highlighting weaknesses in controls.
  - Checking that financial and other systems and procedures are sound.
  - Appraising the adequacy of procedures to secure economy, efficiency and effectiveness in the use of resources.
  - Offering advice and suggesting improvements which ensure the organisation obtains value for money.
  - Reviewing, on behalf of the Responsible Financial Officer, any new systems for maintaining financial records or records of assets or changes to such systems.
  - Investigating promptly any suspected fraud, theft, irregularity, improper use or misappropriation of the organisation's property or resources identified by or notified to the Head of the Audit Partnership.
  - Ensuring that issues raised by External Audit are brought to the attention of the relevant Board, and if appropriate to the relevant Chief Executive and to the relevant member body.
  - Providing consultancy services, such as training, facilitation where considered beneficial to the organisation's control environment.
  - Providing internal audit services to other external organisations on a contractual basis, with the agreement of the Partnership Board and where resources permit.
- 2.1.3 The relevant Board at each organisation the Partnership serves has the responsibility for overseeing all of these responsibilities in accordance with its own terms of reference.

### 2.2 Objectives

- 2.2.1 Internal Audit's objectives are as follows:
- Provide an assurance on the organisation's internal control system, and hence there is need to audit areas of financial and non-financial risk as this will encompass some of the key governance systems.
  - Audit the main financial systems and other systems related to possible material mis-statements, regardless of comparative risk.
  - Deliver risk based assurance on those controls that manage significant risks.
  - Fully comply with best practice as defined by PSIAS.
  - Better integrate the outcomes and other information gathered as part, of the internal audit process, with the risk management processes of each organisation.
  - Maintain ongoing effective relationships with the relevant External Auditors and deliver complementary plans of work so as to deliver an efficient audit service collectively, for each organisation.
  - Ensure that appropriate resources, suitably experienced, and with skills to deliver the whole plan of work are maintained within Internal Audit.
  - Improve the efficiency and effectiveness of operations of the service.

- Promote good corporate governance and control practices and contribute to a good governance culture.
- Work in a positive manner alongside clients, supporting them in the effective management of risk and service delivery.
- Contribute to embedding risk management throughout each organisation's processes.
- Contribute to the development and maintenance of an effective counter fraud culture within each organisation.

## 2.3 Independence

- 2.3.1 Internal Audit must be independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. As such, Internal Auditor staff have no operational responsibilities and report directly to management in the name of the Head of the Audit Partnership. With the exception of Information Governance, Insurance and Risk Management functions at Derby City Council where the Head of the Audit Partnership has Line Management responsibilities. In these instances, reports will be issued to management in the name of the Audit Manager.
- 2.3.2 The Head of the Audit Partnership is free to report directly to each organisation's relevant Board on all Internal Audit matters.
- 2.3.3 The Head of the Audit Partnership is jointly managed by the Partnership's Operational Management Board and on a day-to-day basis by Derby City Council's Director Of Governance who is independent of the Operational Management Board. This level of status within the organisational structure ensures that the Head of the Audit Partnership is sufficiently influential in the maintenance and development of each organisation's control environment.
- 2.3.4 Internal Audit has produced a policy which sets out principles for minimising and managing potential conflicts of interest for Internal Audit staff. The Head of the Audit Partnership maintains a register of annual declarations of interest and Auditor declarations are made in relation to each individual audit assignment. Auditors are required to refrain from involvement in assessing specific operations where they have had a previous responsibility or a personal relationship.
- 2.3.5 The Head of the Audit Partnership will confirm to each organisation's relevant Board at least annually, the organisational independence of the internal audit service.

## 2.4 Reporting Lines & Relationships

- 2.4.1 The Section 151 Officers from each partner organisation, along with the Head of the Audit Partnership, will form the Operational Management Board. As host authority, Derby City Council's Director of Governance has line management responsibilities for the Head of the Audit Partnership.
- 2.4.2 The Head of the Audit Partnership reports to the relevant Board of each organisation on the following:
- The planned programme of internal audit work for the year.
  - Progress in implementing the planned audit programme, including a report following the year-end.
  - The findings of each audit to a degree of detail to be determined by each Board.
  - Progress made in implementing agreed actions arising from internal audits.
- 2.4.3 Internal Audit endeavours to work with the relevant External Auditor and share plans so as to avoid potential duplication of work and to deliver an effective corporate assurance service to each organisation. Internal Audit also endeavours to liaise with the relevant External

# Internal Audit Charter

---

Auditor to co-ordinate the work of External and Internal Audit to ensure that audit resources are deployed with the greatest efficiency. Wherever possible and if appropriate, this could entail External Audit placing reliance on the work of Internal Audit. Their audit fee is set on the assumption that they can rely upon Internal Audit work in a number of key areas.

- 2.4.4 To maintain a co-operative relationship with management, Internal Audit consults with management on audit work both at the annual planning stage and prior to commencing the assignment. This ensures that the timing of the audit is not inconvenient and the scope of the work is not inappropriate.

## 2.5 Professionalism

- 2.5.1 The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.
- 2.5.2 The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to the host authority's relevant policies and procedures and Partnership's Audit Manual.

## 2.6 Internal Audit Remit

- 2.6.1 Internal Audit's remit encompasses the entire control environment of each organisation. This extends to all of the controls and procedures (financial or otherwise) in operation in all services provided by each organisation. Currently, the section provides Internal Audit services to Liversage Trust on a contractual basis.

## 2.7 Review of Control Environment

- 2.7.1 Annually, the Head of the Audit Partnership produces an Audit Strategy & Business Plan which defines the approach that will be used to manage the following:
- How the service is delivered.
  - The provision to the organisation, through the relevant Board of an overall opinion each year on the organisation's risk management, control and governance, to support the Annual Governance Statement.
  - Audit of the organisation's risk management, control and governance systems through audit plans in a way which affords suitable priority to the organisation's objectives and risks.
  - The identification of audit resources required to deliver an audit service which meets required professional standards.
  - The relative allocation of resources between assurance, fraud related and consultancy services provided by Internal Audit.
- 2.7.2 The Head of the Audit Partnership also produces a risk based Audit Plan to deliver the Audit Strategy. The Annual Audit Plan is developed with due regard to the information produced by each organisation's risk and performance management systems in order that audit resources may be targeted at areas of greatest risk to the organisation. It is primarily based on Internal Audit's own risk assessment of each organisation's whole control environment. It is in part based on subjective judgment, but modelling techniques are also used to ensure that the approach is systematic. Stakeholders are consulted on the contents of the Audit Plan.

# Internal Audit Charter

---

The Audit Plan is a flexible document and it is inevitably subject to some changes during the year as a result of emerging issues deemed as a high risk, the need to divert audit resources to investigation work and changes in staffing resources available for audit work.

## 2.8 Resources

- 2.8.1 Internal Audit must be appropriately resourced to meet its objectives. It should have appropriate numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives and audit standards.

The Head of the Audit Partnership is CIPFA qualified and has over 28 years Local Government Internal Audit experience. The Head of the Audit Partnership is responsible for recruiting appropriate staff and ensuring that job descriptions and person specifications reflect the needs of the service.

Internal Audit staff receive monthly one to one review meetings and are regularly measured against the skills and competencies framework described in CIPFA's Excellent Internal Auditor publication. This is used to identify the training and development needs of individuals.

- 2.8.2 Nonetheless, Internal Audit has finite resources which can be deployed to meet the Annual Audit Plan. Where the Head of the Audit Partnership considers available resources do not balance with the organisation's Internal Audit requirements, he will take a report to the relevant Board suggesting proposed solutions.

When the in-house resources or skills cannot meet each organisation's or our external clients demand for control assurance or advice, Internal Audit will endeavour to procure the necessary resources to deliver the required service.

## 2.9 Audit Opinion

- 2.9.1 The Head of the Audit Partnership will provide a written report to those charged with governance which gives an opinion on the overall adequacy and effectiveness of each organisation's internal control environment.

Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of financial and other management controls. The overall audit opinion is based on the work undertaken by internal audit.

The reporting of the incidence of significant control failings or weaknesses is also covered in the progress reports to the relevant Board on Internal Audit's progress against the Annual Audit Plan.

In preparing the overall opinion, the Head of the Audit Partnership reviews all audit activity carried out during the previous Audit Plan year. Each individual audit undertaken contains a control rating (opinion) on the adequacy and effectiveness of controls in place to mitigate the risks identified. 4 levels of "assurance rating" are given for each audit review, ranging from "Comprehensive" through to "None". Where weaknesses in control are identified, an action plan is agreed with management. Progress with these agreed actions is monitored by Internal Audit through follow up audit work.

The Head of the Audit Partnership uses the individual control ratings from the audits conducted in the Audit Plan year and the progress with agreed actions to form the overall opinion.

When presenting the opinion, the Head of the Audit Partnership also identifies where reliance has been placed on work by other assurance bodies.

## 2.10 Anti-Fraud / Consultancy Work

2.10.1 Managing the risk of fraud and corruption is the responsibility of management, *but* In accordance with the each organisation's internal rules, Internal Audit will promptly investigating any suspected fraud, theft, irregularity, improper use or misappropriation of property or resources on behalf of the relevant Responsible Financial Officer.

The Head of the Audit Partnership should also be specifically mentioned in each organisation's Anti-Fraud and Corruption Strategy, Fraud Response Plan and Confidential Reporting Code (Whistleblowing Policy) as a point of contact for anyone who suspects a fraud has been committed.

Although Internal Audit does not have responsibility for the prevention or detection of fraud and corruption, it has taken steps to develop proactive anti-fraud and corruption initiatives. Internal Audit uses internal data matching to enhance and build upon the National Fraud Initiative exercise and seeks to develop a corporate approach to addressing fraud across the organisation.

2.10.2 Internal Audit may be asked by clients to conduct consultancy work. Acceptance of the assignment will be dependant on available resources, the nature of the assignment and any potential impacts on assurances.

The role of Internal Audit in a consultancy assignment is to provide advice, facilitation and support to management who retain the responsibility for the ultimate decisions taken within the area under review.

## 2.11 Authority (Rights of Access) & Confidentiality

2.11.1 As representatives of the relevant Responsible Financial Officer, all Internal Audit staff have authority to:

- Enter at all reasonable times any of the organisation's premises or land.
- Have access to all records, documents and correspondence relating to any financial and other transactions of the organisation, and the management of its risks.
- Require and receive explanations as necessary about any matter under examination.
- Require any employees of the organisation to produce cash, stores or any other of the organisation's property under their control.

For the avoidance of doubt, the authority detailed above relates to any other establishment operated within the organisation's financial accounts.

In relation to rights of access, Internal Audit staff are expected to have a personal responsibility to observe the highest standards of confidentiality and personal integrity during the course of their work.

## 2.12 Quality Assurance & Improvement Programme (QAIP)

2.12.1 The internal audit activity will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the International 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.

The Head of the Audit Partnership will communicate to senior management and the Board on the internal audit activity's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years.

## 2.13 Charter Review

- 2.13.1 This Audit Charter acts as a service level agreement with the Partnership Board or each organisation's Audit Committee so that there is a clear understanding of the role, purpose and position of internal audit within the organisation and the scope and nature of its work.
- 2.13.2 To ensure this Audit Charter is up-to-date and relevant, it should be reviewed annually and submitted to the Partnership Board and each organisation's Audit Committee for formal approval and endorsement. The Head of the Audit Partnership should discuss the Definition of Internal Auditing, the Code of Ethics, and the Standards when the Audit Charter is reviewed by the Board and each organisation's Audit Committee.

Copyright © 2012 central midlands audit partnership

The central midlands audit partnership was formed to provide shared internal audit services to local authorities in the region. CMAP currently provides audit services to three District Councils, a Unitary Council, a Housing ALMO and a Fire Authority and welcomes further public sector partners or clients from within the region.



<b>REPORT TO:</b>	<b>AUDIT SUB-COMMITTEE</b>	<b>AGENDA ITEM: 9</b>
<b>DATE OF MEETING:</b>	<b>14<sup>th</sup> DECEMBER 2016</b>	<b>CATEGORY: DELEGATED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE AND CORPORATE SERVICES LEGAL and DEMOCRATIC SERVICES OFFICER/MONITORING OFFICER</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:Kevin.stackhouse@south-derbys.gov.uk">Kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/governance/local code/Dec 16/update report Dec 16
	<b>ARDIP KAUR (01283 595715)</b> <a href="mailto:Ardip.kaur@south-derbys.gov.uk">Ardip.kaur@south-derbys.gov.uk</a>	
<b>SUBJECT:</b>	<b>LOCAL CODE OF CORPORATE GOVERNANCE</b>	
<b>WARD (S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 04</b>

## **1.0 Recommendation**

- 1.1 That the changes to the national framework for delivering good governance in local government are considered and noted.
- 1.2 That the Council adopts the new national framework for its Local Code of Corporate Governance.
- 1.3 That the assessment of the Council's arrangements within the new framework as detailed in Appendix 1 is considered and noted.
- 1.4 That the areas identified to strengthen governance are considered and approved.
- 1.5 That progress on the approved actions stemming from the Council's Annual Governance Statement for 2015/16 are considered and approved.

## **2.0 Purpose of the Report**

- 2.1 To assess the Council's governance arrangements against an updated national framework and to report progress on actions arising out of the Council's Annual Governance Statement (AGS) for 2015/16. This is in accordance with a requirement to review the Council's Local Code of Corporate Governance on a half-yearly basis.

### **3.0 Detail**

#### **Background**

- 3.1 In April 2016, the Chartered Institute of Public Finance (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) published an updated national framework for ensuring proper and robust governance in local authorities.
- 3.2 This followed a review undertaken by an appointed working group, consisting of Members, Officers and Auditors, to review governance arrangements in a rapidly changing and challenging environment. The existing national framework was last reviewed in 2007.
- 3.3 The updated framework is set against a background of limiting resources, greater collaborative working including devolved arrangements, together with an expectation for greater transparency. The new framework applies from the financial year 2016/17 and if adopted, will form the basis of the Council's AGS for 2016/17.
- 3.4 The main aim of corporate governance has not changed; it is still about having a system by which a local authority directs and controls its functions and relates to its local community.
- 3.5 Good corporate governance is considered to be essential in demonstrating that there is credibility and confidence in public services. Sound arrangements should be founded on openness, integrity and accountability, together with the overarching concept of leadership.

#### **The Updated Framework**

- 3.6 The framework is still based on a set of core principles, although these have changed in some areas as detailed later in the report. The national framework is intended to assist authorities individually in reviewing and accounting for their own approach.
- 3.7 The overall aim 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.
- 3.8 Greater focus has been placed upon demonstrating economic, social and environment sustainability over a longer-term, together with the principles of social value.

#### **The Core Principles**

- 3.9 The following table shows the core principles of the updated framework, compared to those that have been used since 2007.

<b>Principles from 2016</b>	<b>Principles from 2007</b>
Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.	Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behavior.
Ensuring openness and comprehensive stakeholder engagement.	Engaging with local people and other stakeholders to ensure robust public accountability.
Defining outcomes in terms of sustainable economic, social and environmental benefits.	Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
Determining the interventions necessary to optimise the achievement of the intended outcomes.	<b><i>There was not a direct equivalent</i></b>
Developing the entity's capacity, including the capability of its leadership and the individuals within it.	Developing the capacity and capability of Members and Officers to be effective.  Members and Officers working together to achieve a common purpose and clearly defined functions and roles.
Managing risks and performance through robust internal control and strong public financial management.	Taking informed decisions which are subject to effective scrutiny and managing risk.
Implementing good practice in transparency, reporting and audit to deliver effective accountability.	<b><i>There was not a direct equivalent</i></b>

- 3.10 Within each principle there are still a series of sub-principles. The updated framework still advocates a self-assessment against each of the sub-principles.
- 3.11 As previously, it is recommended that the national framework is used as the basis for measuring the Council's governance arrangements. Therefore, a self-assessment has been undertaken and this is detailed in **Appendix 1**.
- 3.12 The template sets out each core principle and details the degree to which, on the evidence base, the Council meets each of the sub-principles. As previously, a score from 1 to 5 has been allocated, where a score of 5 demonstrates strong compliance.

## The Council's Assessment

- 3.13 Previously, the Council has been able to demonstrate that it has a sound and robust system of corporate governance in place. Compared against the updated framework, this continues to be the case in many instances with a score of 5 prevalent in many areas. The scores are summarised in the following table.

Total number of sub-principles assessed	21
Total number scoring 5	16
Total number scoring 4	5

- 3.14 Overall, it is considered that there are no material weaknesses in the Council's governance arrangements when assessed against the new framework. The areas scoring 4 are where it is considered additional work is or can be undertaken to provide additional evidence and to further strengthen the Council's arrangements. These are detailed in the following table.

<b>Sub-Principle</b>	<b>Action</b>	<b>Time</b>
Defining outcomes	The Corporate Action Plan for 2016/17 includes a project to review key priorities into which available funds may be invested further in communities.	February 2017
Optimising the achievement of intended outcomes	This revised Governance Framework has highlighted that the Council needs to demonstrate more explicitly that the principle of social value is embedded in the delivery of its intended outcomes.	March 2017
Developing the capability of the entity's leadership and other individuals	The Council currently achieves the necessary qualifications for the nationally recognised Investors in People Standard.  It is planned to test the Council's performance in the management and development of its workforce against a new national standard during 2017/18.	2017/18 – date to be confirmed
Managing data	Although it is considered that the Council is well placed in managing data, the Council does not currently have a dedicated Information Governance Officer. The Council, through the Audit Partnership, is buying-in resources to undertake an information governance review and to provide an on-going service.	July 2017

Implementing good practice in transparency	The Council's website is currently being upgraded. A key aim is to completely refresh information on the website and make it easier for the public and other stakeholders to better understand the Council's services and activities.	January 2017
--	---	--------------

## Progress on actions in the Annual Governance Statement 2015/16

3.15 The approved work plan included the following items:

- To review the Local Code of Corporate Governance in accordance with the updated national framework.
- An independent review of the Council's policies regarding information governance and compliance. This follows a report that was considered and approved by the Finance and Management Committee in December 2015 to strengthen the Council's framework.
- A review of mandatory training courses. This follows an internal audit report in April 2016 regarding governance, which made some recommendations to ensure relevance and consistency of approach.
- A review of ICT disaster recovery procedures. This follows an independent report into the Council's procedures in April 2016 which highlighted further process maps and documentation to be drawn up in the event of a disaster.
- A review of access to information regulations and committee work programme. These have not been reviewed for several years and may require updating.
- Development of service continuity plans for inclusion in the Council's Business Continuity Plan. This is the final action required from the audit of the Council's arrangements in 2014/15.

3.16 Detailed progress is shown in **Appendix 2**.

### **4.0 Financial Implications**

4.1 None

### **5.0 Corporate Implications**

5.1 The Local code applies to all of the Council's services and activities.

## **6.0 Community Implications**

- 6.1 A key outcome in the Council's Corporate Plan is "ensuring good governance". Adopting a local code is a definitive way of demonstrating that the Council is aspiring to this principle.

## **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: SOUTH DERBYSHIRE DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE: SELF ASSESSMENT

## **Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law**

**Framework Description:** “Local Government organisations are accountable not only for how much they spend but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.”

Sub Principle	Evidence Base to Demonstrate Compliance	Self-Assessment Score (out of 5)	Actions to Strengthen Compliance
Behaving with integrity	<ul style="list-style-type: none"> <li>• There are established Member and Officer Codes of Conduct which are detailed in the Council’s Constitution.</li> <li>• Members and Officers sign-up to the Codes when appointed.</li> <li>• Standards and behavior expected are part of the induction processes.</li> <li>• Standards and behavior are part of the PDR process for Officers and are included in the job competency framework.</li> <li>• There is an established process for Members to declare any interests at Committee meetings and these are recorded in official Minutes.</li> <li>• There is an established procedure governing conduct at Committee meetings, including the use of social media.</li> <li>• The Council has an established Standards Committee with independent persons appointed.</li> <li>• There are anti-fraud and corruption policies in place which are regularly reviewed and audited.</li> <li>• There are registers of interests for Members and Officers which are maintained and regularly reviewed. The Codes of Conduct refer Officers and Members to declare any interests.</li> <li>• There is a procedure for declaring gifts and hospitality and these declarations are registered with and held centrally by the Monitoring Officer.</li> <li>• The Council has an established Whistleblowing Policy which protects individuals and is communicated to all stakeholders, including contractors.</li> <li>• An established Complaints Procedure which includes provision for raising issues regarding standards and the behavior of Officers.</li> <li>• This Procedure makes provision to identify improvements and changes to procedures if required; these are reported to the Council.</li> </ul>	<b>5</b>	

**APPENDIX 1: SOUTH DERBYSHIRE DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE: SELF ASSESSMENT**

<p>Demonstrating a strong commitment to ethical values</p>	<ul style="list-style-type: none"> <li>• The Council's Ethical Framework is set out in its Constitution. Specific references are detailed below. <ul style="list-style-type: none"> <li>➤ The Code of Conduct for both Members and Officers sets out the standards of conduct that Members are required to adhere to.</li> <li>➤ The Protocol for Member and Officer relations defines respective roles and stresses the principles of mutual courtesy and respect.</li> <li>➤ The Planning Code of Good Practice is designed to assist and protect Members involved in the planning process.</li> <li>➤ The ICT Protocol is designed to assist and protect Members when using computer equipment and social media.</li> <li>➤ The Licensing Protocol sets out procedures so that Members act in a fair and proper manner and are seen to do so.</li> <li>➤ The Code of Conduct for Representation on Outside Bodies provides support and guidance to Members when representing the Council on funded bodies and partnerships.</li> <li>➤ Ethical values are an element of the Council's Procurement framework and feature in the tendering/contract process.</li> </ul> </li> </ul>	<p><b>5</b></p>	
<p>Respecting the rule of law</p>	<ul style="list-style-type: none"> <li>• The role of the Monitoring Officer and associated Protocol is designed to ensure that the Council operates within the law.</li> <li>• The Council complies with the national Statement on the "<i>Role of the Chief Financial Officer</i>" to ensure that the Council uses and accounts for its resources in accordance with legislation.</li> <li>• All Council Committees operate under a Terms of Reference.</li> <li>• An established Scheme of Delegation from Full Council to Committees and to Senior Officers is in place.</li> <li>• All Committees are supported by Committee Clerks.</li> <li>• The Monitoring Officer attends all meetings of Full Council.</li> <li>• New policies and operational developments/changes are only considered at Committee following consultation and analysis by the Chief Finance Officer, Head of Legal and Democratic Services and Head of HR.</li> </ul>	<p><b>5</b></p>	

# APPENDIX 1: SOUTH DERBYSHIRE DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE: SELF ASSESSMENT

## **Core Principle B: Ensuring openness and comprehensive stakeholder engagement**

**Framework Description:** “Local Government is run for the public good; organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders. “

Sub Principle	Evidence Base to Demonstrate Compliance	Self-Assessment Score (out of 5)	Actions to Strengthen Compliance
Openness	<ul style="list-style-type: none"> <li>• An established Freedom of Information Publication Scheme is in place which informs how and where information is available.</li> <li>• The Corporate Plan and Annual Report set out what the Council wants to achieve and how it has performed.</li> <li>• The Council adheres to the Government’s Transparency Code of Practice and publishes information accordingly.</li> <li>• Records of decisions at Committee meetings are published.</li> <li>• Committee reports are published in a standard form.</li> <li>• Committee reports include financial, legal and HR implications where required, together with an assessment of the Corporate and Community implications of proposals.</li> <li>• The Council adheres to a Committee timetable which is reported and approved ahead of every Civic Year; dates of meetings are publicised in advance.</li> <li>• A Committee work programme is updated and reviewed at each Committee which publishes forthcoming business and reports.</li> <li>• Committee agendas are published 5 working days prior to a meeting in accordance with the Access to Information Regulations.</li> <li>• All meetings are open to the press, media and public and each Agenda allows questions to be raised by the Public.</li> </ul>	<b>5</b>	
Engaging comprehensively with institutional stakeholders	<ul style="list-style-type: none"> <li>• The Council has an established Communications Strategy with an annual action plan subject to quarterly review.</li> <li>• The Council engages the support of other agencies and the voluntary sector to undertake consultations as appropriate.</li> <li>• Where the Council works in Partnership, protocols and procedures allow for views to be shared and challenge to take place.</li> </ul>	<b>5</b>	
Engaging with individual citizens and service users effectively	<ul style="list-style-type: none"> <li>• An SLA is in place with the local CVS to undertake consultation on potential changes affecting specific groups.</li> <li>• The Council regularly consults with council house tenants and users of sport and leisure facilities through established groups.</li> <li>• Results of public consultation are reported to the Council and included as part of any new proposals or changes to service provision.</li> </ul>	<b>5</b>	

# APPENDIX 1: SOUTH DERBYSHIRE DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE: SELF ASSESSMENT

## **Core Principle C: Defining outcomes in terms of sustainable economic, social and environmental benefits**

**Framework Description:** “The long-term nature and impact of many of local government’s responsibilities mean that it should be sustainable. Decisions should further the organisation’s purpose, contribute to intended benefits and outcomes and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users and institutional stakeholders is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available. “

Sub Principle	Evidence Base to Demonstrate Compliance	Self-Assessment Score (out of 5)	Actions to Strengthen Compliance
Defining outcomes	<ul style="list-style-type: none"> <li>• The Council has an established vision of “<i>Making South Derbyshire a better place to live, work and visit</i>”. This is supported by 3 priorities of People, Place and Progress.</li> <li>• This vision and the priorities are central to the Corporate Plan which is set for a 5-year period.</li> <li>• The achievement of the priorities is measured in terms of a set of performance indicators for defined outcomes.</li> <li>• The Corporate Plan is published and advertised extensively both internally and externally.</li> <li>• It is approved and adopted by Full Council.</li> <li>• Operational targets are cascaded down into Service Plans.</li> <li>• The Council’s Performance Management Framework monitors and reviews performance against the priorities; this includes comparisons and trends which are reported quarterly.</li> <li>• Identified risks to the achievement of defined outcomes are integral to this process. Risk registers are reviewed on a quarterly basis.</li> <li>• The Corporate Plan also aligns to the Sustainable Community Strategy for the District.</li> </ul>	<b>4</b>	<p>The Corporate Action Plan for 2016/17 includes a project to review key priorities into which available funds may be invested further in communities.</p> <p>This work will form part of the 2017/18 Budget Round.</p>
Sustainable economic, social and environmental benefits	<ul style="list-style-type: none"> <li>• The allocation of resources is subject to a Service and Financial Planning process which evaluates proposals in accordance with the Corporate Plan and takes into account risk and sustainability.</li> <li>• The Council’s Capital Programme focuses resources on long-term benefits with investment in new housing, new leisure facilities, sustainable infrastructure and the purchase of land to secure investment and future service provision.</li> <li>• Key plans and strategies such as the Corporate Plan, Housing Business Plan and Medium-Term Financial Plan, focus on a period that overlaps each 4-year democratic term.</li> <li>• Current financial constraints are factored into strategic plans for Housing, Economic and Environmental Services.</li> <li>• A corporate Equalities Working Group ensures that there is fair access to all services and this is demonstrated in an Annual Report.</li> </ul>	<b>5</b>	

## APPENDIX 1: SOUTH DERBYSHIRE DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE: SELF ASSESSMENT

	<ul style="list-style-type: none"> <li>The Communications Strategy sets out guidelines on how and when stakeholders are engaged.</li> </ul>		
--	---	--	--

### **Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes**

**Framework Description:** “Local government achieves its intended outcomes by providing a mixture of legal, regulatory and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.”

Sub Principle	Evidence Base to Demonstrate Compliance	Self-Assessment Score (out of 5)	Actions to Strengthen Compliance
Determining interventions	<ul style="list-style-type: none"> <li>The Service and Financial Planning framework is effectively an options appraisal which includes an analysis of risk and opportunities together with short and long term resourcing implications.</li> <li>All major procurements are subject to a prior options appraisal which is recorded and signed off corporately; this includes soft market testing where appropriate.</li> <li>Proposals are discussed at senior officer level, with senior Members and are then subject to the Committee process.</li> <li>Working groups are set up if necessary to review options, for example on the HRA Business Plan and future management of the Forestry Centre; this includes representative groups (tenants) and service users (sport facilities).</li> <li>Established consultation is undertaken with service users in housing, sport and health, etc. Consultation outcomes have helped to shape the design of facilities, for example, local skate parks.</li> </ul>	<b>5</b>	
Planning interventions	<ul style="list-style-type: none"> <li>Established quarterly performance and budget monitoring reports with key indicators which report performance results and highlight corrective action where necessary.</li> <li>Annual budgets are based on current and future service provision and in accordance with the Medium-Term Financial Plan (MTFP).</li> <li>The key aim of the Financial Strategy is sustainability and the MTFP factors in potential funding constraints in which services plan accordingly.</li> </ul>	<b>5</b>	

## APPENDIX 1: SOUTH DERBYSHIRE DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE: SELF ASSESSMENT

Optimising achievement of intended outcomes	<ul style="list-style-type: none"> <li>The MTFP integrates and balances service priorities, affordability and external pressures. This is analysed in the comprehensive service and budget reports during the Annual Budget Round and ½ yearly reviews.</li> <li>Service planning and the procurement framework consider “social value” and this is a part of the evaluation in procurement exercises to encourage local employment and apprenticeship schemes, etc.</li> <li>Work is commissioned in partnership with the local voluntary sector (for example CVS) to optimise the social and environmental well-being of local residents and to help all groups access services.</li> </ul>	5	
---	---	---	--

### **Core Principle E: Developing the entity’s capacity, including the capability of its leadership and the individuals within it**

**Framework Description:** *“Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind-set, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfill its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.”*

Sub Principle	Evidence Base to Demonstrate Compliance	Self-Assessment Score (out of 5)	Actions to Strengthen Compliance
Developing the entity’s capacity	<ul style="list-style-type: none"> <li>The Council regularly uses comparative data through benchmarking and soft market testing to determine how resources are used and allocated and to inform future service provision, for example ICT (September 2016) and the HRA New Build programme.</li> <li>The Council uses representative groups, for example council house tenants and leisure centre users, to help formulate service provision.</li> <li>The Council actively works in partnership where this is deemed to be beneficial to achieving its desired outcomes with added value, for example the management of leisure facilities and investment in corporate services.</li> <li>The Council has several partnership/collaborative working arrangements.</li> <li>An established Workforce Strategy is in place which includes an annual work plan setting out training and development activities.</li> <li>An established training programme is in place to develop senior</li> </ul>	4	<p>It is considered that the Council is extremely well placed in this regard.</p> <p>The guidelines recommend that organisations should be subject to an external peer review from time-to-time. This will be considered in 2017/18.</p>

## APPENDIX 1: SOUTH DERBYSHIRE DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE: SELF ASSESSMENT

	<p>and aspiring managers, which is delivered by external facilitators; this is aligned to corporate priorities and factors in external factors such as limiting resources.</p>		
<p>Developing the capability of the entity's leadership and other individuals</p>	<ul style="list-style-type: none"> <li>• Regular meetings take place between senior managers and leading Members to ensure regular and effective communication.</li> <li>• Article 12 of the Constitution sets out the principles of Decision Making with Section 21 detailing the Scheme of Delegation; these are designed to ensure that the responsibility for decision making is clear and rests at the right place in the Council.</li> <li>• The Council also operates within a set of Financial Regulations and Procedural Rules.</li> <li>• A weekly meeting takes place between the Leader and Chief Executive to ensure a continuing and effective relationship.</li> <li>• Members undertake statutory training on Licensing, Planning and Finance in order to keep updated on developments and legislative changes in key areas of service delivery.</li> <li>• Members have access to training and seminars through the District Council's Network and the East Midlands Regional Council.</li> <li>• Development plans for Officers are linked to a competency framework and where appropriate to the leadership programme.</li> <li>• The Council employs external support for key specialist tasks and to relieve pressure on capacity, for example, to implement job evaluation, ICT Strategy and assessment of housing options.</li> <li>• The Council works with other authorities to deliver services to benefit from economies of scale, for example, the provision of internal audit, building control and fraud prevention.</li> <li>• All employees, including the CEO and Directors are subject to annual appraisals.</li> <li>• Certain training courses are mandatory for specific groups of employees or for all Officers, regarding health and safety, equality and absence management, etc.</li> <li>• HR policies are designed to assist and guide Officers and further their well-being to ensure that they act in the correct manner, are safe and have access to appropriate benefits. These policies are regularly reviewed in consultation with employee representatives.</li> </ul>	<p>4</p>	<p>The Council currently achieves the necessary qualifications for the nationally recognised Investors in People Standard.</p> <p>It is planned to test the Council's performance in the management and development of its workforce against a new national standard during 2017/18.</p>

# APPENDIX 1: SOUTH DERBYSHIRE DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE: SELF ASSESSMENT

## **Core Principle F: Managing risks and performance through robust internal control and strong public financial management**

**Framework Description:** “Local government needs to ensure that the organisation and governance structures that it oversees have been implemented and can sustain an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

*A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability.*

*It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.”*

Sub Principle	Evidence Base to Demonstrate Compliance	Self-Assessment Score (out of 5)	Actions to Strengthen Compliance
Managing risk	<ul style="list-style-type: none"> <li>• The Council has an established risk management framework in place. This is reviewed regularly and was updated in 2016 against the new Corporate Plan. The framework is also subject to Audit from time-to-time.</li> <li>• Responsibility for managing risks is assigned to service managers in Service Plans. Strategic risks are owned by the Corporate Management Team. These risks are regularly reviewed and reported quarterly.</li> </ul>	<b>5</b>	
Managing performance	<ul style="list-style-type: none"> <li>• The Council has an established performance framework with comprehensive performance reports considered by policy committees on a quarterly basis.</li> <li>• All key activities in the Corporate Plan are subject to performance measures which assesses progress against intended outcomes.</li> <li>• Consultation takes place between Members and Officers in the planning process to establish what and the format that information is required for decision making.</li> <li>• The Council has an established Overview and Scrutiny function in place, including a separate Committee whose Chair does not sit on any other policy committees.</li> <li>• This Committee operates under a terms of reference set out in the Constitution and sets its own work programme. It focuses on a</li> </ul>	<b>5</b>	

## APPENDIX 1: SOUTH DERBYSHIRE DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE: SELF ASSESSMENT

	<p>balance of internal and external issues and reports to Council, in an annual report, its outcomes for the year and where it has added value.</p> <ul style="list-style-type: none"> <li>The Council's outcomes in terms of finance are reported from base budget stage through to the publication of the annual financial statements.</li> </ul>		
<p><b>Robust internal control</b></p>	<ul style="list-style-type: none"> <li>The Council has an established Audit Committee.</li> <li>The Committee has its own specific terms of reference around ensuring good governance, internal control and risk management.</li> <li>The effectiveness of the Committee is regularly reviewed and Members receive training and briefings.</li> <li>The Committee oversees an annual Internal Audit Plan which covers all fundamental systems on a yearly basis and all Council services/activities over a 3 year rolling period based on risk.</li> <li>Internal Audit reports quarterly on its audits, the outcomes and ranks the control status from limited to comprehensive assurance. Any potential implications for the Council's Governance Statement are highlighted at that stage.</li> <li>An established counter fraud and anti-corruption framework is in place and the Council works in partnership with other councils to prevent and detect fraud; this includes sharing systems.</li> <li>The Council reports its Governance Framework and its effectiveness are assessed through an Annual Governance Statement which is reported in the Financial Statements.</li> <li>The provision of Internal Audit is through an established partnership arrangement with other authorities; this ensures that the Council benefits from economies of scale and additional expertise in its audit coverage.</li> <li>Internal Audit meets the requirements of the nationally recognised Public Sector Auditing Standards.</li> </ul>	<p><b>5</b></p>	
<p><b>Managing data</b></p>	<ul style="list-style-type: none"> <li>The Council has an established Data Quality framework in place which is subject to annual review and audit.</li> <li>Methodology statements are established for each key performance indicator in the Corporate Plan; these ensure that there are proper procedures to ensure that the data collected and reported is correct, reliable and accurately measures progress on intended outcomes.</li> <li>The Council's Director of Finance and Corporate Services is the designated Data Protection Officer.</li> <li>The Council has established policies regarding the security of data, and data protection, etc.</li> <li>Arrangements for managing and storing data are subject to audit.</li> </ul>	<p><b>4</b></p>	<p>Although it is considered that the Council is well placed in managing data, the Council does not currently have a dedicated Information Governance Officer. The Council, through the Audit Partnership, is buying-in resources to undertake an information governance review and to provide an on-going service.</p>

**APPENDIX 1: SOUTH DERBYSHIRE DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE: SELF ASSESSMENT**

	<ul style="list-style-type: none"> <li>• Information asset owners assigned to most data folders and systems.</li> <li>• The Council only shares data with other agencies after a proper data sharing protocol has been established. These currently exist with the DWP, the Police and Fire authorities</li> <li>• From time-to-time, other agreements are established with for example, credit rating agencies for specifically defined purposes.</li> <li>• Where high volumes of data are processed, the Council undertakes independent quality checking, for example in the processing of housing benefits.</li> </ul>		
<p><b>Strong public financial management</b></p>	<ul style="list-style-type: none"> <li>• The Council's Medium-Term Financial Plan (MTFP) aims to maintain resources over the longer-term to deliver services and factors in potential changes in service provision.</li> <li>• The MTFP is underpinned by a Financial Strategy which sets out procedures for the proper stewardship of public money, together with safeguarding the sustainability of the Council's financial position.</li> <li>• The Strategy sets out the overriding financial target that defines a minimum level of General Reserves over a rolling 5-year period (10 years for the HRA).</li> <li>• Quarterly budget and financial monitoring reports to the Council assess progress against annual budgets and also keep under review any current issues and their potential impact on the longer-term financial position.</li> </ul>	<p><b>5</b></p>	

# APPENDIX 1: SOUTH DERBYSHIRE DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE: SELF ASSESSMENT

## Core Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability

**Framework Description:** “Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.”

Sub Principle	Evidence Base to Demonstrate Compliance	Self-Assessment Score (out of 5)	Actions to Strengthen Compliance
Implementing good practice in transparency	<ul style="list-style-type: none"> <li>• The Council publishes its successes and answers any issues through a series of media releases; these are designed to explain matters in a more easily understandable, but factual way, and summarises decisions made following consideration of technical Committee reports.</li> <li>• The Council publishes an Annual Report which helps to explain what the Council does, its achievements, etc. in a more easily understandable style.</li> <li>• The Council’s website is also a means of publishing information in an informative way.</li> <li>• Social media is also being used as a tool for engaging with residents and other stakeholders.</li> </ul>	<b>4</b>	The Council’s website is currently being upgraded. A key aim is to completely refresh information on the website and make it easier for the public and stakeholders to better understand the Council’s services and activities.
Implementing good practice in reporting	<ul style="list-style-type: none"> <li>• In accordance with statutory requirements, the Council publishes Audited Accounts and Financial Statements, together with an Annual Governance Statement. These are considered and approved by the Council and then published in accordance with a statutory timescale.</li> </ul>	<b>5</b>	
Assurance and effective accountability	<ul style="list-style-type: none"> <li>• All key indicators and projects in the Corporate Plan have a named responsible officer. These are mainly Directors and individual service managers.</li> <li>• These responsible officers are accountable to the relevant Policy Committee.</li> <li>• Any recommendations made by External Audit in their annual report, are assigned a responsible Council Officer and actions are monitored by the appropriate Committee.</li> <li>• Recommendations made by Internal Audit are designed to strengthen the Council’s internal control environment.</li> <li>• Recommendations made by Internal Audit are also assigned a responsible Council Officer to implement agreed actions.</li> <li>• Internal Audit provides quarterly updates on outstanding</li> </ul>	<b>5</b>	

**APPENDIX 1: SOUTH DERBYSHIRE DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE: SELF ASSESSMENT**

	recommendations and there have been instances where the Audit Committee has requested specific reports from responsible officers where agreed actions are still to be implemented.		
--	--	--	--

**APPENDIX 2: ANNUAL GOVERNANCE STATEMENT 2015/16 – PROGRESS ON WORK PLAN**

<b>Work Area</b>	<b>Timescale</b>	<b>Responsible Officer (s)</b>	<b>Governance / Corporate Plan Priority</b>	<b>Action and Outcome</b>
Continue to review the Local Code of Corporate Governance and to monitor the Governance Work Plan for the year	½ yearly review	Legal and Democratic Services Manager	This is the overall framework that monitors the priority outcomes for the Corporate Plan	Completed as detailed in this report.
Information Governance	March 2017	Director of Finance and Corporate Services	To ensure that the Council complies with data protection principles and safeguards the data that it manages	To be completed later in the year. Resources are in place and work has commenced.
Employee Training	September 2016	Director of Community and Planning Services	To ensure employees are up to date and aware of statutory duties and corporate matters in undertaking their roles	Completed. Mandatory training has been approved by the Corporate Management Team in conjunction with HR and a training programme set out. Attendance to be monitored.
ICT Disaster Recovery Procedures	July 2016	Director of Finance and Corporate Services	To ensure that the Council has fully documented processes for ICT in the event of a business continuity issue	Completed. Full documentation in place and awaiting audit check.
Access to Information Regulations and Work Programme	June and November 2016	Legal and Democratic Services Manager	To ensure that the Council complies with freedom of information requirements and is open and transparent in its reporting	Forward work programme now in place for all policy committees (completed June 2016). The Access to Information Regulations still to be reviewed.

**APPENDIX 2: ANNUAL GOVERNANCE STATEMENT 2015/16 – PROGRESS ON WORK PLAN**

Business Continuity	October 2016	Director of Finance and Corporate Services	To ensure that sufficient information is available at Directorate level to enable individual services to react to business continuity issues	Completed. Action signed off by the Resilience liaison Forum on 23 <sup>rd</sup> November 2016.
---------------------	--------------	--	--	---

---

<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 10</b>
<b>DATE OF MEETING:</b>	<b>14<sup>th</sup> DECEMBER 2016</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE &amp; CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:Kevin.stackhouse@south-derbys.gov.uk">Kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/live files/audit committee/audit and accountability act/audit committee Dec 2016
<b>SUBJECT:</b>	<b>AUDIT and ACCOUNTS: FORTHCOMING CHANGES</b>	
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 04</b>

---

## **1.0 Recommendations**

- 1.1 That the report is considered and noted.
- 1.2 That the Council opts into the national procurement framework for the appointment of its External Auditors from the financial year 2018/19 and this is recommended to Full Council on 19<sup>th</sup> January 2017.

## **2.0 Purpose of the Report**

- 2.1 To provide an update on forthcoming changes to accounts and audit matters that originate from the Local Audit and Accountability Act 2014 (*the Act*). The provisions contained in that Act, as they apply to the Council, were reported to the Committee in September 2014.

## **3.0 Detail**

- 3.1 The Act introduced several new requirements which impacted on the Council. Several of these have now been implemented.
- 3.2 These included, in particular, allowing public meetings to be filmed and recorded, including the use of social media, tighter rules regarding publicity, together with the requirement to hold a local referendum should the level of Council Tax be increased above a certain limit determined by the Government.
- 3.3 The Act also:
  - Abolished the Audit Commission and established new arrangements for the auditing of public bodies, including the local appointment of external auditors.

- Brought forward the dates for preparing, auditing and publishing the Statutory Statement of Accounts.
- Updated the Audit and Account Regulations with on-going developments to ensure that local authority accounts are kept in line with proper accounting practice.

### **External Auditor Appointments**

- 3.4 The Audit Commission was abolished on 31<sup>st</sup> March 2015 and the responsible body for appointing local government auditors was transferred to the Public Sector Audit Appointments (PSAA) Agency. This was to be a transitional body charged with managing existing contracts until their expiry in 2017.
- 3.5 It was expected that local councils would then become responsible for appointing their auditors. However, it was also envisaged that the date of 2017 would be extended to enable relevant procurement frameworks to be set up and established.
- 3.6 The Council has recently received confirmation from the PSAA that the existing contract with EY has been extended by a year to complete the audit of accounts for the financial year 2017/18. The PSAA have also confirmed that arrangements for a local auditor appointment, as set out in the Act, will apply from the financial year 2018/19 onwards. This appointment for this year must be made by 31<sup>st</sup> December 2017.
- 3.7 Appointments can be made by the Council, in collaboration with other councils, or the appointment can be made through a “specified appointing person.”

### **Independent Auditor Panels**

- 3.8 If the Council wishes to appoint its own auditor, it would need to establish a local independent Auditor Panel. This Panel would assume the role of an appointed body and be responsible for considering and recommending an external auditor to Full Council. It would also monitor the relationship with the external auditor.
- 3.9 A Panel could be the local Audit or Governance Committee if it can be demonstrated that this Committee is independent for this purpose.
- 3.10 The Act specifies that to demonstrate independence, a Panel must consist of a majority of independent persons and be chaired by an independent person, i.e. not a council Officer, Member or any person connected to them.

### **Collective Procurement**

- 3.11 A council can opt into a sector led collective procurement exercise. In this case, an appointed body, approved by the Government, will procure and monitor auditors nationally, on behalf of all councils who choose to opt in.

- 3.12 The Act requires that any decision to opt-in to collective procurement will need to be taken by Full Council. Council's that opt-in will do so for the duration of the "appointing period" (one to five years). The opportunity to opt-in will only occur at the formal invitation point.
- 3.13 The appointed body will be required to consult on and then set a scale of fees for audit, which opted-in councils will be required to pay. If a council uses the collective procurement option, there is no requirement to set up an Audit Panel.
- 3.14 The Secretary of State for Communities has specified the PSAA as a specified appointing person. Under the Act, the PSAA will be able to undertake a procurement exercise and appoint auditors for those councils opting in. The PSAA is currently developing a national appointment framework and they have issued a prospectus for local councils to consider.
- 3.15 It is considered that a sector wide procurement conducted by the PSAA will produce a more cost effective method of appointing future auditors. The benefits are considered to be as follows:
- Assurance that auditor appointments are completed in a proper and timely manner.
  - The independence of auditors is maintained.
  - More competitive pricing is likely to be achieved.
  - No procurement costs for individual councils.
  - It will save time and resources on setting up and administering Audit Panels.
- 3.16 The Local Government Association is leading on this work and a large number of councils have indicated that they will opt in. Therefore, it is recommended that this is the option that is taken.
- 3.17 Under Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a decision to opt-in must be taken by the Full Council. It is planned that the PSAA will commence a formal procurement exercise from June 2017 in order to make appointments by December 2017, which is the statutory deadline.
- 3.18 To meet this timetable, the PSAA have requested that councils opt in by March 2017. To ensure that the Council can participate, if this proposal is accepted by the Committee, it will be referred to Full Council on 19<sup>th</sup> January 2017.

### **Accounts and Audit Regulations**

- 3.19 The 2011 Regulations set out requirements on financial management, internal control, internal audit, the content of published accounts, together with procedures affecting the accounts and public rights to inspect the accounts.

3.20 Provisions under the Act, which led to the introduction of the updated 2015 Regulations, did not change the underlying principles. However, they set out:

- An earlier timetable for the preparation and publication of the Statutory Statement of Accounts (*still to be implemented*).
- Streamlined the procedures relating to the public's rights to inspect the accounting records and to put objections and questions to the auditor (*already implemented*).

3.21 In addition, central government has acknowledged concerns from finance professionals regarding the growing complexity and length of local authority accounts. Consequently, they have been working with professional bodies to simplify the accounts and make them easier to understand.

### **Earlier Closure and Publication of the Accounts**

3.22 The Regulations will bring forward the existing dates of 30<sup>th</sup> June (draft accounts submitted for audit) and 30<sup>th</sup> September (final publication) to 31<sup>st</sup> May and 31<sup>st</sup> July respectively. This will apply for the accounts for the financial year 2017/18 onwards.

3.23 Councils were notified of this change in 2014 in order to allow time to make the necessary changes in their processes and external auditor's time to adjust their arrangements accordingly.

3.24 The Council produced its draft accounts for audit shortly after 31<sup>st</sup> May 2016 (for the financial year 2015/16) and will aim to do this before 31<sup>st</sup> May 2017 (for the financial year 2016/17) in order to streamline its processes ahead of 2017/18.

3.25 The Council will need to change its Committee timetable to accommodate the earlier dates. This will affect meetings of the Audit Sub-Committee and Finance and Management Committee early in the Civic Year 2018/19.

### **Content and Format of Statutory Accounting Statements**

3.26 Each year the Code of Practice on Local Authority Accounting in the UK (*the Code*) is reviewed by the governing accounting bodies. Generally, some minor amendments and technical changes are made each year to certain disclosures without affecting the underlying principles of the Code.

3.27 The Code for 2016/17 is introducing two more substantial changes to the Accounts which will impact upon for the Statutory Statement for the financial year 2016/17. These are as follows:

### **Accounting for Highways Network Assets**

3.28 The Code will bring about some technical changes to how these assets (highways and carriageways) are accounted and recorded in the Accounts. It is considered that this will not have an impact on the Council.

3.29 However, it is not entirely clear whether the definition of these assets includes public footpaths/bridleways and rights of way, together with unadopted roads. If these are included then the Council will need to identify any such assets under its ownership and account for them in accordance with the Code.

### **Improving the Presentation of the Financial Statements**

3.30 Currently, the Comprehensive Income and Expenditure Statement (CIES) reports the accounting cost of services in a broad way, which groups services under generic categories. This does not generally accord to the way in which councils organise themselves financially to report the cost of services for budgeting and decision-making purposes.

3.31 In addition, the CIES does not easily report the cost of services on a funding basis, i.e. it does not report the cost of services to show how the cost of the Council, excluding accounting adjustments, is funded through Government Grants, Council Tax and Housing Rents.

3.32 Following a period of consultation, the Code will be changed from 2016/17. Consequently, the equivalent income and expenditure statement will report costs in accordance with the Council's own budgeting and reporting arrangements and not on the generally accepted Service Code of Practice.

3.33 A separate Expenditure and Funding Analysis will be required. This should streamline disclosure notes and supporting statements and reconcile the General Fund and HRA position back to the CIES.

3.34 The aim is to improve the format of the main accounting statements so that they are more meaningful to stakeholders and that they can be more easily reconciled to the Council's internal reporting procedures.

### **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 Audit and Accountability Act 2014

<http://www.legislation.gov.uk/ukpga/2014/2/contents/enacted/data.htm>