

South Derbyshire District Council

Audit progress update

6 June 2024

Overview

This paper seeks to update members of the Audit Sub-Committee on the progress of our Value for Money procedures for the 2021/22 and 2022/23 financial years.

Following the update paper reported in March 2024, we held catch-up meetings with section 151 officer where additional matters were brought to our attention.

Our work remains in progress at this time, and we will seek to finalise our reporting to management and the committee at a later date once our procedures have been concluded. We have included a summary of the previous Value for Money related matters in appendix 1 to this report.

Value for Money progress update

As previously reported, we identified one significant weakness that will result in exception reporting in our audit opinion related to budget setting (please see appendix 1). We also identified three other areas, which whilst they did not result in significant weaknesses, they did result in recommendations for the Council.

Since our March 2024 report management have informed us of two further matters relating procurement and compliance with Housing Consumer Standards for Social Housing. We have included a summary of the matters below and their impact on our reporting where relevant.

1. Procurement Service arrangement

During our Value for Money review we have considered the limited assurance report issued by Internal Audit as part of the 2022/23 Internal Audit Plan on procurement, specifically *'the arrangements in place for the Council to monitor the delivery and performance of the contract for Procurement Services, and that the contract was being delivered by the Procurement Service Provider in accordance with contractual requirements'*.

The Internal Audit report identified 4 recommendations being, 1 low risk, 2 moderate risk and 1 significant risk. The significant risk finding identified that *'It could not be demonstrated that the contract with the Procurement Service Provider provided an effective procurement function which sought genuine competition'*. The two moderate risk findings related to a lack of KPI monitoring and progress reporting, with satisfaction levels being below the 80% required by the contract with the Procurement Service Provider.

Internal audit recommended that the Council needed to consider a more competitive approach in procuring council services.

One of the actions by management linked to the above and the Council's procurement contract evaluation and renewal process, was that the Council appointed an interim Procurement Lead to evaluate the procurement processes of Council.

As part of a routine procurement spend analysis the Council identified that the process of acquiring temporary staff through agency arrangements have not followed the Council's preferred procurement framework for Temporary Resourcing. This has resulted in non-compliance over a 5-year period from 2019 to 2024 with initial reporting identifying that the associated spend is material over this period and on an annual basis.

Management is continuing to investigate the matter along with considering if there are any further instances of non-compliance.

However, we have evaluated the Council's arrangement against the guidelines of Auditor Guidance Note 3 (AGN 03) - Auditors' Work on Value for Money (VfM) Arrangements, and consider the above matters related to procurement to be a significant weakness in the arrangements in place for the 2021/22 and 2022/23 financial years; specifically, improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services - where the body commissions or procures services, how it assesses whether it is realising the expected benefits.

Based on the recently identified non-compliance related to the agency services; we conclude that the Council has significant weakness in arrangement related to the commissioning of temporary staff from years 2019-2024 and will be included in the VfM conclusion for 2021/22 and 2022/23.

Management response

The auditors' findings are accepted. This matter was identified by additional resource employed because of Leadership Team review of the current arrangements for procurement and additional resource agreed as part of setting the 2024/25 budget. The issue has been reported within the Annual Governance Statement for 2023/24. Since identifying the issue, an action plan has been developed and is currently being implemented to ensure that future temporary staffing arrangements are commissioned via the Council's preferred framework route or where necessary, other routes that are compliant with the Public Contract Regulations 2015 and that live temporary staffing arrangements that are not compliant, are exited appropriately. The Internal Auditor has also been engaged to undertake a review of this position and a wider spend analysis review.

2. Housing Services review

Management informed us that a self-referral to the Social Housing Regulator was made in April 2024 due to non-compliance with the Housing Consumer Standards that became effective from 1 April 2024.

The White Paper was published in 2020 and therefore provided the Council with sufficient time to plan to ensure that the Council was compliant with the new standards by 1 April 2024.

This constitutes non-compliance with laws and regulations, however, from a value for money perspective we note that our reporting on the Council's arrangements for those years covers 2021/22 and 2022/23. We note the non-compliance and bring it to the attention of Those Charged with Governance, but do not consider this to be a significant weakness in arrangements for 2021/22 and 2022/23 given the timing of when the Housing Consumer Standards came into effect.

We do note that the Council has had time to prepare for meeting the requirements of the Standards and therefore recommend that the Council assure themselves as to why non-compliance was not identified sooner so that it could be rectified before the Standards coming into effect, and where that was not achievable why the non-compliance was not identified flagged to the Social Housing Regulator in advance.

Management response

The auditors' findings are accepted. This matter was identified by the Leadership Team and reported to Those Charged with Governance at the earliest opportunity when the full information was understood. Council resolved to request a 12-month extension from the regulator to meet the standards and to form a Housing Services Working Group to develop a Performance Improvement Plan. At the time of writing, dialogue with the Social Housing Regulator has commenced. The issue has been reported within the Annual Governance Statement for 2023/24. We have also referred the matter to our Internal Auditor and have engaged them to undertake a review of our governance arrangements with a view to identifying improvements in our arrangements to identify and mitigate any occurrences of non-compliance with laws and regulations, should they arise in the future.

Further actions required

As a result of our findings to date we have discussed with management the need to update the Annual Governance Statements for 2021/22 and 2022/23 to reflect the identified issues and weaknesses in arrangements in line with the requirements of the CIPFA Code of practice on local authority accounting in the United Kingdom.

We are continuing to finalise our audit procedures and are considering what additional work is required to ensure that the risk of further significant weaknesses has been addressed. This includes ensuring that the Annual Governance Statements for 2021/22 and 2022/23 are compliant with the CIPFA Code of practice on local authority accounting in the United Kingdom and associated guidance.

Appendix 1 – Previously reported matters in the March committee meeting

As reminder to the committee the following will be considered in our final Value for Money report for South Derbyshire District Council but was reported to the committee at its meeting in March 2024.

1. Budget setting

During 2021/22 internal audit identified a significant risk finding where they concluded that *"The annual General Fund, Housing Revenue Account and Capital budgets were not formally received and approved by Full Council, as required by the Council's Constitution and to meet the requirements of the Local Government Act 2000"*.

This has also been included in the Annual Governance Statement for 2021/22, along with details of remedial action. Given that the approval of the budget is a statutory requirement of full council we consider this to be evidence of a significant weakness in relation to Governance- how the body ensures that it makes informed decisions and properly manages its risks, specifically related to how the body approaches and carries out its annual budget setting process.

As a result of the above we have identified a risk of significant weakness for 2021/22 and 2022/23 and will report on an exception basis that there is an identified significant weakness in the budget setting process as set out above.

The matter also constitutes non-compliance with laws and regulations.

Management response:

The auditors' findings, subject to further investigation, are accepted.

The 2024/25 budget setting has complied in full with the statutory requirements of the Local Government Act, with approvals at its meeting on 28 February 2024.

This has included separate decisions in relation to approval of the:

- ▶ General Fund revenue budget
- ▶ Housing Revenue Account revenue budget
- ▶ General Fund and HRA Capital Programmes
- ▶ Council Tax setting
- ▶ Rent setting
- ▶ Fees and charges
- ▶ Treasury Management Strategy
- ▶ Capital Strategy
- ▶ Non-Treasury Investment Strategy
- ▶ Prudential Indicators
- ▶ Minimum Revenue Provision Policy.

We are currently considering the position in previous years with the External Auditor. This includes the findings of the Auditor's Annual Report for the Year ended 31 March 2021,

which was issued in June 2023, which stated that the budget once completed was approved by Council.

2. Inspection period

In September 2023 we identified that the inspection period for the 2021/22 financial statements had not been publicized and undertaken. We notified management of this on 28th September 2023 and they acted and published the accounts for inspection from 22nd November 2023 to 10th January 2024.

Management response:

The auditors' findings are accepted. Appropriate steps to resolve this matter were taken immediately once identified, with the publishing of the accounts' inspection notice on 28 September 2023.

3. Risk management

During our discussion with officers and review of the Council's risk management process and risk registers we have identified that there are three risk registers (Corporate, Chief Executive and Services) comprising of over 50 risks that are monitored via the Council's committees.

Whilst there is evidence of these risks being monitored and managed, there is a risk that the most strategic risks impacting the Council are not given due regard or attention. The Council should evaluate whether the current risk management structure is delivering efficient and effective risk management, and whether it is clear what the most strategic risks are to the organisation and what committees those risks be should be received by.

Management response:

The auditors' findings are accepted and a review of the Council's risk management process is underway.

4. Medium Term Financial Planning Strategy

During our discussion with officers and review of the MTFP we have identified that the Council does not have a formal strategy in place for its MTFP. From review of the MTFP we note that whilst potential risks are identified and the impact of these on the expected financial outturn and reserves position is detailed, no information is included on longer term financial management of this position, strategies to mitigate risks and implications for the Council.

Management response:

The auditors' findings are accepted. A Medium-Term Financial Strategy is tabled for consideration by the Finance and Management Committee on 14 March 2024 and is subject to Council approval on 11 April 2024.