

Date: 6th June 2017

Dear Councillor,

Audit-Sub Committee

A Meeting of the **Audit-Sub Committee** will be held in the **Council Chamber**, on **Wednesday, 14 June 2017 at 16:00**. You are requested to attend.

Yours faithfully,



Chief Executive

To:- **Conservative Group**
Councillor Grant (Chairman), Councillor Atkin (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 following Meeting:

Audit Sub-Committee 29th March 2017 Open Minutes **4 - 5**
- 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 BRIEFINGS 2017 **6 - 27**
- 7 EXTERNAL AUDIT - INTERIM UPDATE REPORT **28 - 37**
- 8 INTERNAL AUDIT PROGRESS REPORT **38 - 54**
- 9 INTERNAL AUDIT ANNUAL REPORT 2016-17 **55 - 65**
- 10 LOCAL CODE OF CORPORATE GOVERNANCE ANNUAL REPORT **66 - 84**
2016-17
- 11 ANNUAL GOVERNANCE STATEMENT 2016-17 **85 - 106**

Exclusion of the Public and Press:

- 12 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.

- 13** To receive the Exempt Minutes of the following Meeting:
Audit Sub-Committee 29th March 2017 Exempt Minutes
- 14** To receive any Exempt questions by Members of the Council pursuant to Council procedure Rule No. 11.

AUDIT SUB-COMMITTEE

29th March 2017

PRESENT:-

Conservative Group

Councillor Grant (Chairman) and Councillor Mrs Wyatt.

Labour Group

Councillors Dunn and Shepherd.

AS/41 **APOLOGIES**

The Sub-Committee was informed that no apologies had been received.

AS/42 **MINUTES**

The Open Minutes of the Meetings held on 14th December 2016 and 15th February 2017 were taken as read, approved as a true record and signed by the Chairman.

AS/43 **DECLARATIONS OF INTEREST**

The Sub-Committee was informed that no declarations of interest had been received.

AS/44 **TO RECEIVE ANY QUESTIONS FROM MEMBERS OF THE PUBLIC PURSUANT TO COUNCIL PROCEDURE RULE NO.10**

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

AS/45 **TO RECEIVE ANY QUESTIONS FROM MEMBERS OF THE COUNCIL PURSUANT TO COUNCIL PROCEDURE RULE NO.11**

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

MATTERS DELEGATED TO SUB-COMMITTEE

AS/46 **PROPOSED INTERNAL AUDIT PLAN 2017/18**

The internal auditor presented the report to the Sub-Committee, summarising the risk assessment process and that, for 2017/18, the Plan would include Sharpe's Pottery, Housing New Build and Organisational Culture and Ethics as topics for the first time.

Councillor Dunn made reference to the weighting applied as part of the procurement process at the County Council and queried whether the District Council had a similar system. The Director of Finance and Corporate Services confirmed that a similar process existed at South Derbyshire and the internal auditor stated that the process would be subject to audit during the forthcoming year.

RESOLVED:-

Members considered and approved the implementation of the proposed Internal Audit Plan for 2017-18, subject to any changes agreed by the Committee.

AS/47 **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.

MINUTES

The Exempt Minutes of the Meeting held on 15th February 2017 were taken as read, approved as a true record and signed by the Chairman.

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

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

INTERNAL AUDIT MONITORING REPORT (Paragraph 1)

Members noted the contents of the verbal update.

The Meeting terminated at 4.35pm.

COUNCILLOR J GRANT

REPORT TO: AUDIT SUB COMMITTEE **AGENDA ITEM:** 6

DATE OF MEETING: 14th JUNE 2017 **CATEGORY:** RECOMMENDED

REPORT FROM: DIRECTOR OF FINANCE and CORPORATE SERVICES **OPEN**

MEMBERS' CONTACT POINT: KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk **DOC:** u/ks/audit/EY/quarterly update cover

SUBJECT: LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFINGS 2017

WARD(S) AFFECTED: ALL **TERMS OF REFERENCE:** AS 01

1.0 Recommendation

1.1 That the Committee consider the key questions raised by the Council's External Auditors contained in their quarterly sector updates for 2017.

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 first two quarters for the calendar year 2017 are appended to this report.

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

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 winter forecast

In its latest forecast the EY Item Club cautions that, whilst it may look like the economy is taking the referendum in its stride, the impression could be deceptive. A timely reminder that trouble may lie ahead is provided by Sterling's recent performance.

The UK economy is forecast to undergo a gradual dip and recovery over the coming four years, with GDP growth slowing to 1.3% in 2017 and just 1.0% next year, before picking up to 1.4% in 2019 and 1.8% in 2020. The ability of the economy to deliver against this forecast is seen as highly dependent on its foreign trade performance, the expectation is that this will improve this year as consumer spending slows down.

In terms of inflation as measured by the Consumer Prices Index it is expected to rise in excess of 3% by the end of 2017, before falling back towards the Bank of England's 2.0% target in 2018. With the economy slowing down and wage inflation remaining subdued, the forecast is that base interest rates will be held at 0.25% by the Monetary Policy Committee until the spring of 2018.

Looking ahead, the UK's trade performance and output growth in 2019 and beyond will depend critically on the exit terms that can be agreed with the EU27 and other countries. Whilst there is greater clarity about the UK's negotiating position, elections coming up later this year in several European countries mean that the negotiating position of the EU27 will take longer to get a clear picture of. Additionally, the US election result complicates Britain's exit from the EU due to uncertainty over the US economic and foreign policy.

Social Care Precept and New Homes Bonus

The 'Provisional local government finance settlement 2017/18' announced that an additional £900mn would be used to fund the social care system over the next two years. This will be made up of two parts:

- ▶ £240mn transfer from the new homes bonus
- ▶ £652mn from increasing the social care precept (£208mn in 2017/18 and £444mn in 2018/19)

New Homes Bonus

The consultation for the new homes bonus ended and the Government made a number of revisions to the grant. The transfer from the new homes bonus represents a change that ensures that councils will only receive funding for housing built above the national housing growth baseline of 0.4%. There will also be a movement to five year payments from 2017/18 and four year payments from 2018/19.

There are no proposals to withhold grants for those authorities without a local plan in 2017/18 but this will be revisited for 2018/19. The bonus will continue to be unringfenced as in previous years.

Social Care Precept

Councils will have the flexibility to increase the dedicated social care precept by up to 3% in 2017/18 and 2018/19 (this was previously capped at 2% for each of the three years 2017/18 to 2019/20). If this is chosen it will be equivalent to an increase of £1 a month on an average Band D Council Tax bill. However the social care precept would need to remain at 6% over the next three years, therefore if the increased 3% was taken in 2017/18 and 2018/19 it could not be increased again in the following year.



Government and economic news

Within the 'Provisional local government finance settlement 2017/18' It has been highlighted that increased funding is not the only way to improve social care but better integration of the health service and local government is needed. In Oxfordshire this has led to a 40% fall in delayed discharges in 6 months and in Northumberland increased work between the council and the health service has led to a 12% reduction in demand on residential care.

Local Government Funding Settlement

The four year funding settlement has been agreed to by 97% of councils. This will mean councils will have £7.6bn in total dedicated social care funding over the four years up to 2019/20. In return they will have to publish efficiency plans online.

It is expected that top-tier authorities are likely to benefit most from the settlement as they have high-demand critical services and will therefore receive more funding. However district councils will see a greater squeeze on their budgets due to the reduction in the new homes bonus.

This comes as a step towards devolution. The introduction of fully retained business rates will also bring about more power for councils to serve their local communities. However this does open councils up to more risk. For this to be beneficial the economy will need to grow and more houses will need to be built. Councils therefore need to think about how they will ensure that this does not leave them in a worse position than through central government funding.

Funding for new care model vanguards

In order to support and spread the work of new care model vanguard projects, NHS England has announced over £100mn of funding being made available. NHS England sees that the existing vanguards, partnerships of NHS, local government, voluntary, community and other organisations are improving the health people receive, preventing ill health, and saving funds.

They are seen as key to the delivery of Sustainability and Transformation Plans (STPs) which are being developed across the country and, in addition to funding, the vanguards receive support to implement their plans from both NHS England and other national bodies. This includes how they harness new technology including apps and shared computer systems, and to develop their workforce so that it is focused around patients and their local populations. Vanguards are required to meet a number of conditions to obtain funding, including:

- ▶ Demonstrating clear improvements in quality and costs/savings
- ▶ Spreading their new care models, both within their STP and sharing with others (including producing guidance and materials for others to use)

The announcement highlights examples of areas the latest funding will be used on, and examples of work done to date. These include:

- ▶ **Fylde Coast Local Health Economy vanguard** – a new 'extensive care service' bringing together different health professionals offering targeted support for older patients with multiple conditions, this has contributed to significant reductions in areas such as non-elective admissions (25%) and A&E attendances (13%)
- ▶ **Mid Nottinghamshire Better Together vanguard** – joined-up community teams are working with patients and their families/carers, providing physical, mental and social care support to ensure people are wherever possible cared for at home. The vanguard has reported reductions in long term admissions to care homes and acute bed days, together with significant year-on-year reductions in avoidable patient attendances (20.5% for patients aged 80 years and above compared to 2015/16)



Government and economic news

- ▶ **East and North Hertfordshire Clinical Commissioning Group vanguard** – employing pharmacists to work with GPs, care home staff and other healthcare professionals to provide detailed medicine reviews for residents. Working with the care homes, the vanguard has already reviewed over 900 patients and the use of 8,000 medicines. Of these over 1,000 medicines have been stopped, including nearly 200 which could have increased the risk of falls. The estimated direct cost savings are in excess of £160,000

Financial Sustainability of Schools

The Department of Education has predicted that mainstream schools will have to find savings of £3bn (8%) by 2019/20. This is expected to come from efficiencies from the following:

- ▶ £1.3bn from better procurement
- ▶ £1.7mn from using staff more efficiently

The Government has proposed to increase the schools budget over the next four years, and by 2019/20 the increase will be 7.7% compared to the 2015/16 level. However the increase in pupil number is expected to be 3.9% in the same period, once inflation is taken into account; this is a real time reduction in funding per pupil.

The Department continues to publish advice on financial management and efficiency savings.

The proportion of secondary schools overspending rose from 34% in 2010/11 to 59% in 2014/15. For academies this rose from 39% to 61%. The reasons for this are unclear, and the sustainability of this spending is unknown.

Highway Network Assets

The depreciated replacement cost accounting for Highway Network Assets is expected to come into effect from 1 April 2017, but is subject to confirmation from CIPFA. EY has run a number of workshops for clients and there are a range of levels of confidence over the accounting treatment for the asset. It can however be seen that the levels of confidence have increased from this time last year.

The key question for councils to consider will be how can we demonstrate that their Highways Asset Management System is complete and that all assets exist.

By following the DREAM approach set out below we believe the task will run smoother.

Document highways systems: Almost all highways and engineering IT inventory information has not been subject to audit and lack detailed procedure manuals/notes. Full documentation of the key core data systems should be completed as one of the initial tasks that an authority carries out.

Reports and reconciliations: Assess the information requirements of the task and whether the existing systems can produce the required reports and reconciliations or will new reports and reconciliations be needed? Identify any corrective action required.

Evidential based: The quality of the inventory is key to the change. So as well as documentation of inventory systems, establish how you will evidentially prove that the inventory is complete and the named assets exist. This includes key asset dimensions. However, before engaging expensive external contractors to do this consider all the processes that you currently have in place that actually do this ranging from routine cyclical inspections to independent system reviews. Use this to identify areas where 'top-up' work is required.



Government and economic news

Audit: Early and regular engagement with both internal audit (IA) and external audit (EA) is a key determinant of successful implementation. IA can assist in establishing documentation procedures and can carry out system audits of those systems. Sharing your proposals with EA in advance will reduce the risk of abortive work. Decisions on what work you actually do are a matter for the authority, but the EA will provide comments on proposed approaches.

Materiality: This is a key concept both to the authority as the accounts are stated to include all material items and EA who audit to a calculated materiality level. Materiality has both quantitative and qualitative aspects. In simple terms the quantitative identifies the level at which consideration needs to be given to whether omission of an item or inclusion of an error requires correction. The qualitative level is where a professional judgement is made as to whether correction of that item would influence decisions of the users of the accounts.

As the Highway Network Asset is to be classed as a single asset the materiality is based upon the total value and not the constituent parts. Due to the importance of this amount discussions around the level at which the authority is considering setting it at should take place with your external audit team at an early stage to ensure that this will not lead to problems in the audit process.

For further information please consult with your audit team

Sustainability and Transformation Plans

Sustainability and Transformation Plans (STP) have now been produced 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 effecting delivery of the STP. These include meeting control totals to reduce deficits and meeting certain performance requirements. 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.

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 Plans have been delivered in a relatively short timeframe and propose major changes to services. With the growing financial challenges in the system, the Plans 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.



Government and economic news

All parties to the STP will need to collaborate to ensure the plans take full account of the pressures faced by the individual parties. Whilst the process provides opportunities for areas with challenging finances to identify solutions, there will be difficult decisions to be made about the range, type and location of services that are delivered. Per the NHS Confederation, the important element of prevention requires a strong role from public health as well as wider Council services such as housing, leisure and recreation, planning and children's services.

The leadership of the STP is critical to the success of the plan. The role of the STP leaders needs to be clarified with many leads finding it difficult to manage their original responsibilities alongside their leadership role. There are plans for some leaders to share leading more formally in the future. However where there are a large number of organisations involved this may be more difficult to do.

Priorities for social care in 2017

The Kings Fund has set out what it believes the five priorities should be for social care in the current year as follows:

- ▶ **Supporting new care models centred on the needs of patients** – Giving greater priority to public health and prevention, through partnerships between local government, the NHS, and other organisations, focused on both supporting people to remain in good health for as long as possible and engaging the public in tackling the causes of ill health. Additionally, they emphasise the need for continued support for vanguards both in delivering in their areas and spreading that good practice across the system
- ▶ **Strengthening and implementing sustainability and transformation plans** – The Kings Fund suggests that, to ensure that the service changes and the financial plans that underpin them are credible, all STPs need to be stress

tested. It also highlights that STPs have 'no basis in statute' and suggests that their governance is formalised to align their work with the responsibilities of the boards running NHS organisations

- ▶ **Improving productivity and delivering better value** – With the need for increasing productivity becoming more urgent as funding decreases and deficits amongst NHS providers increases, the fund suggests that the priority for every NHS organisation should be to support clinical teams to reduce unwarranted variations in care and to improve care. It sees the boards of NHS organisations as having a key role in leading this work, ensuring that developing the cultures in which improvement is supported and valued and making resources available to support implementation
- ▶ **Developing and strengthening leadership at all levels** – It is clear that clinical leaders have a crucial role, working with operational managers, to deliver high-quality care. This is where many of the productivity opportunities arising from changes in clinical practice can be realised. They argue that this requires leaders who are (in their words) 'comfortable with chaos' because they can work within fluid and often rapidly changing organisational arrangements and that the NHS can learn from local government
- ▶ **Securing adequate funding for health and social care** – They refer to the need for a debate about a new settlement for health and social care, building on the work of the Barker Commission, and going further than short-term interventions that have sought to shore up the system. They argue that an equitable and sustainable system would be one in which public funding is increased (paid for by increases in taxes and National Insurance and changes to some existing benefits), and a closer alignment between entitlements to social care and health care



Accounting, auditing and governance

PSAA Audit Services Procurement Strategy for the appointment of local auditors

The PSAA is entering into contracts with audit firms to make auditor appointments by 31 December 2017. There are a total of 493 eligible authorities who have been invited to opt in. These include local authorities, combined authorities, police and crime commissioners, chief constables, fire and rescue authorities, waste authorities, passenger transport executives and national park authorities.

The timetable for the appointment is as follows:

Key milestone	Target date
Issue OJEU Contract Notice and Selection Questionnaire (SQ) available on request	16 February 2017
Deadline for eligible bodies to notify PSAA of their decision to opt-into the scheme for audits of 2018/19 accounts	9 March 2017
Deadline of submission of SQs	21 March 2017
Issue ITT to short-listed suppliers	6 April 2017
Deadline for submission of tenders	10 May 2017
PSAA board approves contract award	30 June 2017

The contract will be awarded for five years to suppliers but PSAA may extend this contract by two years. It is expected that opting-in will achieve lower audit fees than those authorities that choose to negotiate alone. Fees are expected to be published in March 2018.

Report on the results of auditors work LG bodies 2015/16

In December 2016 PSAA published its first report on the results of auditors' work across 497 principal local government bodies, including 357 councils, 31 fire and rescue authorities, 76 police bodies and 33 other local government bodies, and 9,756 small bodies, with a turnover of less than £6.5mn, including 9637 parish councils. The results within the report cover audit work on the financial statements, the WGA return, arrangements to secure value for money and any exercise of the auditor's statutory reporting powers.

The timeliness and quality is broadly consistent with prior year, however the number of early unqualified opinions (issued by 31 July 2016) doubled compared to those issued in respect of 2014/15.

96% of auditors issued an opinion on the accounts by 30 September 2016 and for the third year in a row there were no qualified opinions on principal bodies. The proportion of qualifications on value for money arrangements increased from 4% to 6%.

With faster close in place from the 2017/18 financial year, there is a need for efficiencies from both local government bodies and their auditors in order to maintain the level of performance shown in this report. EY have produced an article on 'Accelerating your financial close arrangements', this can be found by following this link [http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/\\$FILE/EY-accelerating-your-financial-close-arrangements.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/$FILE/EY-accelerating-your-financial-close-arrangements.pdf). The report provides suggestions such as reviewing the format of the accounts, reviewing the approach to estimates and managing members' expectations, amongst others.



Key questions for the audit committee

What questions should the Audit Committee be asking itself?

Has the Authority made a decision on whether or not to opt into the PSAA sector-led arrangements for the local appointment of auditors from 2018-19? Has the authority decided whether they will use the revised flexibility on the social care precept for 2017/18 and 2018/19?

How confident is the authority about its preparation for the introduction of Highway Network Assets? Have there been discussions with the external audit team on the key issues and plans for implementation?

Has the authority engaged positively with health and other partners in the development of Sustainability and Transformation Plans?

Has the Authority put plans in place to meet the faster close requirements for 2017/18?



Find out more

EY Item Club winter forecast

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

Social Care, Precept and New Homes Bonus

http://www.publicfinance.co.uk/news/2016/12/council-tax-precept-and-new-homes-bonus-deployed-stem-social-care-crisis?utm_source=Adestra&utm_medium=email&utm_term

<https://www.gov.uk/government/news/dedicated-adult-social-care-funding-forms-key-part-of-continued-long-term-funding-certainty-for-councils>

<https://www.gov.uk/government/consultations/new-homes-bonus-sharpening-the-incentive-technical-consultation>

Four year funding settlement

<http://www.publicfinance.co.uk/news/2015/12/local-government-settlement-offers-councils-four-year-funding-deals>

Funding for new care model vanguards

<https://www.england.nhs.uk/2016/12/vanguard-funding/>

Financial Sustainability of Schools

<https://www.nao.org.uk/report/financial-sustainability-in-schools/>

Sustainability and Transformation Fund

<https://www.kingsfund.org.uk/blog/2016/11/will-stps-deliver-changes-we-wish-see-our-health-and-care-services>

<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>

Priorities for social care in 2017

<https://www.kingsfund.org.uk/publications/priorities-nhs-social-care-2017>

PSAA Audit Services Procurement Strategy for the appointment of local auditors

<http://www.psa.co.uk/supporting-the-transition/appointing-person/procurement-strategy/>

Report on the results of auditors work LG bodies 2015/16

<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>

[http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/\\$FILE/EY-accelerating-your-financial-close-arrangements.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/$FILE/EY-accelerating-your-financial-close-arrangements.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.

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.

© 2017 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ED None

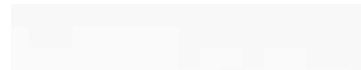
EY-000021170.indd (UK) 02/17. Artwork by CSG London.

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




**Local
government
audit committee
briefing**



Contents at a glance





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

Brexit Update

On Wednesday 29 March 2017 Theresa May triggered article 50, the part of European Union law that sets out the process by which member states may withdraw from the union. European governments and the EU as an institution are at the vanguard of the Brexit process. The challenge of unravelling the UK from the EU is a significant one. Negotiations will be complex as there seems little likelihood now that one of the existing models for non-EU European countries' relationships with the EU can simply be extended to the UK.

As advisers to the sector, we have a critical role in working with our clients through this period of uncertainty. The negotiations will touch on multiple policy areas – such as trade, immigration and border control, tax and customs, transport and infrastructure, higher education, state aid, energy and the environment – and will

require significant change in the Government and Public Sector. Whilst UK government departments consider potential scenarios for different outcomes of the negotiations, EU negotiators will in turn have the task of balancing the diverse interests and priorities of the other 27 Member States.

The UK's exit seems like a long way off, but it is essential for us to keep abreast of political, regulatory and economic developments as negotiations progress. We will monitor the situation on an ongoing basis and provide connectivity, timely information, communication and tailored content to our Government and Public Sector clients.

For further information and our most recent views of the impact of Brexit on the economy please see the EY Item Club article within the EY website, full link is below in the 'Find Out More' section.

Page 20 of 106



Final Local Government Finance Settlement

The Local Government finance settlement has been finalised after formal representations were received from a number of organisations and individuals.

This includes the four year funding allocations so councils can publish efficiency plans for the future. £200bn was allocated for the settlement.

This Local Government Finance Bill will devolve 100% of business rates. As a result of this the revenue support grant will be abolished. This is a move to make councils financially self-sufficient. It also means that there will no longer be an annual finance settlement each year. The scheme is being piloted in Greater Manchester, Liverpool City Region, the West Midlands, Cornwall, the West of England and Greater London Authority. In 2018-19 further pilots will take place and councils can apply to be a part of this. The scheme will be rolled out nationally in 2019-2020.

New Valuations of Business Rates

The Government implemented a £6.7bn relief package which came into effect from April 2017 due to the new valuation listings. This will mean around three quarters of businesses will see a reduction or a freeze in the business rates they pay. The revaluation will not affect the overall income received by the Treasury as it is fiscally neutral. However, it could affect the level of income received by a council based on the mix of businesses in a constituency. Each local authority must develop schemes for how the business rate relief is allocated which will require member approval.

Spring Budget 2017 – Adult Social Care funding

It was announced in the Spring Budget that £2bn worth of additional funding will be provided to councils in England for use on adult social care over the next three years. £1bn of this will be available in 2017-18 meaning more care packages can be funded immediately. Funding will be supplemented with targeted measures. This is to ensure areas with the greatest challenges make improvements.

NAO report: Health and social care integration

In this report the National Audit Office (NAO) states that integration of health and social care has been less successful and progressed slower than envisaged, and has not delivered all of the expected benefits for all parties (patients, the NHS or local authorities). It says that the Government's plans for integrated health and social care services across England by 2020 are at significant risk.

One of the key areas of focus in the report is the Better Care Fund (which in its first year involved the pooling of in excess of £5bn of funds). Whilst the NAO saw that its introduction has improved joint working, its potential has not been achieved. Its principal financial and service targets over 2015-16 were not met. Compared with 2014-15 emergency admissions increased by 87,000 against a planned reduction of 106,000 costing £311mn more than planned. In the same period, days lost to delayed transfers of care increased by 185,000 against a planned reduction of 293,000 costing £146mn more than planned. The report acknowledges that the Fund has been successful in encouraging local areas to work together, with more than 90% of local areas agreed or strongly agreed that delivery of their plan had improved joint working. Improvements were seen in reductions in permanent admissions of age 65 and over to nursing and residential care homes, and in increasing the proportion of older people still at home 91 days after discharge from hospital into rehabilitation or re-ablement services.

In respect of central government, the NAO states that whilst the Department of Health and the Department for Communities and Local Government have identified barriers to integration, (e.g., misaligned financial incentives, workforce challenges and reluctance over information sharing), but are not addressing them in a systematic way. Government commissioned research in 2016 assessed that local areas are not on track to achieve the target of integrated health and social care by 2020.

NHS England's ambition to save £900mn through introducing seven new care models was seen to potentially be optimistic. The models' impact is still being assessed and they are not yet proven. According to the NAO, there is poor governance and oversight of the initiatives examining different ways to transform care and create a financially sustainable care system (e.g., The Integration Partnership Board only receives updates on progress of the Better Care Fund with no reporting from other integration programmes).

Finally, there was no compelling evidence found to demonstrate that sustainable financial savings or reduced acute hospital activity results from integration. Whilst it recognises that there are some good examples of integration at a local level, assessment of these has been hindered by issues with comparable cost data across different care settings, and difficulty tracking patients.





Accounting, auditing and governance

Current Accounting Issues

As Local Authority finance teams across the country begin to close down the 2016/17 financial year and prepare the financial statements, it is timely to highlight the two main changes to financial reporting requirements impacting in 2016/17 and subsequent years.

'Telling the Story'

Local Authority financial statements will look different in 2016/17 when compared to previous years. These changes arise from the

changing requirements of the Local Authority Accounting Code of Audit Practice issued each year by CIPFA. The 2016/17 Code now includes the accounting requirements of CIPFA's *'How to tell the story'* publication.

CIPFA has been working on a project for the last few years to both streamline Local Authority financial statements and improve their accessibility to the user. One way in which user accessibility has been strengthened is to try and make year-end external reporting through the financial statements look more like in year internal management reporting. As a result, the main changes to



the 2016/17 financial statements will be to the Comprehensive Income and Expenditure Statement (CIES) and associated disclosure notes. The key changes to look out for are:

- ▶ How income and expenditure are analysed on the face of the CIES. In previous years Local Authorities had to analyse their service income and expenditure using the service expenditure analysis prescribed by CIPFA in the Service Reporting Code of Practice (SeRCOP). Local Authorities must now provide this analysis in the same format and reporting segments that they use for internal management reporting throughout the year.
- ▶ The introduction of a new note supporting the CIES, the Expenditure & Funding Analysis (EFA). The objective of this new note is to provide a direct reconciliation between the way local authorities are funded, how they budget and the CIES in a way that improves accessibility to the user of the financial statements. The analysis of expenditure and funding within the EFA must follow the same segmental analysis used in the CIES and internal reporting.

This subject was covered in detail at the recent EY CIPFA Accounts Closedown Workshops that were run as part of the EY and CIPFA strategic alliance. The 32 workshops were attended by over 800 Local Authority finance staff across the UK.

Highways Network Asset

Previous Audit Committee Briefings have included information regarding the Highways Network Asset (HNA) Code which was published in 2016. The key aim of the Code was to improve the asset management of the HNA at Highway Authorities. The Code also sought to provide the basis for improved financial information by setting out a move to valuing such assets on a Depreciated Replacement Cost (DRC) basis, which in simple terms is the difference between the current costs of replacing an asset less an allowance (depreciation) for the age of that asset.

The implementation of the HNA Code has encountered a number of issues, and its original implementation date of 2016/17 was deferred. At its meeting on March 8 2017, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.





Regulation news

Gender Pay Gap Reporting Regulations

The Gender Pay Gap Reporting regulations come into effect in April 2017 and they will impact on every organisation that has 250 or more employees.

Under these regulations organisations will be required to publish:

1. The gender pay gap for the pay period to 5 April each year. Numbers need to be submitted to a Government portal (still in development) and be placed in a searchable position on the organisations own website where they need to remain for at least three years. There are six calculations:
 - ▶ Mean gender pay gap in hourly pay
 - ▶ Median gender pay gap in hourly pay
 - ▶ Mean bonus gender pay gap
 - ▶ Median bonus gender pay gap
 - ▶ Proportion of males and females receiving a bonus payment
 - ▶ Proportion of males and females in each pay quartile
2. A written statement, authorised by an appropriate senior person (e.g., a director), which confirms the accuracy of the calculations.

3. Optional contextual narrative alongside the numbers on the website – e.g., to explain the reasons for the results and give details about actions that are being taken to reduce or eliminate the gender pay gap.

Whilst organisations have until next April to publish these disclosures:

- ▶ A data snap shot on 5 April 2017 is required to ensure prior year comparisons are possible.
- ▶ It is expected that there may be significant stakeholder and media pressure to publish sooner than the deadline. Some organisations have recently included a requirement in tender processes for potential suppliers to disclose their gender pay gap. Some organisations have already published their disclosures ahead of the deadline.

The impact of the regulations goes well beyond compliance, and some organisations are concerned about the implications of having to publish a significant gap, as this could have an impact on employee engagement and motivation, the ability to attract new talent and the overall reputation of the organisation.

EY have been working with a number of clients to assist them to ensure compliance with this new regulation, speak to your audit team for further information.



Other

Placing gender on the public sector agenda

In a time of significant change for governments and public sector organisations, the ability to draw on a diverse pool of talent – including a mix of genders, ethnicities, ages and backgrounds – is a critical factor in helping governments adapt to the changes disrupting the sector. There is strong evidence that diverse and inclusive leadership sparks better debate, stimulates innovation, and enhances problem-solving and decision-making. In short, it leads to improved performance and better outcomes.

In mid-2016, EY surveyed 80 government and public sector leaders from a range of countries. We wanted to understand their views on gender parity at the leadership level. The survey built on an earlier study involving interviews with 350 business leaders from seven sectors: automotive, banking and capital markets, consumer products, insurance, life sciences, oil and gas, and power and utilities.

Our research reveals overwhelming agreement that gender diversity is crucial to combating the challenges faced by the public sector. Despite valuing diversity, many public sector organisations are not addressing the gender gap in a way that will deliver the needed change. Sixty percent of respondents believe they do not have sufficient diversity of thought and experience within their leadership team.

Through our research, we identified five disconnects that are holding back government and public sector organisations from achieving gender diversity on their senior leadership team.

1. **The reality disconnect:** Public sector leaders assume the issue is nearly solved despite little progress within their own organisations.
2. **The data disconnect:** Organisations don't effectively measure how well women are progressing through the workforce and into senior leadership.
3. **The pipeline disconnect:** Organisations aren't creating pipelines for future female leaders.
4. **The perception and perspective disconnect:** Men and women don't see the issue of gender parity the same way.
5. **The progress disconnect:** Different sectors agree on the value of diversity but are making uneven progress towards gender parity.

In this report, we explore each of these disconnects to better understand the key barriers that women face in moving ahead in their organisations. We also share our insights on what government and public sector organisations can do to accelerate the journey to gender parity.

EY Resources and Information

EY offers a number of resources to our clients, 'Citizen Today' is produced by EY's Global Government and Public Sector team. Here you can read features and interviews covering the big issues facing governments around the world as they seek to provide better services for citizens. This is the Government and Public Sector element of the EY Client Portal, by signing up to this it could help you stay in touch with relevant news.

The EY Client Portal provides a single, continuous connection to EY. This tool can provide you with continuous access to EY worldwide, some of the key benefits are listed below:

- ▶ **Collaborative services** – Providing better management, team synergies, communication, and continuous global access to status and current documents via a variety of protected online work environments and electronic tools.
- ▶ **Individually tailored content, tools, and resources** – Customised so you see only the content, tools, and resources you want and need.
- ▶ **Improved efficiencies** – Helping you work more productively with relevant knowledge, insights, and business tools accessible in one location.
- ▶ **Enhanced service delivery** – Giving you access to EY's global breadth and depth of services and capabilities (self-service to full-service), helping you execute your business decisions.
- ▶ **Global knowledge and expertise** – Valuable and timely insights on evolving business issues, helping you make informed decisions faster.



Key questions for the Audit Committee

Has the Authority considered the potential impact of the business rates relief on the Authority's finances?

Has the Authority considered how effective the integration of health and social care has been in its local area? Are arrangements with local health partners working effectively and has the Authority considered ways in which they could be improved?

Has the authority put in place processes to meet the new accounting requirement for the analysis of income and expenditure in the CIES, and the new note on the Expenditure and Funding Analysis?

How well prepared is the authority for the new requirement to collect and publish gender pay gap data?

Find out more

Brexit EY Item Club

<http://www.ey.com/uk/en/newsroom/news-releases/17-04-10-stronger-global-economy-paves-the-way-to-brexit-says-ey-item-club>

Final Local Government Finance Settlement

<https://www.gov.uk/government/speeches/statement-in-debate-on-the-local-government-finance-settlement>

NAO Report – Health and social care integration

<https://www.nao.org.uk/report/health-and-social-care-integration/>

Gender Pay Gap Reporting Regulations

The regulations – Statutory Instrument 2017/172:
http://www.legislation.gov.uk/uksi/2017/172/pdfs/uksi_20170172_en.pdf

Overview of the rules from gov.uk

<https://www.gov.uk/guidance/gender-pay-gap-reporting-overview>

Guidance – Advisory, Conciliation and Arbitration Service (ACAS) and the Government Equalities Office have published guidance for employers <http://www.acas.org.uk/index.aspx?articleid=5768>

Placing gender on the public sector agenda

[http://www.ey.com/Publication/vwLUAssets/EY-placing-gender-on-the-public-sector-agenda/\\$FILE/ey-placing-gender-on-the-public-sector-agenda.pdf](http://www.ey.com/Publication/vwLUAssets/EY-placing-gender-on-the-public-sector-agenda/$FILE/ey-placing-gender-on-the-public-sector-agenda.pdf)

EY Client Resources and Information

<http://www.ey.com/gl/en/industries/government--public-sector/ey-citizen-today#recent-content>



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.

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.

© 2017 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ED None

EY-000027926.indd (UK) 04/17. Artwork by CSG London.

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

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	14th JUNE 2017	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE & CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/EY/interim reports/interim report summary
SUBJECT:	EXTERNAL AUDIT: INTERIM UPDATE REPORT	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 01

1.0 Recommendations

1.1 That the interim update report is noted and the audit recommendations as detailed in Appendix 1 are approved.

2.0 Purpose of Report

2.1 For the Council's External Auditors to provide the Committee with an update on the progress of their interim work to date on the financial statements and grant claims. This relates to the financial year 2016/17.

3.0 Detail

3.1 The report of the External Auditor is detailed in Appendix 1.

4.0 Financial Implications

4.1 None directly.

5.0 Corporate Implications

5.1 None directly.

6.0 Community Implications

6.1 None directly.

7.0 Background Papers

None

South Derbyshire District Council

Year ending 31 March 2017

Interim update report

6 June 2017



Contents

Introduction	1
Audit progress – financial statements.....	2
Audit progress – grant claims and returns.....	4
Appendix 1 – Audit findings and recommendations.....	5

In April 2015, Public Sector Audit Appointments Ltd (“PSAA”) issued the ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the [PSAA website](http://www.psaa.co.uk) (www.psaa.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (“the Code”) and statute, and covers matters of practice and procedure which are of a recurring nature.

This report is prepared in the context of the Statement of responsibilities. It is addressed to the Audit, Governance and Standards Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Introduction

The purpose of this report is to provide members of the Audit-sub Committee with an update on the progress of our interim work undertaken to date on both the financial statements and grant claims and returns.

We would welcome any comments or feedback on the content of this report or our work undertaken to date.

We have also provided our latest Audit Committee briefing as a separate paper for your information.

Audit progress – financial statements

Our audit team was onsite for the interim audit visit in the week commencing 6 February 2017 during which we completed the following audit procedures:

- ▶ We performed walkthroughs of the material financial systems of the Council to update our understanding of the financial processes and controls in operation. This work identified the following issues and further details are in Appendix 1.
- ▶ For both Non-Domestic rates and Council Tax we identified the following matters;
 - ∅ The monthly control account reconciliation was prepared by the financial services manager and not subject to a peer review. However, since period 10, responsibility for preparation of the reconciliations has changed and the financial services manager now reviews the reconciliation.
 - ∅ The review of the monthly reconciliation of property totals (CTAX and NNDR) and the total rateable value (NNDR) between each Academy systems and the valuation office schedules are a visual check and not documented to evidence the review occurred.
 - ∅ There is no review of the data changes made to Academy systems to ensure that the amendments are complete and accurate.
 - ∅ The reconciliation for the production of annual bills for 2016/17, were not subject to an independent review.
- ▶ We met with Internal Audit to discuss aspects of their work to support the Value for Money conclusion risk;
- ▶ We have discussed the Council's arrangements to obtain valuations of the current and newly acquired depots;
- ▶ We met with key Officers to update our understanding of other significant audit and accounting matters to have occurred during 2016/17;
- ▶ We have obtained data downloads from the general ledger and payroll systems to the end of period 9 which has been used to facilitate our early substantive testing in the following areas;
 - ▶ Operating expenses
 - ▶ Supervision and management and repairs and maintenance expenditure for the Housing Revenue Account.
 - ▶ Other income to include fees, charges and sales.
 - ▶ Government Grants.

- ▶ There were no significant findings arising from our early testing.
- ▶ As part of our work for employer costs we completed a controls test of the Council's arrangements over the management of new employees and employees leaving the Authority. Our testing has identified that four new employees were found not to have signed the statement of written particulars (contract of employment).
- ▶ To assist the finance team we have prepared and issued a tailored client assistance schedule which details the working papers to be assembled during the preparation of the financial statements and available for the start of the audit in July.

Audit progress – grant claims and returns

For 2016/17, we are required to audit the Housing Benefits claim and the Pooling of capital receipts for sale of Council properties under the right to buy scheme.

Housing Benefits

- ▶ We have met with Revenues and Benefits manager and agreed a timetable to complete the Housing benefit work in advance of the 30 November 2017.
- ▶ The Council will start the initial testing in May 2017 and we will review this work in early June 2017 to establish what additional testing is required.
- ▶ We will provide an update on the results of this initial work to the Audit-sub Committee meeting in June 2017.

Pooling of Housing Capital receipts

- ▶ We completed early testing of a sample of right to buy sales that had been completed up to the period ending 31 December 2016.
- ▶ The only issue arising was that the housing file for one sale, required to validate that the commencement of the tenancy, could not be located at the time of testing. We have not been notified this has been found and will follow up this during our next visit in June 2017.

Appendix 1 – Audit findings and recommendations

No:	Audit Finding	Recommendation	Management response	Priority (H/M/L)	Implementation date/ responsibility
1	<p>Council Tax (CTAX) and Non-Domestic Rates (NNDR)</p> <p>There are no processes in place to ensure that changes made to both the Council Tax and NNDR systems are accurate and complete.</p>	<p>The Council implements arrangements to ensure that the information held in the CTAX and NNDR Academy systems is complete and accurate.</p>	<p>As part the restructuring of the revenues and benefits department, a new compliance team is to be established. NNDR and CTAX checks will be considered as part of the remit of the new compliance team.</p>	Medium	<p>Revenues and Benefits manager</p> <p>Immediate effect</p>
2	<p>CTAX</p> <p>The Council does complete a monthly reconciliation of the property numbers for each CTAX band but there is no evidence of an independent peer review.</p>	<p>The Council to ensure that evidence is retained that monthly reconciliation between the Valuation Office schedule and Academy system has been reviewed by an independent and senior officer.</p>	Agreed.	Medium	<p>Revenues and Benefits manager</p> <p>Immediate effect</p>
3	<p>NNDR</p> <p>The Council does complete a monthly reconciliation of the property numbers and the total rateable value but there is no evidence of an independent peer review.</p>	<p>The Council to ensure that evidence is retained that monthly reconciliation between the Valuation Office schedule and Academy system has been reviewed by an independent and senior officer.</p>	Agreed.	Medium	<p>Revenues and Benefits manager</p> <p>31 March 2018</p>
4	<p>CTAX and NNDR annual billing</p> <p>The Council does complete a reconciliation of the annual bills raised for both CTAX and NNDR but there is</p>	<p>The Council ensures that the monthly reconciliation between the Valuation Office schedule and Academy system is reviewed by an</p>	Agreed	Medium	<p>Revenues and Benefits manager</p> <p>31 March 2018</p>

No:	Audit Finding	Recommendation	Management response	Priority (H/M/L)	Implementation date/ responsibility
	no evidence of an independent peer review.	independent and senior officer.			
5	Staff contracts Our testing of new starters, there were four instances where the statement of written responsibilities had not signed.	All new starters must sign the statement of written responsibilities at the time they join the Authority.	Agreed.	Medium	Head of Organisational Development Ongoing

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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

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.

ey.com

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 8
DATE OF MEETING:	14th JUNE 2017	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE and CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/internal audit/quarterly reports/quarterly report cover
SUBJECT:	INTERNAL AUDIT PROGRESS REPORT	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 02

1.0 Recommendations

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

2.0 Purpose of Report

- 2.1 To provide an update on progress against the approved Internal Audit Plan. This details the performance and activity of Internal Audit between 1st February 6th June 2017.

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: 14th June 2017



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
Audit Performance	10
Audit Performance	12
Recommendation Tracking	13



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

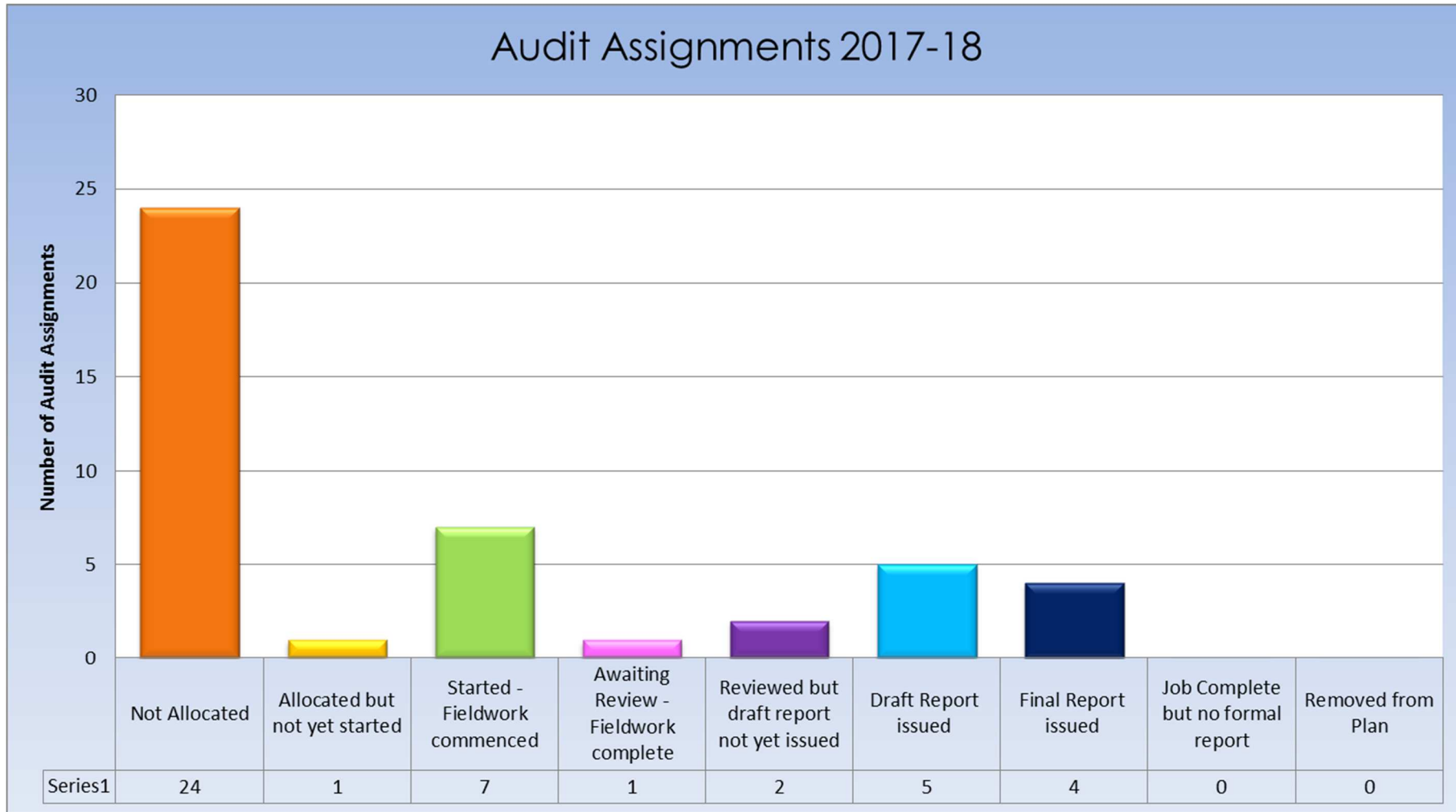
The following table provide Audit Sub-Committee with information on how audit assignments were progressing as at 6th June 2017.

Audit Plan Assignments 2016-17	Type of Audit	Current Status	% Complete
Main Accounting System 2016-17	Key Financial System	In Progress	35%
Treasury Management 2016-17	Key Financial System	Final Report	100%
Banking Services	Systems/Risk Audit	Draft Report	95%
Taxation	Systems/Risk Audit	Final Report	100%
Council Tax 2016-17	Key Financial System	Final Report	100%
Housing Benefit & Council Tax Support 2016-17	Key Financial System	Final Report	100%
Payroll 2016-17	Key Financial System	In Progress	75%
Creditors 2016-17	Key Financial System	Draft Report	95%
Debtors 2016-17	Key Financial System	In Progress	75%
Data Quality & Performance Management	Governance Review	Final Report	100%
Safeguarding	Governance Review	In Progress	60%
Fixed Assets 2016-17	Key Financial System	Reviewed	80%
Leisure Centres	Systems/Risk Audit	Final Report	100%
Parks & Open Spaces	Systems/Risk Audit	Draft Report	95%
Change & Configuration Management	IT Audit	Draft Report	95%
Client Monitoring - Corporate Services Contract	Procurement/Contract Audit	Fieldwork Complete	80%
Fixed Assets 2015-16	Key Financial System	Reviewed	90%
Whistleblowing Investigation 2	Investigation	Draft Report	95%
Housing Contracts Review	Investigation	In Progress	50%
Audit Plan Assignments 2017-18	Type of Audit	Current Status	% Complete
Sharpes Pottery	Systems/Risk Audit	Allocated	5%
Waste Management Contract	Systems/Risk Audit	In Progress	20%
Investigation - Recycling & Waste	Investigation	In Progress	50%

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 1st February 2017 and 6th June 2017, 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):

- Treasury Management 2016-17 (**Comprehensive**).
- Council Tax 2016-17 (**Reasonable**).
- Housing Benefit & Council Tax Support 2016-17 (**Reasonable**).
- Data Quality & Performance Management (**Reasonable**).
- Leisure Centres (**Reasonable**).
- Taxation (**Comprehensive**).

No audits completed during the period attracted a 'Limited' control assurance rating and therefore nothing specific needs to be brought to the Sub-Committee's attention.

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

Treasury Management 2016-17

Overall Control Assurance Rating: **Comprehensive**

This audit focused on considering and testing the controls in the following key areas:

- Guidance on Treasury Management decisions and activities.
- Cash flow.
- Investments.
- Monitoring of Treasury Management by Members and Management.

From the 28 key controls evaluated in this audit review, 26 were considered to provide adequate control and 2 contained partial

weaknesses. The report contained 1 recommendation, which was considered a low risk. Another minor risk issue was highlighted for management's consideration and we do not intend to formally follow up this issue. The following issue was considered to be the key control weaknesses:

- The Treasury Management Procedures were incomplete as they did not include details of payments to HSBC and did not provide accurate and comprehensive instruction regarding authorisation of investment account transactions. (**Low Risk**)

The 1 issue raised within this report was accepted. Management had already taken action to address the issue by the time of issuing this final report.

Council Tax 2016-17

Overall Control Assurance Rating: **Reasonable**

This audit focused on ensuring that system procedures were in place to maintain continuity of service and income following the end of the contract with Northgate PSS.

From the 31 key controls evaluated in this audit review, 24 were considered to provide adequate control and 7 contained weaknesses. The report contained 7 recommendations, 2 of which were considered a moderate risk with the other 5 a low risk. The following issues were considered to be the key control weaknesses:

- The priority was given to collecting debts for the current year, and older debts were subject to less attention. As a result, some taxpayers had built up substantial debts which were not being cleared. (**Low Risk**)
- Older postings to the suspense accounts were not being resolved resulting in inaccurate data being held in the system. (**Low Risk**)

South Derbyshire District Council – Internal Audit Progress Report

- Supervisory checks on transactions moving monies out of the suspense account were not being carried out on a regular basis. (Moderate Risk)
- Detailed written procedures were not in place for the maintenance and management of the suspense account. (Low Risk)
- The spreadsheet for recording the searches carried out and actions taken in respect of suspense items was not being completed in full. If completed correctly it could be used to provide information on how much had been posted to the suspense account, how much had been moved out of the suspense account, how much was still to be moved, and would assist in the supervisory checks on suspense activity. (Low Risk)
- Some older cases with the enforcement agents showed no signs of activity or of having been individually reviewed. (Low Risk)
- The transfer request form in use lacked sufficient details to allow for accurate allocation of individual transactions. (Moderate Risk)

All 7 issues raised within this report were accepted and action has been agreed to address two of the issues by the end of September 2016, one by the end of October 2017 and the remaining five by the end of December 2017.

Housing Benefit & Council Tax Support 2016-17

Overall Control Assurance Rating: **Reasonable**

This audit focused on the adequacy of controls within Housing Benefits and Council Tax Support in order to give assurance to the Council that these key systems were operating effectively and correctly. Assessment of claims, payments and the identification and recovery of overpayments were considered and tested.

From the 26 key controls evaluated in this audit review, 21 were considered to provide adequate control and 5 contained partial weaknesses. The report contained 5 recommendations, 3 of which were considered a moderate risk with the other 2 considered a low risk. Another minor risk issue was highlighted for management's consideration

and we do not intend to formally follow up this issue. The following issues were considered to be the key control weaknesses:

- The Council was not using all available exception reports in the Academy system to highlight potential areas of error and fraud. (Low Risk)
- Recovery rates quoted in the Housing and Council Tax Benefits Overpayments leaflet were out-of-date. (Low Risk)
- The Council was failing to pursue Housing Benefit overpayments in an efficient and timely manner which could contribute to the failure to recover money that it was owed. (Moderate Risk)
- The Client Services Manager was not receiving sufficient information to enable him to monitor the action taken to recover debt prior to him making a decision regarding debt write-off. (Moderate Risk)
- The Council was not complying with Financial Procedure Rules in the authorisation of Housing Benefit debt write-offs. (Moderate Risk)

All 5 of the issues raised were accepted and positive action had been taken to address 1 of the recommendations by the end of the audit, and the remaining 4 recommendations were agreed to be addressed by the end of November 2017.

Data Quality & Performance Management

Overall Control Assurance Rating: **Reasonable**

This audit focused on undertaking a self-assessment of the performance indicators to evaluate the systems in place for the monitoring and review of data quality and to identify higher risk indicators for subsequent review.

The audit considered 4 of the higher risk indicators for review to ensure that there were suitable systems in place for performance management and data quality throughout the Council. These indicators spanned the four Corporate Plan values of People (PE), Place (PL), Progress (PR) and Outcomes (O) and were:

PE2.1 Total Number of Tenancy Audits Carried Out.

South Derbyshire District Council – Internal Audit Progress Report

- PL3.1 Downward Trend in Fly Tipping Incidents.
- O3.1 Annual Improvements in the Energy Consumption of Public Buildings.
- PR5.2 Maximise the Number of Registered Food Businesses Active in the District.

The report contained 19 recommendations, all of which were considered to present a low risk. The following issues were considered to be the key control weaknesses:

- The Quarter 3 reported figures could not be verified back to the Tenancy Visits Tracker spreadsheet. (Low Risk)
- Performance figures for PE2.1 were not subjected to scrutiny or authorisation from departmental managers before their submission. (Low Risk)
- The measurement period applied for PE2.1 was not in line with the guidance available or calendar start and end dates. (Low Risk)
- The audit trail of data maintained to support the reported performance figures for PE2.1 was not adequate. (Low Risk)
- There were no accuracy and completeness checks over the performance data for PE2.1. (Low Risk)
- Access to the Tenant Visit spreadsheet was not adequately restricted. (Low Risk)
- There was not any scrutiny or authorisation from a secondary officer for the performance figures calculated for PL3.1. A minor difference was found which impacted on the accuracy of the Quarter 2 reported figure for 2016-17. (Low Risk)
- The Environmental Services performance spreadsheet was held on the local drive of the Environmental Services Manager, therefore making it inaccessible to the wider team. (Low Risk)
- There was insufficient documentation to support the reported performance figures for O3.1 during 2016-17. (Low Risk - Superseded)
- Inaccuracies in the floor space figures stated in the O3.1 FY17 spreadsheet meant that calculation of the performance figures for O3.1 was flawed. (Low Risk - Superseded)

- There was insufficient checking and authorisation of the calculated performance figures for O3.1. (Low Risk - Superseded)
- A complete and comprehensive methodology statement for the collection and recording of performance data, and calculation of the performance figure for O3.1 was not in place. (Low Risk - Superseded)
- Access to the O3.1 spreadsheet was not appropriately restricted. (Low Risk - Superseded)
- There was not any independent scrutiny and authorisation of the performance figures for PR5.2. (Low Risk)
- The guidance on PR5.2 had not been used in the calculation of the reported performance figures from April 2016. This had resulted in inconsistencies in the calculation process and inaccuracies in the reported figures. (Low Risk)
- There was an insufficient audit trail in place to support the figure reported under performance indicator PR5.2. (Low Risk)
- There was a lack of supporting evidence for the figures reported for PR5.2 and so we were unable to verify the accuracy of the figures. (Low Risk)
- The methodology for calculation of PR5.2 varied between the Performance Indicator Pro Forma and Methodology Statement document and the Performance Management Reporting Protocol Environmental Health 2015-16 document. (Low Risk)
- There were not any independent checks over the accuracy or completeness of the performance figures for PR5.2. (Low Risk)

All 19 of the issues raised within this report were accepted, but no action was to be taken in respect of 5 of the issues raised as management are discontinuing the measurement of O3.1 (Annual Improvements in the Energy Consumption of Public Buildings). Management agreed to take actions to address the remaining 14 issues by 31st July 2017.

South Derbyshire District Council – Internal Audit Progress Report

Leisure Centres

Overall Control Assurance Rating: **Reasonable**

This audit focused on the programme of planned preventative maintenance and whether the Contractor adhered to the programme. The audit also sought to ensure that robust systems were in place for the administration of the membership scheme and that usage of the Leisure Centres was monitored regularly to ensure use of the facilities was maximised.

From the 19 key controls evaluated in this audit review, 15 were considered to provide adequate control and 4 contained partial weaknesses. The report contained 5 recommendations, 2 of which were considered a moderate risk with the other 3 considered a low risk. Another minor risk issue was highlighted for management's consideration and we do not intend to formally follow up this issue. The following issues were considered to be the key control weaknesses:

- The Contractor had not included all the areas which it was responsible for maintaining within the planned preventative maintenance schedule and this had not been highlighted by the Council. (**Moderate Risk**)
- The Council had not undertaken inspections on the exterior fabric of the building as per the contract summary of maintenance responsibilities. (**Moderate Risk**)
- The documents used to record the results of the service monitoring inspection and Brand Standards audit were incomplete with no information recorded as to whether remedial action had been taken and when. (**Low Risk – Risk Accepted**)
- Repairs and maintenance issues were being recorded in different places with no central register bringing all the issues together. (**Low Risk**)
- Access to leisure facilities at Etwall Leisure Centre was not barrier controlled with the potential for non-paying members of the

public to access the facilities and not be challenged. Whilst access to Green Bank Leisure Centre was controlled with barriers, the location of the cafe area adjacent to the barriers meant that members of the public could gain unapproved access to the leisure facilities. (**Low Risk – Risk Accepted**)

All 5 issues raised within this report were accepted. Action was agreed to be taken to address three of the issues raised by 1st October 2017. In respect of the remaining two issues, officers have chosen to accept the risk and take no further action as they feel mitigating controls are in operation by the Contractor.

Taxation

Overall Control Assurance Rating: **Comprehensive**

This audit focused on ensuring that there were adequate controls in place over the Council's administration of the Construction Industry Scheme and Payroll tax.

From the 14 key controls evaluated in this audit review, 11 were considered to provide adequate control and 3 contained weaknesses. The report contained 1 recommendation, which was considered a low risk. Another minor risk issue was highlighted for management's consideration and we do not intend to formally follow up this issue. The following issue was considered to be the key control weaknesses:

- Checks on individual subcontractor CIS payments were not in place resulting in a sizeable error going undetected by the subcontractor and the Council. (**Low Risk**)

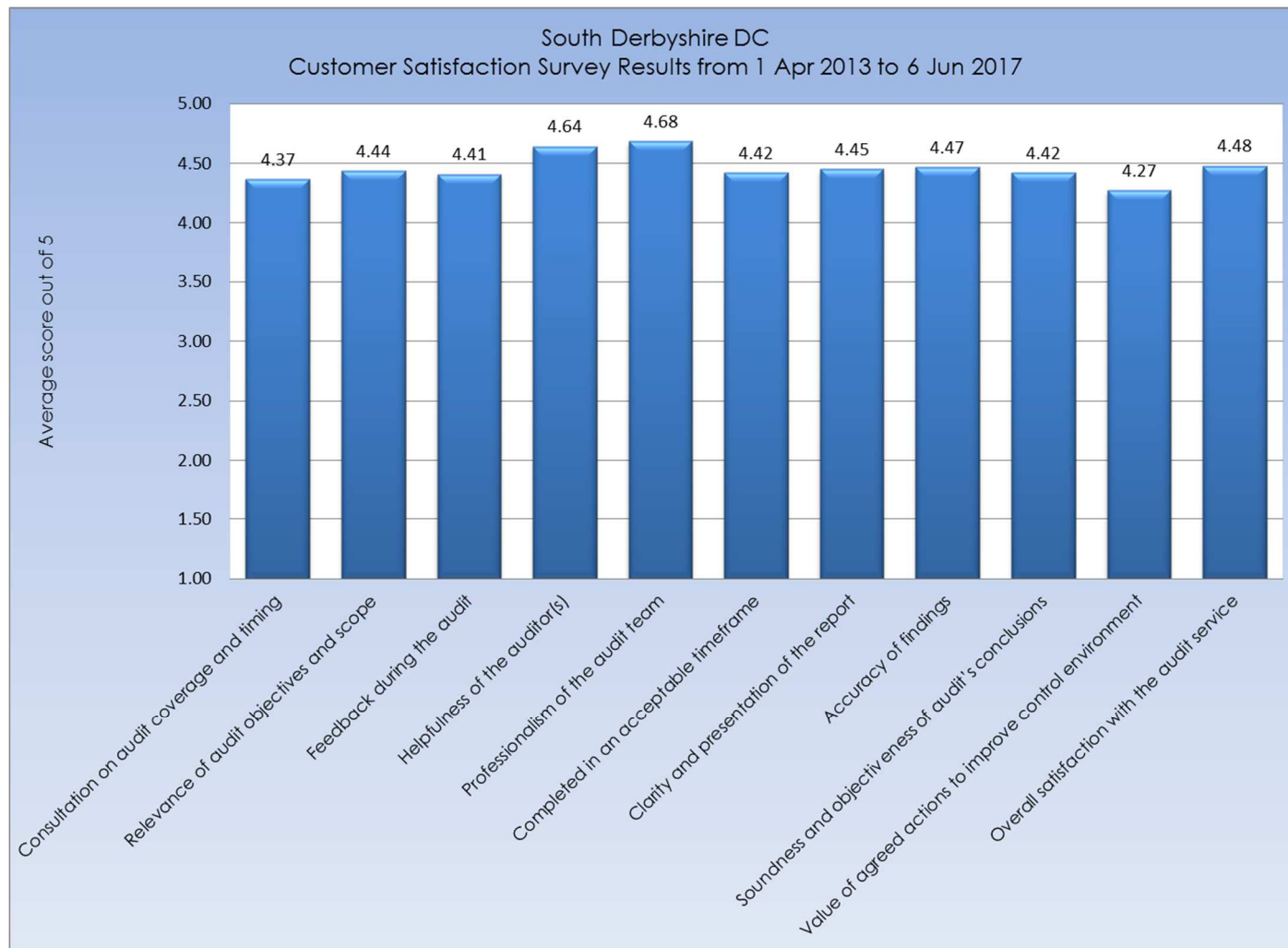
The issue raised within this report was accepted and action was agreed to be taken to address this issue by 31st August 2017.

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 73 responses received between 1st April 2013 and 31st May 2017. The overall average score from the surveys was 49.1 out of 55. The lowest score received from a survey was 40, whilst the highest was 55 which was achieved on 11 occasions.



South Derbyshire District Council – Internal Audit Progress Report

Audit Performance

Customer Satisfaction

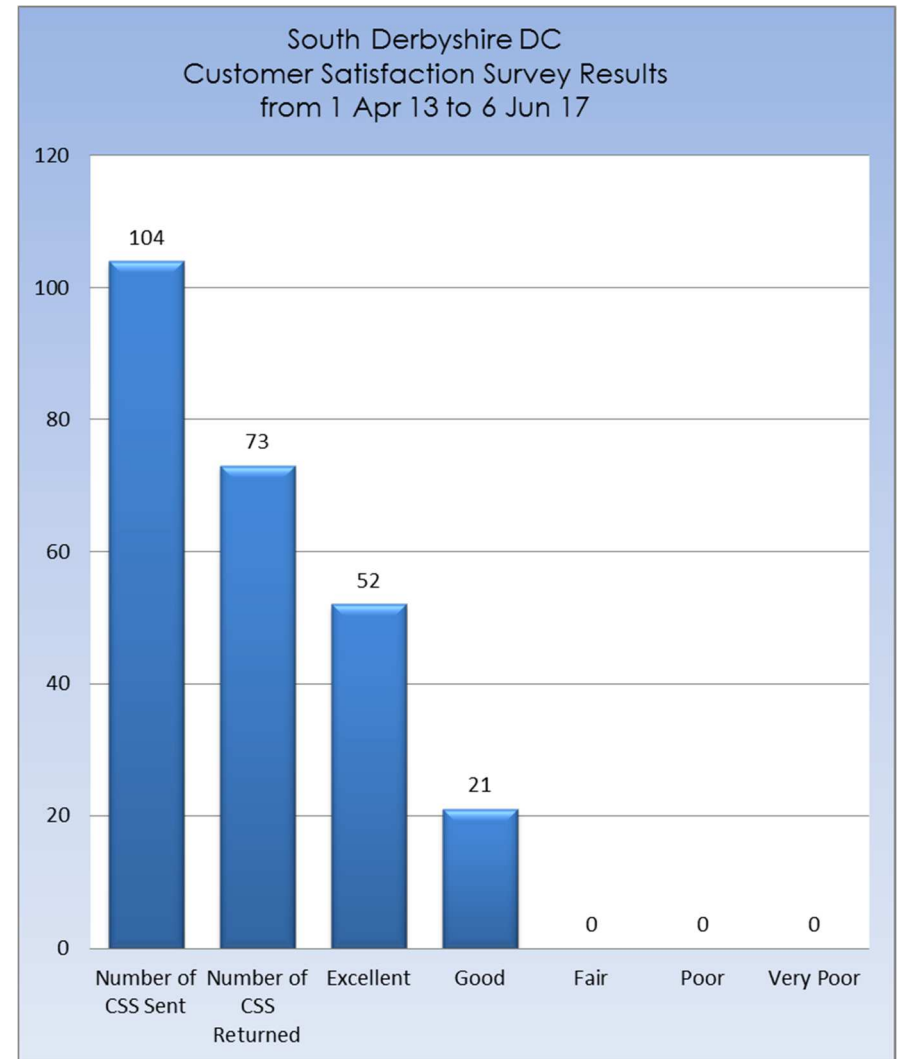
Since 1st April 2013, we have sent 104 Customer Satisfaction Surveys (CSS) to the recipients of audit services. Of the 104 sent we have received 73 responses.

31 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 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 52 of 73 responses categorised the audit service they received as excellent, another 21 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

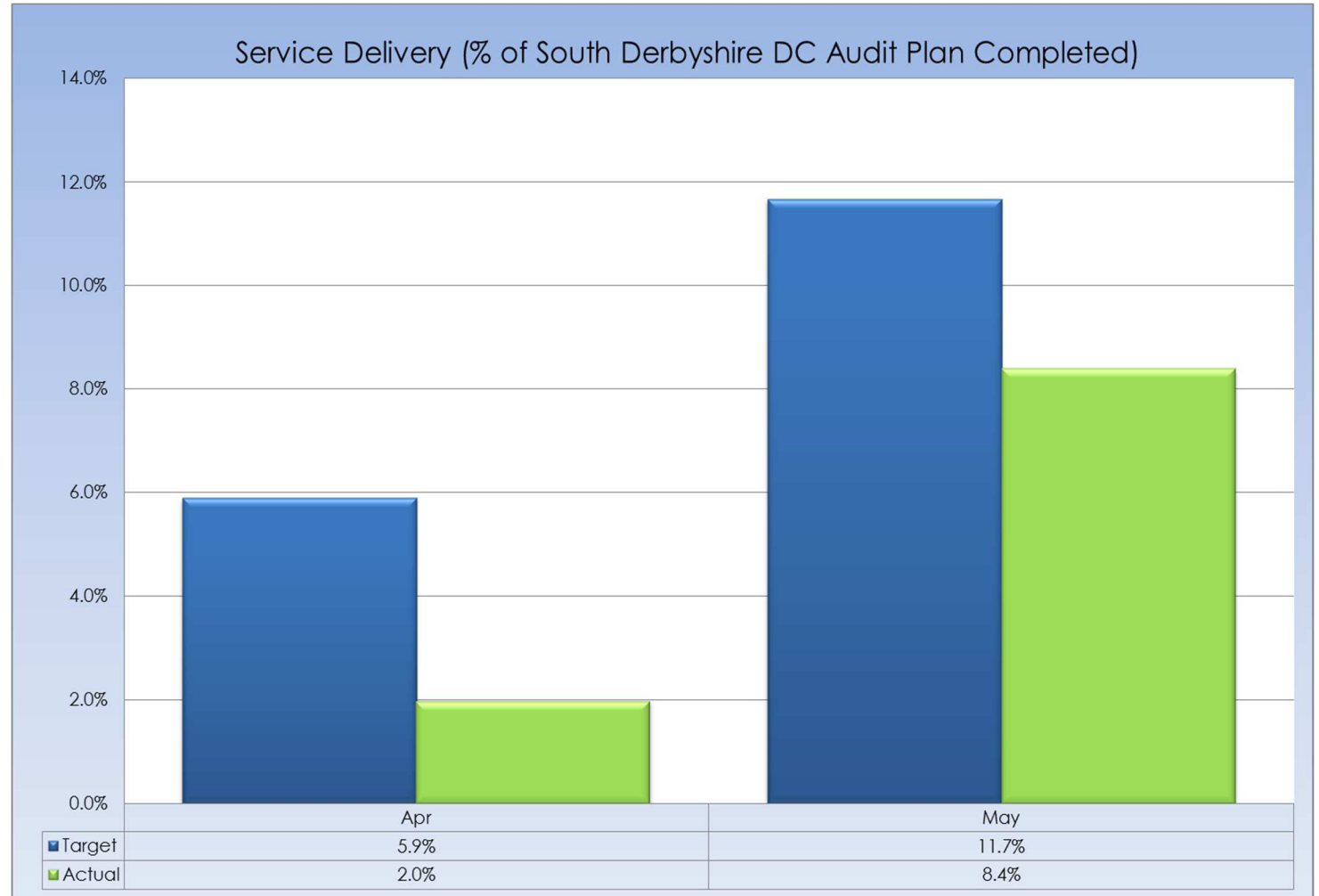
Audit Performance

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 2 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. All of the recommendations made between 1st October 2010 and 31st March 2013 have now been appropriately addressed and as such have been removed from the following tables and charts.

	Implemented	Being implemented	Risk Accepted	Superseded	Action Due	Future Action	Total
Low Risk	370	15	14	9	0	32	440
Moderate Risk	74	2	1	4	0	12	93
Significant Risk	2	0	0	0	0	0	2
Critical Risk	0	0	0	0	0	0	0
	446	17	15	13	0	44	535

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

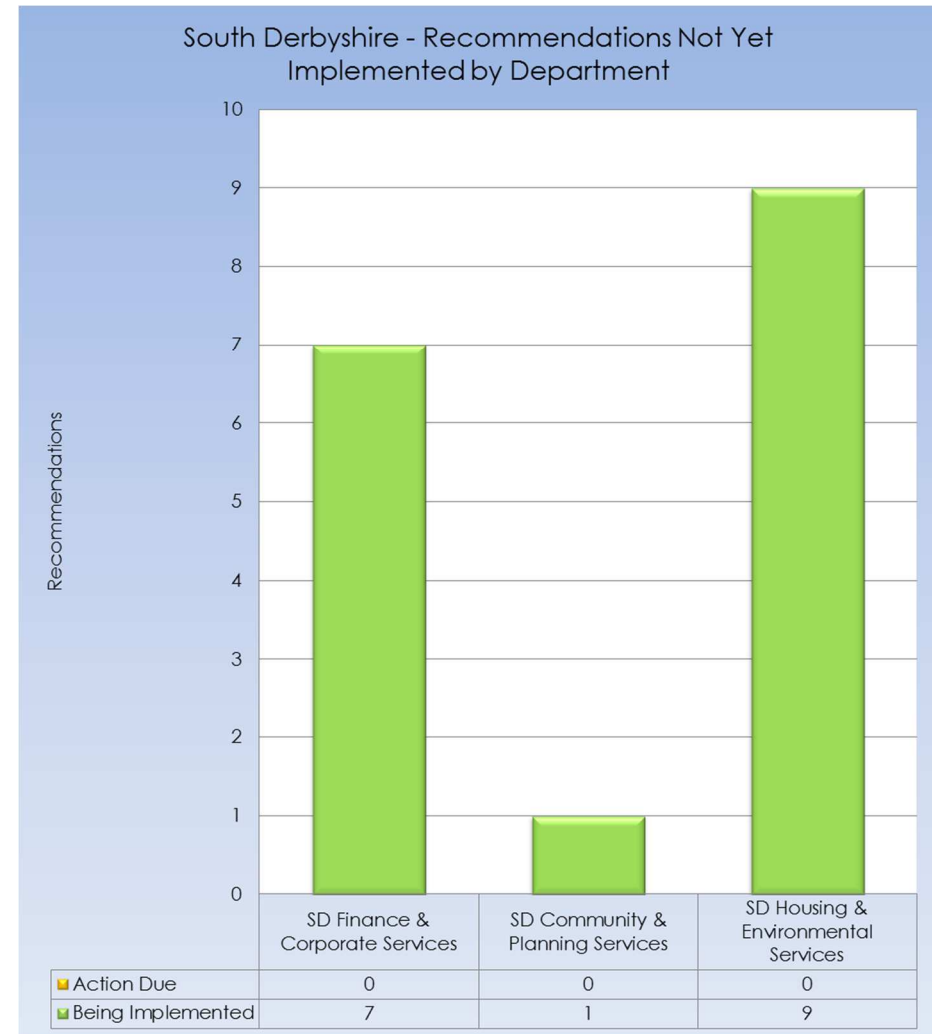
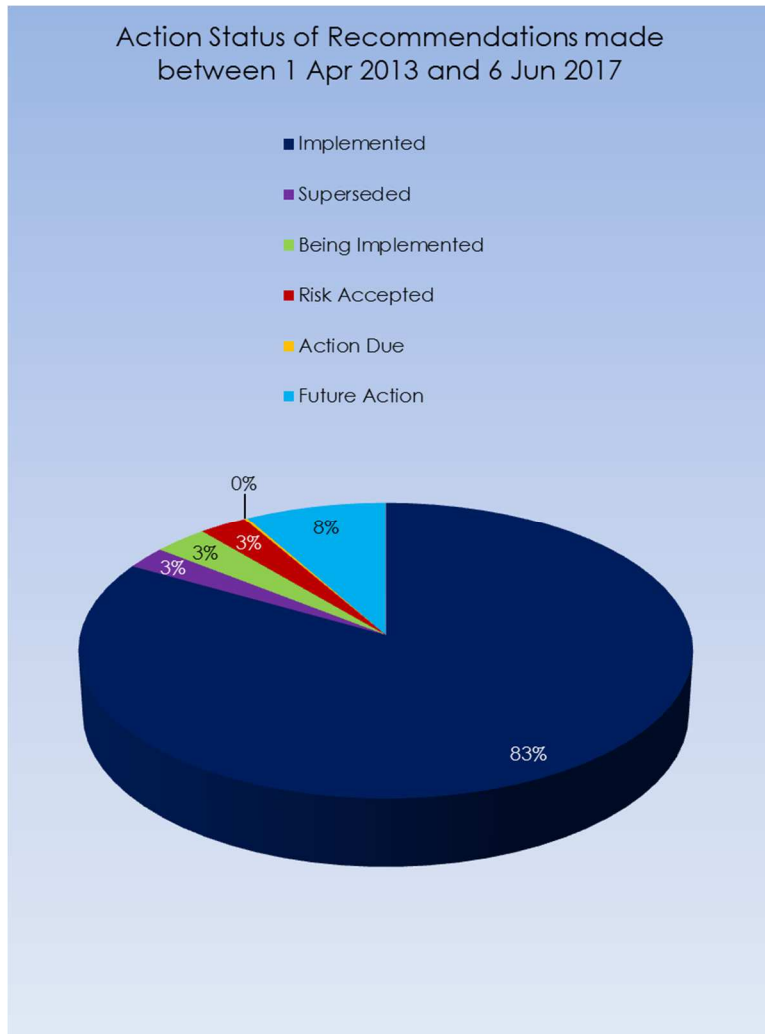
Recommendations Not Yet Implemented	Corporate Services	Community & Planning Services	Housing & Environmental Services	TOTALS
Being Implemented	7	1	9	17
Action Due	0	0	0	0
	7	1	9	17

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 with the exception of an additional 2 low risk recommendations which arose from the Leisure Centre audit completed in this period (details of which can be found earlier in this report).

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

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. The team is in its infancy so more time is needed to progress this.

Original Action Date 31 Dec 15 **Revised Action Date** 30 Jun 17

Information@Work

Control Issue 8 – The page verification on a number of databases, including the live Images database, was TORN_PAGE_VERIFACATION. To effectively identify and deal with database corruption before the Council faces potential data loss situations, it is recommended that this configuration is set to CHECKSUM.

Risk Rating – Low Risk

Status Update – Trying to contact Northgate's EDMS team in Sale to establish the correct configuration settings.

Original Action Date 31 Oct 16 **Revised Action Date** 27 Mar17

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 - The SDDC contract with Northgate Public Services terminates on 31st January so the new SDDC staffing incorporating services previously outsourced takes effect from 1st February 2017. Already started work on revisions to the emergency plan, BC plan and combined contact list which supports both, with the intention they are issued no later than 31st March 2017 (earlier if all goes well).

Original Action Date 30 Sep 15 **Revised Action Date** 31 Mar 17

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 – The CRM is now being phased out and is only being utilised on a limited basis. It will not be supported nor developed by the software provider after March 2018. The Council is replacing the functionality of the CRM system in the new web site. This is planned to be implemented by 31st May 2017 at which point the existing servers will be decommissioned.

Original Action Date 30 Apr 15 **Revised Action Date** 31 May 17

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 - The CRM is now being phased out and is only being utilised on a limited basis. It will not be supported nor developed by the software provider after March 2018. The Council is replacing the functionality of the CRM system in the new web site. This is planned to be implemented by 31st May 2017 at which point the existing servers will be decommissioned.

Original Action Date 31 Aug 15 **Revised Action Date** 31 May 17

Community & Planning Services

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.

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

REPORT TO:	AUDIT SUB-COMMITTEE	AGENDA ITEM: 9
DATE OF MEETING:	14th JUNE 2017	CATEGORY: RECOMMENDED
REPORT FROM:	AUDIT MANAGER	
MEMBERS' CONTACT POINT:	ADRIAN MANIFOLD Adrian.manifold@centralmidlandsaudit.gov.uk (01332 643281)	DOC: u/ks/audit/internal audit/annual reports/summary
SUBJECT:	INTERNAL AUDIT ANNUAL REPORT 2016/17	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 02

1.0 Recommendations

1.1 To consider and note the Annual Internal Audit Opinion for 2015/16.

2.0 Purpose of Report

2.1 To provide the detail and opinion of the Chief Audit Executive on the overall adequacy and effectiveness of the Council's risk management, control and governance processes (i.e. the system of internal control).

3.0 Detail

3.1 Under The Public Sector Internal Auditing Standards, the Audit Manager (Chief Audit Executive) is required to provide a written report on an annual basis to those charged with governance, which gives an opinion on the overall adequacy and effectiveness of the Council's internal control environment.

3.2 This opinion is based on the work undertaken by internal audit during 2016/17. The detailed report, setting out how this opinion was reached, is attached.

4.0 Financial Implications

4.1 None

5.0 Corporate Implications

5.1 None directly

7.0 Community Implications

7.1 None directly

8.0 Background Papers

8.1 The Accounts and Audit Regulation 2015

South Derbyshire District Council – Internal Audit Annual Report 2016-17

Audit Committee: 14th June 2017



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 (CPFA)
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 (CMIIA, QAIL, CIA)
Audit Manager
c/o Derby City Council
Council House
Corporation Street
Derby
DE1 2FS
Tel. 01332 643281
adrian.manifold@centralmidlandsaudit.co.uk

Contents

Page

Introduction	3
Chief Audit Executive's Opinion 2016-17	5
Audit Coverage	6
Control Assurance Ratings	7
Performance Measures	8
Audit Recommendations	9
Recommendations Action Status	10



Introduction

Why is an Audit Opinion required

The Public Sector Internal Audit Standards (PSIAS) sets out the requirement for Chief Audit Executive to report to the Board (e.g. the relevant Audit Committee) to help inform their opinions on the effectiveness of the framework of governance, risk and control in operation within the Council.

In accordance with PSIAS, the Chief Audit Executive is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (i.e. the Council's system of internal control).

The Council's Assurance Framework should bring together all of the evidence required to support the Annual Governance Statement (AGS) requirements. This is achieved through a risk-based plan of audit work, agreed with management and approved by the Board (e.g. the relevant Audit Committee), which should provide a reasonable level of assurance.

The report highlights matters for consideration and refers to plans for further assurance activity in areas of concern. The report is broken down into an overall opinion and a detailed Internal Audit outturn report for all activity in the year to fulfil the requirements of the Accounts and Audit Regulations 2015 and PSIAS.

The annual opinion contributes to the completion of the Annual Governance Statement (AGS). It is specifically timed to be considered as part of the Council's annual review of governance and internal control.

How an Audit Opinion is Formed

A fundamental role of Internal Audit is to provide members and senior management with independent assurance on the Council's overall control environment, comprising the systems of governance, risk management, and internal control and to highlight control weaknesses together with recommendations for improvement. The annual Audit Plan sets out proposals on how this will be achieved in the year ahead.

The Audit Plan must incorporate sufficient work to enable the Chief Audit Executive to give an opinion on the adequacy of the Council's overall control environment. Internal Audit must therefore have sufficient resources to deliver the Audit Plan.

The audit work planned for 2016/17 has informed the Chief Audit Executive's opinion on the internal control environment that exists within the Council. The Chief Audit Executive reports his overall opinion to the Audit Committee on an annual basis.

The Chief Audit Executive provides this written report to those charged with governance which gives an opinion on the overall adequacy and effectiveness of the organisation's internal control environment. This is timed to support the Annual Governance Statement, which is also being presented to this Committee for review by Members.

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 Chief Audit Executive's overall audit opinion is based on the work undertaken by internal audit in 2016/17. The reporting of the incidence of significant control failings or weaknesses has also been covered in the progress reports to the Committee on Internal Audit's progress against the annual Audit Plan.



Basis for Opinion

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

In preparing the overall opinion, the Chief Audit Executive has reviewed all audit activity carried out during 2016/17 and noted any issues arising from those audits that have carried forward into 2017/18. Each individual audit undertaken contains a control assurance rating (opinion) on the adequacy and effectiveness of controls in place to mitigate the risks identified. Where weaknesses in control are identified, an action plan is agreed with management. Progress with these agreed actions is monitored by Internal Audit during the

South Derbyshire District Council – Internal Audit Annual Report 2016-17

year through follow up audit work.

The Chief Audit Executive will use the individual assurance ratings from the audits conducted in 2016/17 and the progress with agreed actions to form the overall opinion.

In presenting his opinion, the Chief Audit Executive will identify where reliance has been placed on work by other assurance bodies. His opinion will be based on the work of Internal Audit and his understanding of work carried out by external assurance agencies.

In respect of the key financial systems of the Council, based on the Internal Audit work undertaken in the year, the Chief Audit Executive will be able to give an overall assurance on the adequacy and effectiveness of the internal controls operating in these systems.

Possible Overall Opinions

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

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

External Assessment of Internal Audit

Public Sector Internal Audit Standard 1312 requires that "External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation."

The Council is part of the Central Midlands Audit Partnership. The Chief Audit Executive of CMAP requested that Milford Research and Consultancy Limited conducted this external quality assessment of the internal auditing activities of CMAP. The principal objectives of the quality assessment are to assess the internal audit activity's conformance to Standards, evaluate the internal audit activity's effectiveness in carrying out its mission (as set forth in its charter to its partners), and identify opportunities to enhance its management and work processes.

The assessment is based on the following 3 ratings:

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

The assessment was carried out in the period February – April 2017. Although the final report has not been produced, the consultant has fed back his findings to the CMAP Board.

	Number of standards	Generally Conforms	Partially Conforms	Does Not Conform
Code of Ethics	4	4	0	0
Attribute Standards	19	12	5	2
Performance Standards	33	27	5	1

The overall opinion is that the internal audit activity **Generally Conforms** with the Standards and Code of Ethics. The Consultant has identified some opportunities for further improvement and development. CMAP has begun a Development Programme to enhance and build on the service it provides to partners. Where the areas of non-conformance present a risk to CMAP, these have been addressed.

South Derbyshire District Council – Internal Audit Annual Report 2016-17

Chief Audit Executive's Opinion 2016-17

Based on the work undertaken during the year, I have reached the overall opinion that there is an **Adequate System of Internal Control Subject to Reservations** – A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.

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

- As a result of whistleblowing, a major investigation has been conducted into the procurement and contracting arrangements in the Council's Housing Department. This has attracted a 'Limited' assurance rating. Management has resolved to take appropriate remedial action to improve controls. These remedial actions have yet to be fully completed.
- The level of coverage provided by Internal Audit was considered adequate. Although, a number of planned audit assignments had to be postponed to accommodate the whistleblowing investigation.
- There were no adverse implications for the Authority's Annual Governance Statement arising from any of the routine work that Internal Audit has undertaken in 2016-17.
- The majority of routine assignments attracted either a 'Comprehensive' or 'Reasonable' assurance rating, with only one attracting a 'Limited' rating.
- All of the issues raised within the internal audit reports have been accepted.
- Internal Audit's recommendations, or alternative proposed actions made by Management in response to the risk issue, have been agreed to be implemented in all cases but three.
- Sufficient audit coverage of the Council's Main Financial Systems has been provided in 2016-17 and attracted either 'Reasonable' or 'Comprehensive'.
- Internal Audit finalised the review of limited part of the Council's Corporate Governance arrangements in the early part of the financial year. Specifically, the process for the compilation of the Council's Annual Governance Statement; the communications protocol for ensuring proper scrutiny of the Council's functions;

and the process for ensuring appropriate Member and officer training with regard to governance. The level of assurance was considered 'Comprehensive' and the two low risk recommendations highlighted by the review have since been implemented.

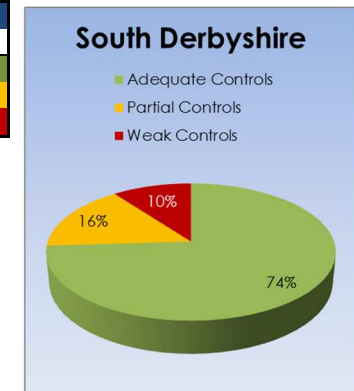
- A Data Quality audit was commenced during 2016-17 and we coordinated a self-assessment of all the Council's performance indicators as well as a close examination of four of the Council's higher risk performance measures. The review has recently been completed and it was deemed that the overall control environment was 'Reasonable'.

This opinion is provided with the following caveats:

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

For those audits finalised during 2016-17, we established the following information about the controls examined:

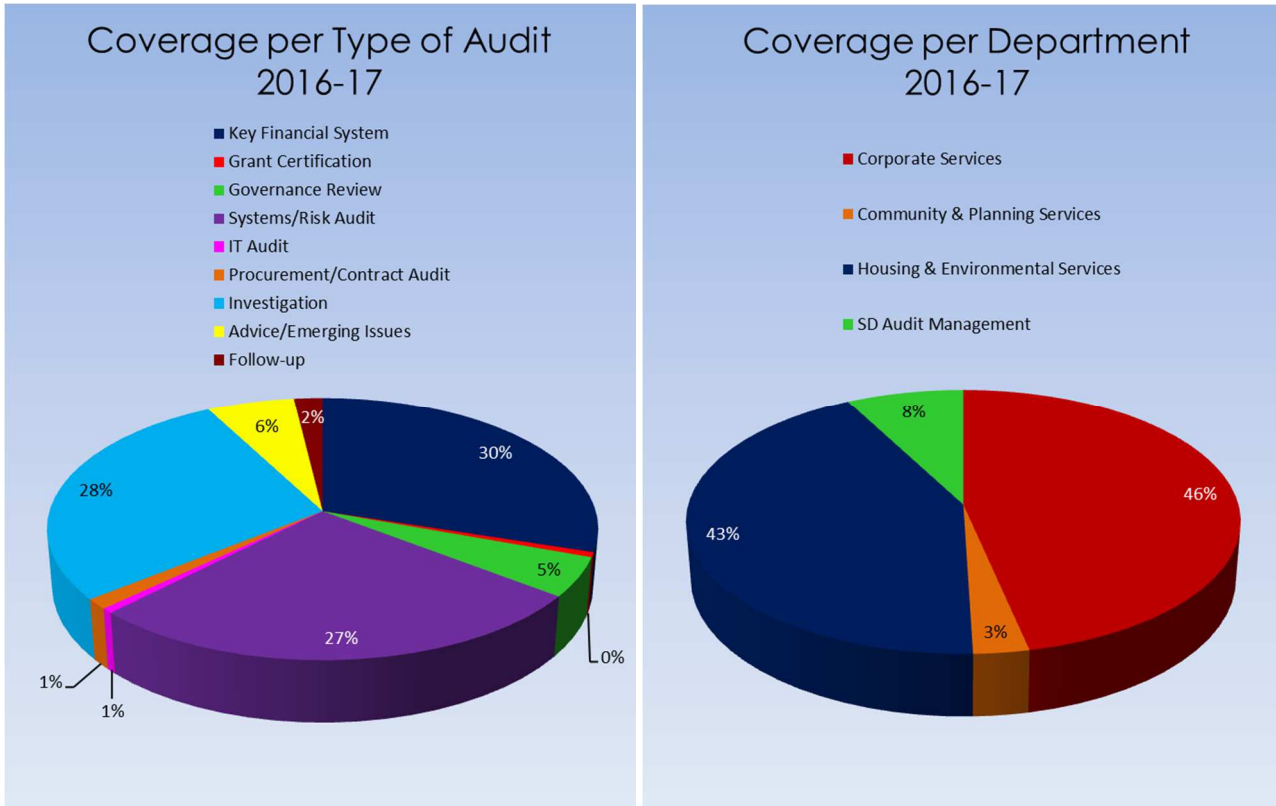
South Derbyshire District Council	2016-17
Evaluated Controls	381
Adequate Controls	282
Partial Controls	60
Weak Controls	39



South Derbyshire District Council – Internal Audit Annual Report 2016-17

Audit Coverage

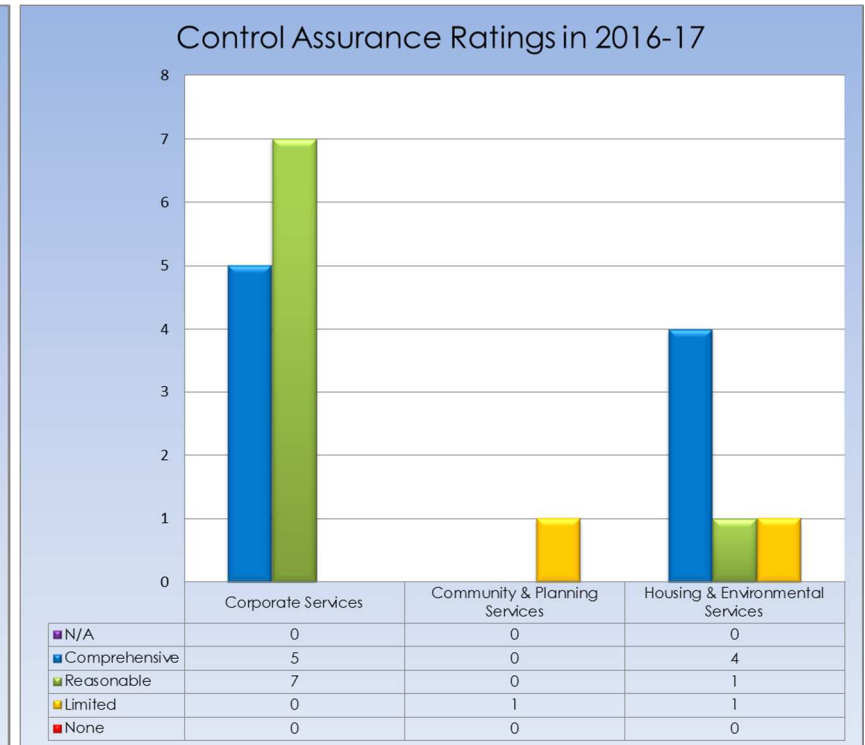
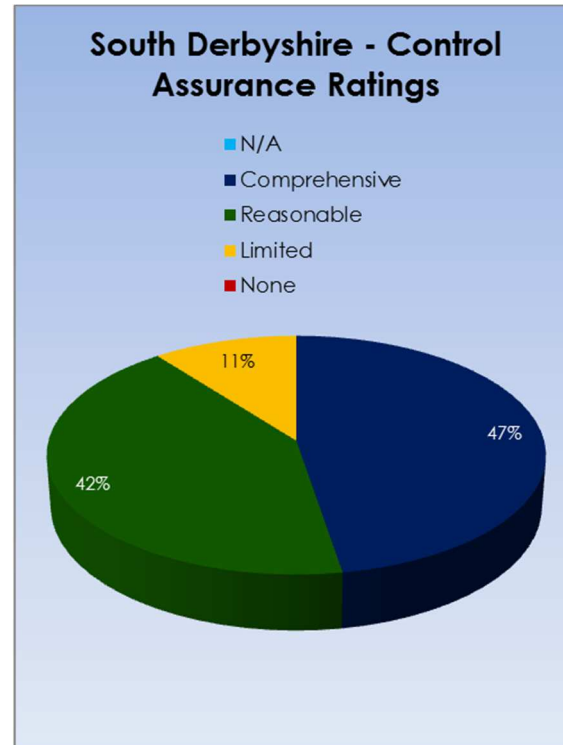
The following charts seek to demonstrate the extent of audit coverage provided to South Derbyshire District Council during 2016-17.



Control Assurance Ratings

All audit reviews contain an overall opinion based on the adequacy of the level of internal control in existence at the time of the audit. These are graded as either:

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



This report rating is determined by the number of control weaknesses identified in relation to those examined, weighted by the significance of the risks.

South Derbyshire District Council – Internal Audit Annual Report 2016-17

Performance Measures

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.

By the end of the Plan year 88.2% of the Audit Plan had been completed against a target of 91%.

Productivity (Chargeable Days as % of Days Potentially Available for Audit)

Audit staff record the time they spend on audit assignments, administration and management in our bespoke database. Every minute worked is logged against an appropriate code. This time is analysed and compared to planned audit work.

Time is analysed between Productive and Non-productive time. We aimed to achieve an increased target productive rate of 72.7% for the year. The average productive rate for 2015-16 was 71.8%, which we managed to increase to an average of 72.5% in 2016-17.

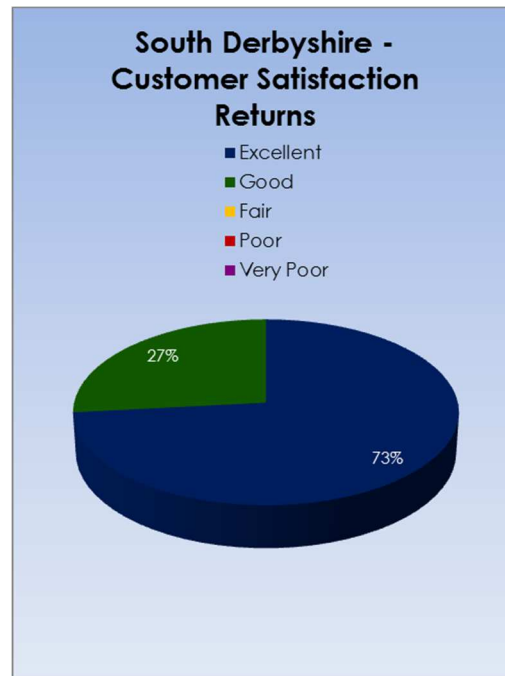
Customer Satisfaction Returns

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. Appendix A summarises the average score for each category from the 15 responses received. The average score from the surveys was 50.6 out of 55. The lowest score received from a survey was 41, while the highest was 55 which was achieved on 5 occasions.

The overall responses are graded as either:

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

Overall 11 of 15 responses categorised the audit service they received as excellent; the remaining 4 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.

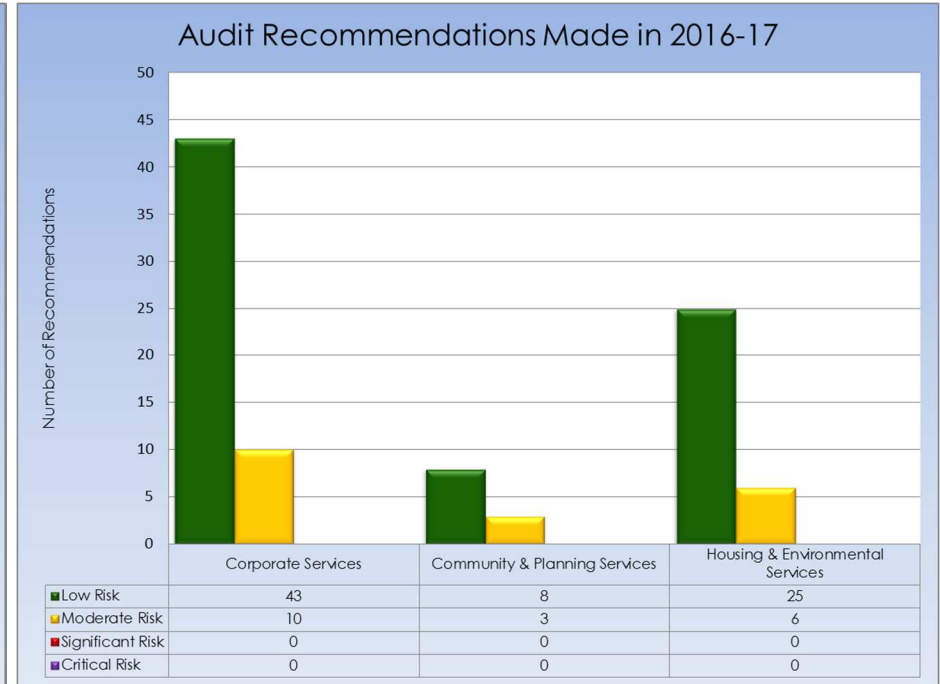
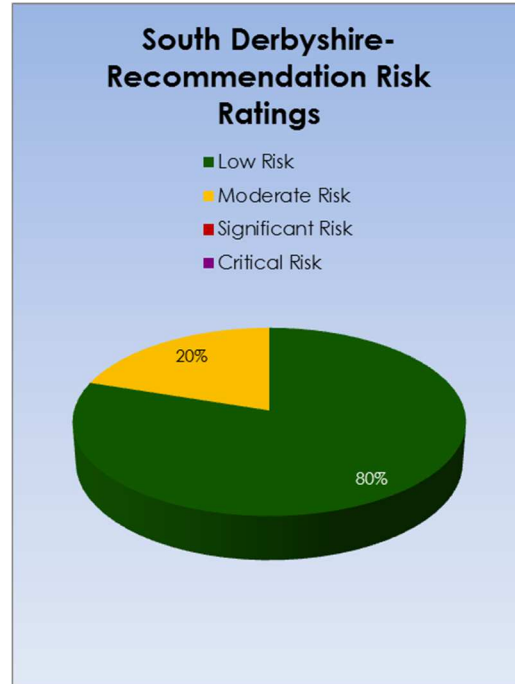


Audit Recommendations

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:

- **Low risk.**
- **Moderate risk.**
- **Significant risk.**
- **Critical 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. A summary of recommendations made, by directorate, for 2016-17 is shown in the table below.



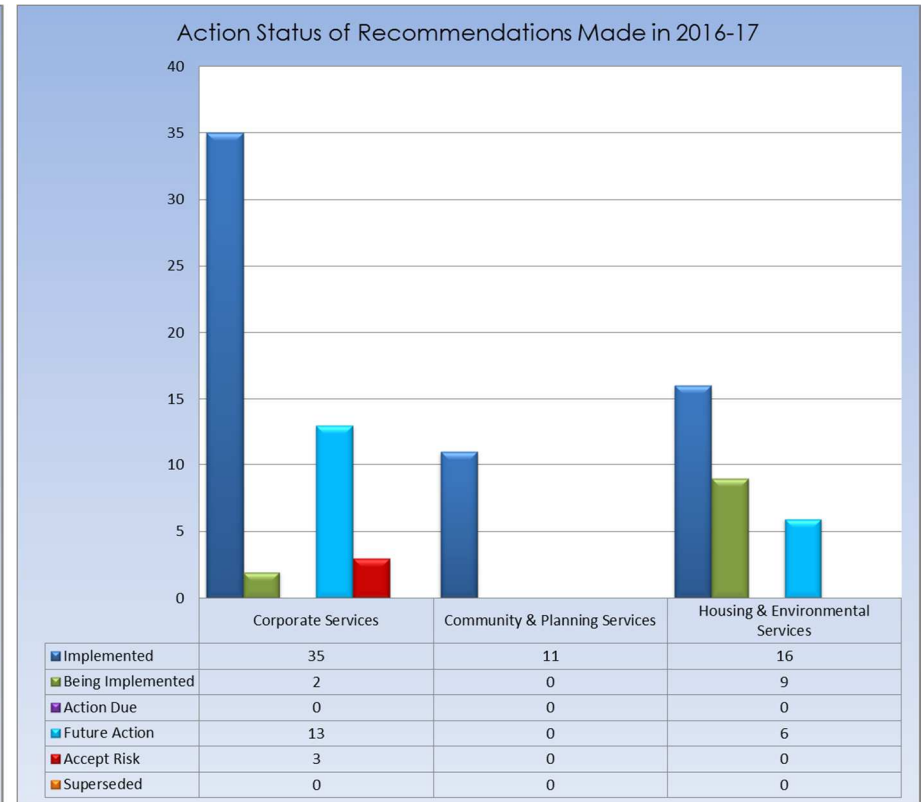
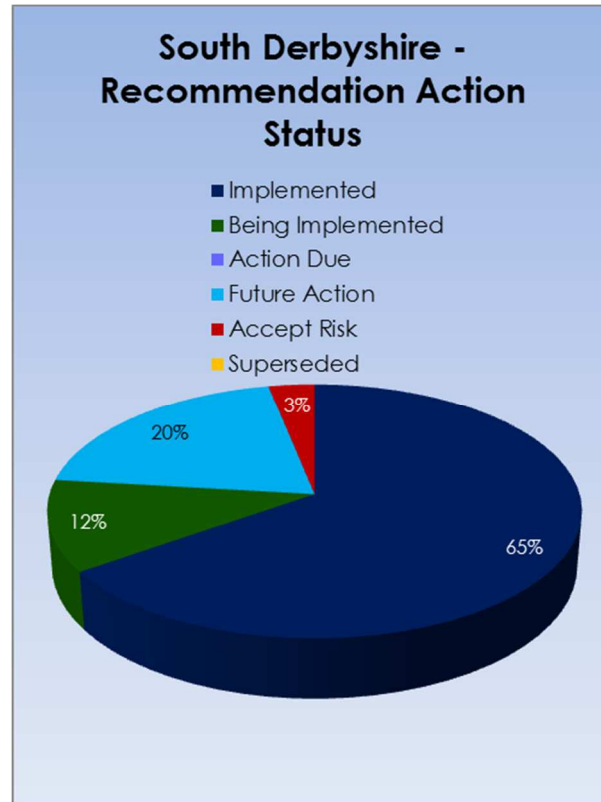
South Derbyshire District Council – Internal Audit Annual Report 2016-17

Recommendations Action Status

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.

Each recommendation made by Internal Audit has been 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:

- **Implemented** = Audit has received assurances that the agreed actions have been implemented.
- **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).
- **Action Due** = Audit have been unable to ascertain any progress information from the responsible officer.
- **Future Action** = The recommendations haven't reached their agreed action date.
- **Accept Risk** = Management has decided to accept the risk that Audit has identified and take no mitigating action.
- **Superseded** = Audit has received information about changes to the system or processes that means that the original weaknesses no longer exist.



REPORT TO:	AUDIT SUB-COMMITTEE	AGENDA ITEM: 10
DATE OF MEETING:	14th JUNE 2017	CATEGORY: DELEGATED
REPORT FROM:	LEGAL and DEMOCRATIC SERVICES and MONITORING OFFICER	OPEN
MEMBERS' CONTACT POINT:	ARDIP KAUR (01283 595715) Ardip.kaur@south-derbys.gov.uk	DOC:
SUBJECT:	LOCAL CODE OF CORPORATE GOVERNANCE ANNUAL REPORT 2016/17	
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 04

1.0 Recommendation

- 1.1 That the annual assessment against the Council's Local Code of Corporate Governance for 2016/17 is approved.
- 1.2 That the completion of the work plan to strengthen the Council's governance arrangements in 2016/17 is noted

2.0 Purpose of the Report

- 2.1 To assess the Council's governance arrangements against the national framework which the Council has adopted.
- 2.2 The report also details progress on actions arising out of the Council's Annual Governance Statement (AGS) for 2016/17. 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 previous 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 was approved for adoption by the Committee in December 2016.
- 3.4 The main aim of corporate governance relates to having a system by which a local authority directs and controls its functions and relates to its local community.
- 3.5 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 Framework

- 3.6 The framework is based on a set of core principles. 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 In the new framework, 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 These are:
- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
 - Ensuring openness and comprehensive stakeholder engagement.
 - Defining outcomes in terms of sustainable economic, social and environmental benefits.
 - Determining the interventions necessary to optimise the achievement of the intended outcomes.
 - Developing the entity's capacity, including the capability of its leadership and the individuals within it.
 - Managing risks and performance through robust internal control and strong public financial management.

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

3.10 Within each principle there are a series of sub-principles. The Framework advocates a self-assessment against each of the sub-principles.

3.11 An initial self-assessment against the new Framework was undertaken and approved by the Committee in December 2016. This has been updated and is detailed in **Appendix 1**. Proposed changes and additional comments have been highlighted.

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 The Council has been able to demonstrate that it generally has a sound and robust system of corporate governance in place when compared to the Framework. The latest assessment shows that this continues to be the case in many instances with a score of 5 prevalent in many areas. The scores, with a comparison to December 2016, are summarised in the following table.

	Dec 2016	June 2017
Total number of sub-principles assessed	21	21
Total number scoring 5	16	18
Total number scoring 4	5	3

3.14 Overall, it is considered that there are no material weaknesses in the Council's governance arrangements when assessed against the national Framework.

3.15 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.

Sub-Principle	Action	Time
Developing the entity's capacity	It is considered that the Council is extremely well placed in this regard. However, the guidelines recommend that organisations should be subject to an external peer review from time-to-time. This is being considered in 2017/18.	2017/18 – date to be confirmed
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	2017/18 – date to be confirmed

	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.	
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 to March 2018

Progress on actions in the Annual Governance Statement 2015/16

3.16 The approved work plan included the following items:

- To review the Local Code of Corporate Governance in accordance with the updated national framework. This has been completed.
- An independent review of the Council's policies regarding information governance and compliance. This followed a report that was considered and approved by the Finance and Management Committee in December 2015 to strengthen the Council's framework.
 - *This has not been completed due to the availability of an external organisation. It is now planned for this to take place later in 2017/18 as part of a wider exercise ahead of changes to Data Protection Regulations in May 2018.*
- A review of mandatory training courses. This followed an internal audit report in April 2016 regarding governance, which made some recommendations to ensure relevance and consistency of approach. This has been completed.
- A review of ICT disaster recovery procedures. This followed 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. This has been completed.
- A review of access to information regulations and committee work programmes. These have been reviewed with minor amendments and work programmes are reported to Policy Committees on a quarterly basis.
- Development of service continuity plans for inclusion in the Council's Business Continuity Plan. This was the final action required from the audit of the Council's arrangements in 2014/15. This has been completed.

3.17 The associated detail 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"> • There are established Member and Officer Codes of Conduct which are detailed in the Council’s Constitution. • Members and Officers sign-up to the Codes when appointed. • Standards and behavior expected are part of the induction processes. • Standards and behavior are part of the PDR process for Officers and are included in the job competency framework. • There is an established process for Members to declare any interests at Committee meetings and these are recorded in official Minutes. • There is an established procedure governing conduct at Committee meetings, including the use of social media. • The Council has an established Standards Committee with independent persons appointed. • There are anti-fraud and corruption policies in place which are regularly reviewed and audited. • 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. • There is a procedure for declaring gifts and hospitality and these declarations are registered with and held centrally by the Monitoring Officer. • The Council has an established Whistleblowing Policy which protects individuals and is communicated to all stakeholders, including contractors. • An established Complaints Procedure which includes provision for raising issues regarding standards and the behavior of Officers. • This Procedure makes provision to identify improvements and changes to procedures if required; these are reported to the Council. 	5	

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"> • The Council's Ethical Framework is set out in its Constitution. Specific references are detailed below. <ul style="list-style-type: none"> ➤ The Code of Conduct for both Members and Officers sets out the standards of conduct that Members are required to adhere to. ➤ The Protocol for Member and Officer relations defines respective roles and stresses the principles of mutual courtesy and respect. ➤ The Planning Code of Good Practice is designed to assist and protect Members involved in the planning process. ➤ The ICT Protocol is designed to assist and protect Members when using computer equipment and social media. ➤ The Licensing Protocol sets out procedures so that Members act in a fair and proper manner and are seen to do so. ➤ The Code of Conduct for Representation on Outside Bodies provides support and guidance to Members when representing the Council on funded bodies and partnerships. ➤ Ethical values are an element of the Council's Procurement framework and feature in the tendering/contract process. 	<p>5</p>	
<p>Respecting the rule of law</p>	<ul style="list-style-type: none"> • The role of the Monitoring Officer and associated Protocol is designed to ensure that the Council operates within the law. • 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. • All Council Committees operate under a Terms of Reference. • An established Scheme of Delegation from Full Council to Committees and to Senior Officers is in place. • All Committees are supported by Committee Clerks. • The Monitoring Officer attends all meetings of Full Council. • 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. 	<p>5</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"> • An established Freedom of Information Publication Scheme is in place which informs how and where information is available. • The Corporate Plan and Annual Report set out what the Council wants to achieve and how it has performed. • The Council adheres to the Government’s Transparency Code of Practice and publishes information accordingly. • Records of decisions at Committee meetings are published. • Committee reports are published in a standard form. • Committee reports include financial, legal and HR implications where required, together with an assessment of the Corporate and Community implications of proposals. • The Council adheres to a Committee timetable which is reported and approved ahead of every Civic Year; dates of meetings are publicised in advance. • A Committee work programme is updated and reviewed at each Committee which publishes forthcoming business and reports. • Committee agendas are published 5 working days prior to a meeting in accordance with the Access to Information Regulations. • All meetings are open to the press, media and public and each Agenda allows questions to be raised by the Public. 	5	
Engaging comprehensively with institutional stakeholders	<ul style="list-style-type: none"> • The Council has an established Communications Strategy with an annual action plan subject to quarterly review. • The Council engages the support of other agencies and the voluntary sector to undertake consultations as appropriate. • Where the Council works in Partnership, protocols and procedures allow for views to be shared and challenge to take place. 	5	
Engaging with individual citizens and service users effectively	<ul style="list-style-type: none"> • An SLA is in place with the local CVS to undertake consultation on potential changes affecting specific groups. • The Council regularly consults with council house tenants and users of sport and leisure facilities through established groups. • Results of public consultation are reported to Council and included as part of any new proposals or changes to service provision. 	5	

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"> 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. This vision and the priorities are central to the Corporate Plan which is set for a 5-year period. The achievement of the priorities is measured in terms of a set of performance indicators for defined outcomes. The Corporate Plan is published and advertised extensively both internally and externally. It is approved and adopted by Full Council. Operational targets are cascaded down into Service Plans. The Council’s Performance Management Framework monitors and reviews performance against the priorities; this includes comparisons and trends which are reported quarterly. Identified risks to the achievement of defined outcomes are integral to this process. Risk registers are reviewed on a quarterly basis. The Corporate Plan also aligns to the Sustainable Community Strategy for the District. 	<p style="text-align: center;">4</p> <p style="text-align: center;">Proposed to increase to 5</p>	<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. This work will form part of the 2017/18 Budget Round.</p> <p><i>This was completed on a broad basis. The main priority in the Council’s MTFP is sustainability given the need to make budget savings ahead of 2018/19. However, the budget round identified and allocated resources to meet demand for services arising from the Growth of the District. This will be invested in priorities to deliver “People, Place and Progress”.</i></p>
Sustainable economic, social and environmental benefits	<ul style="list-style-type: none"> 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. 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. 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. Current financial constraints are factored into strategic plans for Housing, Economic and Environmental Services. A corporate Equalities Working Group ensures that there is fair access to all services and this is demonstrated in an Annual Report. 	<p style="text-align: center;">5</p>	

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

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

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"> 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. All major procurements are subject to a prior options appraisal which is recorded and signed off corporately; this includes soft market testing where appropriate. Proposals are discussed at senior officer level, with senior Members and are then subject to the Committee process. 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). 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. 	5	
Planning interventions	<ul style="list-style-type: none"> Established quarterly performance and budget monitoring reports with key indicators which report performance results and highlight corrective action where necessary. Annual budgets are based on current and future service provision and in accordance with the Medium-Term Financial Plan (MTFP). The key aim of the Financial Strategy is sustainability and the MTFP factors in potential funding constraints in which services plan accordingly. 	5	

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

Optimising achievement of intended outcomes	<ul style="list-style-type: none"> 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. 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. 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. 	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"> 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. The Council uses representative groups, for example council house tenants and leisure centre users, to help formulate service provision. 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. The Council has several partnership/collaborative working arrangements. An established Workforce Strategy is in place which includes an annual work plan setting out training and development activities. 	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> <p><i>Still relevant – no change proposed.</i></p>

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

	<ul style="list-style-type: none"> An established training programme is in place to develop senior 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>Developing the capability of the entity's leadership and other individuals</p>	<ul style="list-style-type: none"> Regular meetings take place between senior managers and leading Members to ensure regular and effective communication. 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. The Council also operates within a set of Financial Regulations and Procedural Rules. A weekly meeting takes place between the Leader and Chief Executive to ensure a continuing and effective relationship. 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. Members have access to training and seminars through the District Council's Network and the East Midlands Regional Council. Development plans for Officers are linked to a competency framework and where appropriate to the leadership programme. 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. 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. All employees, including the CEO and Directors are subject to annual appraisals. Certain training courses are mandatory for specific groups of employees or for all Officers, regarding health and safety, equality and absence management, etc. 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. 	<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> <p><i>Still relevant – no change proposed</i></p>

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"> • 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. • 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. • 	5	
Managing performance	<ul style="list-style-type: none"> • The Council has an established performance framework with comprehensive performance reports considered by policy committees on a quarterly basis. • All key activities in the Corporate Plan are subject to performance measures which assesses progress against intended outcomes. • Consultation takes place between Members and Officers in the planning process to establish what and the format that information is required for decision making. • The Council has an established Oversight and Scrutiny function in place, including a separate Committee whose Chair does not sit on any other policy committees. 	5	

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

	<ul style="list-style-type: none"> • This Committee operates under a terms of reference set out in the Constitution and sets its own work programme. It focuses on a 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. • The Council's outcomes in terms of finance are reported from base budget stage through to the publication of the annual financial statements. 		
<p>Robust internal control</p>	<ul style="list-style-type: none"> • The Council has an established Audit Committee. • The Committee has its own specific terms of reference around ensuring good governance, internal control and risk management. • The effectiveness of the Committee is regularly reviewed and Members receive training and briefings. • The Committee oversees an annual Internal Audit Plan which covers all fundamental systems on a yearly basis and all Council services/activities over a 5 year rolling period based on risk. • 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. • 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. • The Council reports its Governance Framework and its effectiveness are assessed through an Annual Governance Statement which is reported in the Financial Statements. • 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. • Internal Audit meets the requirements of the nationally recognised Public Sector Auditing Standards. 	<p>5</p>	
<p>Managing data</p>	<ul style="list-style-type: none"> • The Council has an established Data Quality framework in place which is subject to annual review and audit. • 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. • The Council's Director of Finance and Corporate Services is the designated Data Protection Officer. Page 79 of 106 • The Council has established policies regarding the security of data, and data protection, etc. 	<p>4</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> <p><i>Still relevant – no change proposed</i></p>

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

	<ul style="list-style-type: none"> • Arrangements for managing and storing data are subject to audit. • Information asset owners assigned to data folders and systems. • 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 • From time-to-time, other agreements are established with for example, credit rating agencies for specifically defined purposes. • Where high volumes of data are processed, the Council undertakes independent quality checking, for example in the processing of housing benefits. 		
<p>Strong public financial management</p>	<ul style="list-style-type: none"> • 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. • 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. • 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). • 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. 	<p>5</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"> 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. The Council publishes an Annual Report which helps to explain what the Council does, its achievements, etc. in a more easily understandable style. The Council’s website is also a means of publishing information in an informative way. Social media is also being used as a tool for engaging with residents and other stakeholders. 	<p>4</p> <p>Proposed to increase to 5</p>	<p>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.</p> <p><i>The upgraded website is due to go live in July 2017.</i></p>
Implementing good practice in reporting	<ul style="list-style-type: none"> 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. 	<p>5</p>	
Assurance and effective accountability	<ul style="list-style-type: none"> All key indicators and projects in the Corporate Plan have a named responsible officer. These are mainly Directors and individual service managers. These responsible officers are accountable to the relevant Policy Committee. Any recommendations made by External Audit in their annual report, are assigned a responsible Council Officer and actions are monitored by the appropriate Committee. Recommendations made by Internal Audit are designed to strengthen the Council’s internal control environment. Recommendations made by Internal Audit are also assigned a responsible Council Officer to implement agreed actions. 	<p>5</p>	

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

	<ul style="list-style-type: none">Internal Audit provides quarterly updates on outstanding 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 2016/17 – PROGRESS ON WORK PLAN

Work Area	Timescale	Responsible Officer (s)	Governance / Corporate Plan Priority	Action and Outcome
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 in December 2015 and 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	This has not been completed due to the availability of an external organisation. This task is being carried forward into 2017/18.
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 was approved by the Corporate Management Team in conjunction with HR and a training programme set out. Take-up has been good and outcomes are being reported to Finance and Management Committee on 15 th June 2017.
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).

APPENDIX 2: ANNUAL GOVERNANCE STATEMENT 2016/17 – 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 rd November 2016.
---------------------	--------------	--	--	---

REPORT TO:	AUDIT SUB-COMMITTEE	AGENDA ITEM: 11
DATE OF MEETING:	14th JUNE 2017	CATEGORY: RECOMMENDED
REPORT FROM:	LEGAL and DEMOCRATIC SERVICES MANAGER and MONITORING OFFICER	OPEN
MEMBERS' CONTACT POINT:	ARDIP KAUR (01283 595715) ardip.kaur@south-derbys.gov.uk	DOC:
SUBJECT:	ANNUAL GOVERNANCE STATEMENT 2016/17	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 04

1.0 Recommendations

- 1.1 To recommend to Finance and Management Committee the Annual Governance Statement (AGS) for the year ended 31st March 2017 and its publication within the Statement of Accounts for 2016/17.
- 1.2 To authorise the Leader of the Council and Chief Executive Officer to sign the Annual Governance Statement.

2.0 Purpose of Report

- 2.1 To submit the Council's Annual Governance Statement (AGS) for 2016/17 in accordance with the Accounts and Audit Regulations 2003 (as amended).

3.0 Detail

Background

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

Annual Governance Statement (AGS)

- 3.2 The AGS is the formal statement that records and publishes a council's governance arrangements; it is a statutory requirement to publish an AGS on an annual basis.
- 3.3 Guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) states [Page 15 of 100](#) that the production and publication of the AGS,

are the final stages of an on-going review of governance and not activities that can be planned and viewed in isolation. Compilation of the AGS involves the Council in:

- reviewing the adequacy of its governance arrangements
- knowing where it needs to improve these arrangements
- communicating to stakeholders how better governance leads to best quality public services

3.4 The proposed AGS for 2016/17 is attached. It is led by the Council's Monitoring Officer in consultation with the Council's Chief Officers. The AGS has been produced in accordance with the CIPFA guidelines and includes commentary on:

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

3.5 **Section D** of the Statement highlights those issues and matters dealt with under the Governance framework. This includes a summary of any complaints made against the Council by the Local Government Ombudsman and other Government agencies, together with any significant issues raised by Auditors and failures to operate within expected standards.

Compiling the AGS

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

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

3.8 In monitoring the AGS, these officers review policy committee reports and decisions, together with Management Team minutes to ensure that any relevant matters are included in the AGS.

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

- 3.10 In addition, investigations that may have been undertaken by the Information Commissioner, Data Protection Registrar and Local Government Ombudsman are also reviewed. Any legal action brought against the Council is also reviewed to determine its impact on the Council's governance arrangements.
- 3.11 When the draft statement is complete, the Chief Executive and other corporate directors are consulted and asked to highlight any other matters.

Work Plans

- 3.12 A work plan, considered and approved by the Committee in June 2016, was progressed during 2016/17 to address matters identified to maintain and strengthen the governance environment. These were:
- Continuing to review the Local Code of Corporate Governance half yearly.
 - An independent review of the Council's policies regarding information governance and compliance.
 - A review of mandatory training.
 - A review of ICT disaster recovery procedures.
 - A review of access to information regulations and committee work programmes.
 - To complete a final action in the business continuity work programme by ensuring that sufficient information is available at Directorate level to enable individual services to react to business continuity issues.
- 3.13 Apart from a full review of information governance, these actions were all completed during the year. The corresponding detail was reported in a separate report on this Agenda regarding a review of the Council's Local Code of Corporate Governance.
- 3.14 The proposed work plan for 2017/18 is detailed in the AGS. These actions have been identified to maintain robust governance and to ensure arrangements keep abreast of a changing environment. The work programme includes:
- Continue to review on a 6-monthly basis the Local Code of Corporate Governance.
 - To review information governance arrangements and to prepare for changes in Data Protection regulations in May 2018. This will include work carried forward from 2016/17.
 - To undertake a series of training and briefing sessions for staff on the Council's procurement procedures.

4.0 Financial Implications

4.1 None.

5.0 Corporate Implications

5.1 Corporate governance affects the whole authority and as part of the process, all members of senior management have been consulted and made aware of its contents. Generally, senior managers are briefed at corporate meetings in respect of governance generally, together with the AGS and its importance for the financial statements.

5.2 Maintaining good governance is a key outcome in the Corporate Plan adopted by the Council in April 2016. This reflects that sound governance should underpin all services and activities of the Council.

5.2 The AGS itself will be signed by the Council's Leader and most senior officer, the Chief Executive. This also emphasises that corporate governance is at the centre of the leadership and management of South Derbyshire District Council.

6.0 Community Implications

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

7.0 Background Papers

The Annual Governance Statement and Rough Guide published by the Chartered Institute of Public Finance and Accountancy.

ANNUAL GOVERNANCE STATEMENT 2016/17

A SCOPE OF RESPONSIBILITY

South Derbyshire District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act of 1999, to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Consequently, the Council has formulated a 'Local Code of Corporate Governance', which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. This Framework was updated by CIPFA/SOLACE during the year and it became effective from the financial year 2016/17.

The Council adopted this updated Framework and the Council's Local Code was reviewed against the new Framework and approved by the Audit Sub-Committee in December 2017 as part of its ½ yearly review process. The details are available at:

<http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1944/Committee/412/Default.aspx>

This Annual Governance Statement explains how South Derbyshire District Council has complied with the Local Code of Corporate Governance and also meets the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, in relation to the publication of a statement on internal control.

B THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The Governance Framework comprises:

- The systems and processes, culture and values, by which the Council is directed and controlled.
- The activities through which it accounts to, engages with and leads the community.

It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate economical, efficient and effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an on-going process, designed to identify and prioritise the risks to the achievement of the Council's policies, aims and strategic objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, in order to manage them efficiently, effectively and economically.

The Governance Framework detailed in this Statement has been in place at South Derbyshire District Council for the year ended 31st March 2017, up to the date that the Annual Report and Statement of Accounts were approved.

C THE GOVERNANCE FRAMEWORK AT SOUTH DERBYSHIRE

The key elements of the systems and processes that comprise South Derbyshire District Council's Governance Framework are set out in the following sections.

Decision Making

The Council operates under a Constitution. This sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. It sets out the individual roles and responsibilities of Members and the three statutory officers (i.e. the Head of Paid service, the Chief Finance Officer and the Monitoring Officer).

The Full Council makes decisions on key policies and sets the budget and levels of local taxation for the Council's services. The Constitution includes the delegation from Full Council down to the Policy Committees and provides a Scheme of Delegation to Officers.

Policy Making

This is facilitated through 3 policy committees which are responsible for the main service areas of the Council and are:

- Environmental and Development Services
- Housing and Community Services
- Finance and Management

Each Committee is governed by its own Terms of Reference, as laid down in the Constitution. Meetings of these committees are open to the public, except where issues of an exempt nature are being disclosed.

An Overview and Scrutiny Committee has 'call-in' powers to consider the appropriateness of Policy Committee decisions. It also shadows the policy committees, supports policy development and review, together with carrying out external reviews on issues that affect South Derbyshire.

Six Area Forums, a Parish Liaison Meeting and a Flood Liaison Meeting are well established and these meet throughout the year. These forums are designed to improve community involvement in decision-making and provide a continuous link with local residents, parish councils, the voluntary sector and other public bodies.

Governance and Accountability

The Council designated the Legal and Democratic Services Officer as its Monitoring Officer during 2016/17.

It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations. After consulting with the Head of the Council's Paid Service (the Chief Executive) and Chief Finance Officer, the Monitoring Officer will report to Full Council if they consider that any proposal, decision or omission would give rise to unlawfulness or maladministration.

Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

In addition, the Council operates 2 regulatory committees; a Planning Committee focusing on development control (planning applications and enforcement), and a Licensing and Appeals Committee.

Furthermore, a Standards Committee, which contains independent (of the Council) members, oversees the conduct of elected councillors.

Accountability for the use of public funds and service provision is largely undertaken through the annual publication of a Statement of Accounts and an Annual Report.

The Local Code of Corporate Governance

The Council has adopted a National Code developed by CIPFA/SOLACE. The Code is subject to regular six monthly reviews by Senior Officers reporting to the Audit Sub-Committee. This helps to inform this Governance Statement.

Standards of Financial Conduct

Financial management is conducted in accordance with financial regulations and procedural rules, as set out in Part 4 of the Constitution. The Council has designated the Director of Finance and Corporate Services in accordance with Section 151 of the Local Government Act 1972.

This Officer is responsible for making arrangements for the proper administration of financial affairs in accordance with best professional practice.

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

In addition, under the Code of Audit Practice, the Council has a responsibility to ensure that its affairs are managed in accordance with proper standards and to prevent and detect fraud and corruption. The Council has adopted a Fraud and Corruption Strategy.

The financial management system includes:

- A Medium Term Financial Plan
- An annual budget cycle incorporating Council approval for revenue and capital budgets, together with a Treasury Management Strategy
- Financial Procedure Rules that are reviewed as required
- Process and procedure guidance manuals
- Annual Accounts supporting stewardship responsibilities, which are subjected to external audit and which follow Proper Accounting Practice and International Financial Reporting Standards
- Regular budget monitoring by budget holders through monthly financial monitoring reports
- Identification of financial risks that are regularly reviewed and updated

Standards of Overall Conduct

Members and Officers of the Council operate under codes of conduct. These codes provide a set of standards of conduct expected of employees at work and for councillors in performing their public duties. In addition, both Members and Officers are required to declare interests and register gifts and hospitality which are available on the Council's website.

The codes take into account the requirements of the law and the provisions of official conduct in the appropriate National Conditions of Service (for employees).

The Council Leader and the Chief Executive are the Corporate Governance Champions for Members and Officers respectively, designed to create a climate of openness, support and respect, promoting a strong ethical culture and upholding the values of good governance.

The Standards Committee hears Member Code of Conduct complaints referred by the Monitoring Officer in line with the procedure for considering such complaints. These are complaints against elected Members of the District Council and elected or co-opted Members of the Parishes of South Derbyshire. The Standards Committee is also informed of complaints not referred to them for consideration and dealt with by Monitoring Officer, with a summary of the outcome in relation to each matter.

Development of Members and Officers

Members and officers receive a formal induction tailored to their role in the Council, including when they take on new roles. The Council has adopted an e-induction system for Officers and induction training is undertaken by Members at the beginning of each four year term of office. Member role profiles exist under Section 6 of the Constitution.

Members also have access to regional training courses and seminars organised through the forum of East Midlands Regional Councils.

In addition, on an annual basis, existing and new Members of the Planning and Licensing & Appeals Committees must attend training sessions to enable them to continue to sit on these Committees, to ensure that they are fully briefed on all new developments in these areas.

The Council provides a full range of development opportunities for Members with ad-hoc training and briefing sessions.

Establishing Council Objectives

These are set out in the Council's Corporate Plan. This is effectively the Council's business/forward plan, set for five years and reviewed on an annual basis. This plan sets out the Council's vision for South Derbyshire, its values and the priorities for delivering services for local communities.

The Sustainable Community Strategy for South Derbyshire (2009-2029) is co-ordinated by The South Derbyshire Partnership. This sets out the District wide priorities across a range of public service providers that include the District Council, County Council, Police, Health Authority and the Voluntary Sector. This plan aims to improve the overall economic, social and environmental wellbeing of South Derbyshire by addressing issues that are important to the local community, business and service providers.

Compliments and Complaints

The Council has a Corporate Compliments and Complaints Policy. This is used to help identify service improvements from compliments, complaints and other comments received. Information is collated centrally and reported half yearly to the Finance and Management Committee, where performance can be challenged and areas for improvement identified.

Arrangements are also in place for dealing with and monitoring Ombudsman's complaints and reporting annually to Full Council.

The Council also has arrangements in place for whistleblowing to which staff and all those contacting the Council have access. The confidential reporting code is reviewed regularly and publicised.

Organisational Assessment and Performance Review

The Council has in place a range of Key Performance Indicators (KPIs) which it uses to measure performance. Indicators are developed for each of the Council's main priorities in the Corporate Plan, alongside specific indicators in service plans.

In addition to the Annual External Audit placed upon the Council, the main organisational assessment is around Value for Money. This assessment is undertaken by the Council's External Auditors who judge and report on the Council's arrangements for:

- Securing financial resilience
- Challenging and improving value for money

From time-to-time, External Audit may also undertake specific detailed studies on a certain activity or aspect of the Council and makes recommendations for improvement where necessary.

Data Quality

A key element of reporting performance is the information that underpins it, i.e. data quality. This is to ensure that the Council arrangements for recording and collecting information are robust so that the evidence and management information is reliable. The Council has adopted a Strategy to govern data quality and its arrangements are subject to regular review, including an annual audit.

Data Management

The Council has a Data Retention Policy which set out its requirements to ensure compliance with Data Protection and Freedom of Information Requirements.

Business Improvement

To support service delivery, the Council has a Procurement and Business Improvement function. This is intended to co-ordinate greater efficiency and effectiveness in the use of Council resources and works to an improvement programme which is overseen by a Business Improvement Board.

Procurement

The dedicated central procurement unit also ensure that purchasing is legal, ethical and accountable and is carried out in accordance with regulatory and legislative requirements.

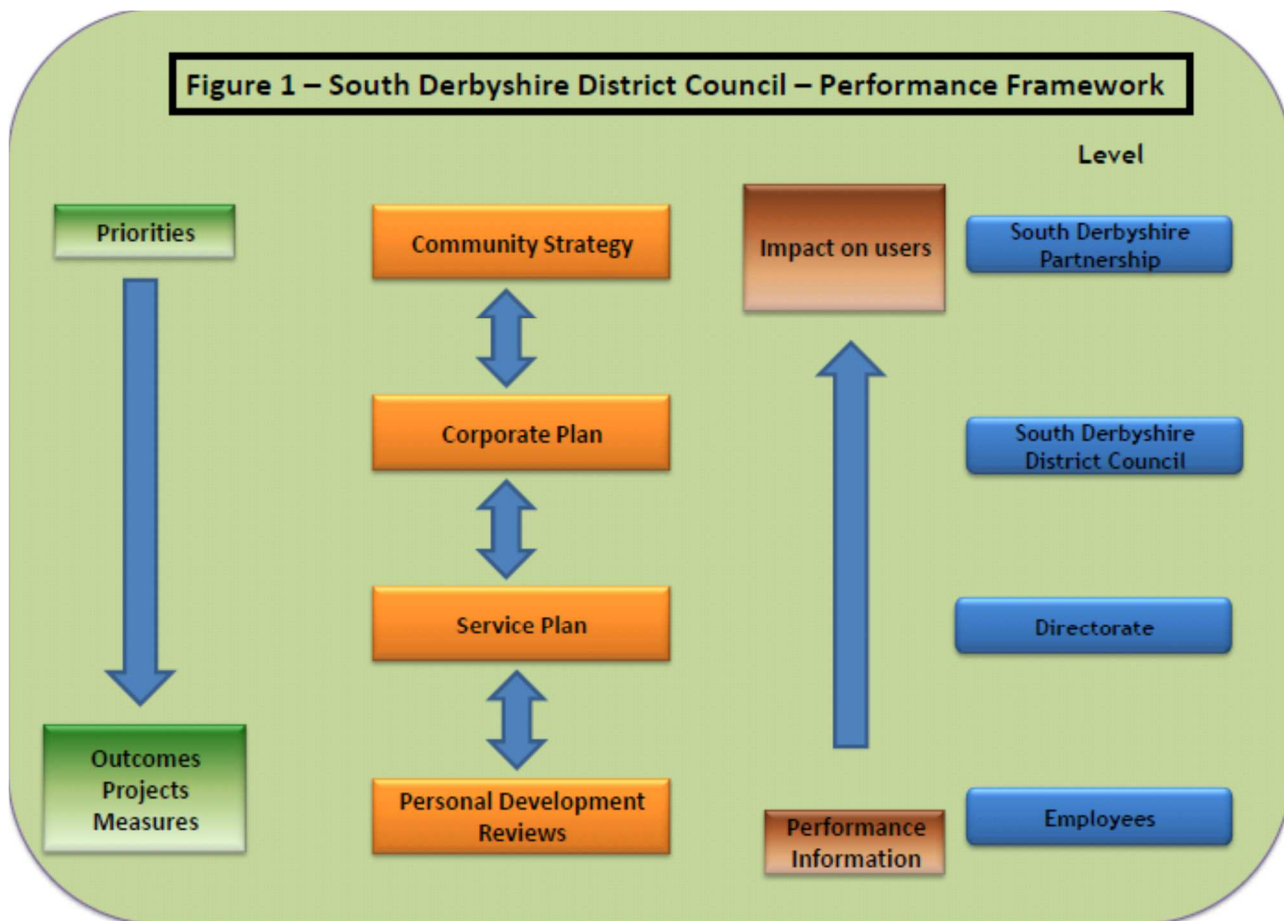
Continuous Service Review

The Council continuously reviews its service areas in the Council. This is designed to identify transformation and efficiency opportunities to ensure that services remain efficient and effective as possible.

A key aim is to identify efficiency savings and in particular cashable/budget savings without adversely affecting service delivery.

Managing Performance

The Council's performance framework is largely developed from national requirements and regulatory frameworks, together with local issues that are emerging from its own planning framework. An outline of the framework and its components is shown in Figure 1, below.



The **Community Strategy** sets the long-term vision and community goals for all agencies in South Derbyshire. This was reviewed in 2009 and a new Strategy implemented for the period 2009-2029.

The Council’s **Corporate Plan** describes how the Council provides services to support the Community Strategy and focuses resources on key priorities, together with actions for improvement. This is an integral part of the Council’s Performance Management Framework and the actions set out how key priorities are delivered together with measures of success. The development of the Corporate Plan takes place alongside the development of the Medium Term Financial Plan to ensure that the corporate priorities are fully resourced.

Service Plans are the cornerstone of the performance framework and demonstrate how each section of the Council will deliver improvements in line with priorities detailed in the Corporate Plan.

Performance Development Reviews provide employees with a clear understanding of how their work is enabling the Council to deliver the priorities detailed in the Corporate Plan, together with identifying their own individual training needs.

Partnership Working

The Council works in partnership with many other public agencies, including the voluntary sector and private organisations to deliver its services. The extent of these partnerships varies across the Authority.

The Council’s most significant partnerships are the South Derbyshire Partnership and the Safer South Derbyshire Partnership for Derbyshire. These partnerships are properly constituted and Committees are established (comprising representatives of the Council) who monitor and review progress.

The governance arrangements include a constitution and terms of reference. They have annual action plans which are monitored and reported quarterly to the relevant Strategic Boards. The Council receives annual reports on their performance which identifies the outcomes of partnership work and the financial implications of their work undertaken.

Risk Management

The Council has adopted a Risk Management Policy Statement, which sets out the principles, responsibilities and commitment to dealing with risk. Backed-up by a detailed framework, it is effectively the process for the management of risk throughout the Council.

The Council, through its service planning process, has a system for identifying and evaluating significant risks. Each service plan contains a risk register and this is developed and maintained by Officers involved in planning and delivering services.

In addition, the Council's Corporate and Financial Plans identify and evaluate risk at a more strategic level. Furthermore, evaluation of proposals for new spending and capital investment includes a risk assessment analysis. The Council's risk management process provides a framework to embed risk within services. It also includes guidance for managers in assessing and treating risk.

Business Continuity

The Council's arrangements are overseen by a Resilience Liaison Forum and this includes training and awareness briefings in the event of an incident. The Council is supported by Derbyshire County Council's Emergency Planning Unit.

Internal Audit

Under the Account and Audit Regulations 2015, the Council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes. This should take into account public sector internal auditing standards or guidance.

The Council employs the services of the Central Midlands Audit Partnership (CMAP) to provide its Internal Audit function.

This function provides an independent evaluation on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

Internal Audit works with an annual plan, agreed with and monitored by Members and Senior Officers. It provides opinions on internal controls in place to manage risks across the Council's activities. Its plans and outputs are monitored and challenged by the Council's Audit Sub-Committee.

Internal audit is the main means by which the Council obtains assurances that systems are operating effectively. Internal Audit is required to issue an Assurance Statement (Annual Report) each year that provides an assessment of the Council's internal control system.

Health and Safety

The Council has a Health and Safety Policy and an Annual Action Plan that sets out the Council's commitment to health and safety and identifies those positions with responsibility under the policy. There is also a quarterly Employee Health and Safety Committee, where representatives from the trade unions meet with service managers and Members. The Committee monitors policies, work practices and reviews accident statistics.

The Council's Audit Sub-Committee

Under its terms of reference, the Committee provides independent assurance of the adequacy of the risk management framework and the associated control environment.

It also provides independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment. The Sub-Committee also oversees the Authority's corporate governance arrangements in relation to financial matters

External Scrutiny

Ernst & Young LLP (EY) is the Council's appointed external auditor. Besides auditing the accounts and financial statements of the Council, they also focus on more strategic performance and financial management arrangements. This includes reviewing arrangements in place for securing value for money.

The Audit Sub-Committee and Officers of the Council meet regularly with the external auditors to discuss planned and on-going external audit activity through the Annual Audit Plan.

From time-to-time, the Auditors may undertake specific reviews and issue reports with action plans to aid improvement in specific areas. The Annual Audit Letter summarises the conclusions and significant issues arising out of their audit and other inspections undertaken. The outcome of all inspections and audits are used to plan and improve Council services.

ICT (Information Communication Technology)

The Council would not be able to operate without an effective ICT infrastructure in place. The Council's ICT Strategy is designed to ensure that the appropriate infrastructure is in place to enable the Council to deliver its services effectively and implement the Council's Corporate Plan.

Therefore, the ICT Strategy is aligned to the strategic objectives of the Council, with technology being used as an enabler of business change to support the Council's priorities. The ICT infrastructure in place enables the Council's service areas to concentrate on delivering their customer and business requirements.

Appropriate safeguards are in place to ensure the integrity of the Council's ICT infrastructure and this is subject to an annual audit and independent health check. In addition, the Council complies with national best practise for security as contained within the Public Services Network (PSN) Code. Under this Code, the Council's ICT security arrangements are tested and reviewed each year by an independent organisation, approved for such work.

Transparency in the Publication of Information

The Council is required to publish a wide range of information on its services. The Council accounts for the use of resources and publishes this in an Annual Statement of Accounts.

http://www.south-derbys.gov.uk/council_and_democracy/council_budgets_spending/statement_of_accounts/default.asp

The Council also publishes an Annual Pay Policy Statement which details the pay and remuneration of senior officers, together with the relationship between the pay of the highest paid officer and other officers.

The latest Policy Statement which was published on 1st April 2017 can be viewed at:

http://www.south-derbys.gov.uk/our_website/open_data/pay_policy/default.asp

In addition, the Council also publishes on its web site, details of all payments (excluding those to employees) in excess of £250, details of procurement card transactions, together with remuneration and expenses paid to Members. There are also details regarding assets owned, including council housing. This information is available at:

http://www.south-derbys.gov.uk/our_website/open_data/default.asp

D REVIEWING THE EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its Governance Framework, including the system of internal control. The review of effectiveness is informed by the work of the Senior Management Team, who has responsibility for the development and maintenance of the governance environment.

This is backed up by Internal Audit reports on the audits conducted through the year, and also by recommendations made by the External Auditors, together with any other review agencies and inspectorates.

As part of an on-going review, the overall framework was strengthened in 2016/17 following a work programme arising out of the Governance Statement for the previous year 2015/16. These are detailed in **Section E**.

The overall processes and indicators that have been applied in maintaining and reviewing the effectiveness of internal control during the year 2016/17 are set out in the following sections.

Overall Corporate Governance

The Council continued to apply its Local Code of Corporate Governance based on recommended best practice, as developed by CIPFA/SOLACE. This Code sets out the systems by which the Council directs and controls its functions. It was reviewed twice during the year with a work programme, monitored by the Audit Sub Committee, being progressed to maintain and improve overall Governance.

ICT Security

During 2016/17, work continued in order to comply with the Government's Public Sector Network (PSN) security standard. Regular liaison continued with the Government's Cabinet Office.

There was one major security incident (June 2016) which arose during 2016/17. This related to a malware virus which penetrated the Council's network. No damage occurred and no data was lost, although there was some temporary business interruption.

After identifying the source of the virus, further training and awareness sessions were provided to Council employees on ICT security. No changes to systems or processes were required.

The Council is aware that it is constantly prone to hacking through external emails. Although the Council's security system filters these away, regular communications are sent out internally to remind staff to be vigilant. The Council was not affected by the International Ransomware Cyber-attack in May 2017 but did apply some additional security patches to its servers as advised by Microsoft.

In 2017/18, the Council will continue to strengthen its disaster recovery arrangements. In particular, the back-up data centre is due to be strengthened in September 2017.

The System of Internal Audit

Internal Audit is responsible for monitoring the quality and effectiveness of internal control. They review all fundamental financial systems each year and other systems over a five yearly cyclical period. This is based on a risk assessment of each service area.

Internal Audit reports to the Council's Audit Sub-Committee on a quarterly basis. The reporting process requires a report of each audit to be submitted to the relevant service manager.

The report includes recommendations for improvements that are included within an action plan and require agreement or rejection by managers. The process includes reviews of recommendations by the auditors through a tracking system, to ensure that they are acted upon.

Under its terms of reference, the Audit Sub-Committee considers in detail any recommendations that are found to have a potentially "high-risk" impact on the Council's control environment. These are subject to on-going monitoring until all recommended actions have been implemented.

Reports to the Audit Sub-Committee provide an overall assurance rating of each system or service area subject to audit. This includes a statement as to whether there are any possible implications for the Annual Governance Statement.

Audits 2016/17

All audits completed during 2016/17 found no material weaknesses which could affect the Governance framework, although one report provided a "Limited" Assurance Rating in internal control. This report focused on the operation of certain contracts and procurement procedures in Housing Services.

The report was requested by the Monitoring Officer following receipt of a complaint under the Council's Whistleblowing procedure. A number of recommendations were made in the report. These recommendations were mainly concerned with strengthening monitoring arrangements within Housing Services and record keeping ensuring that the Council does not contravene its procurement regulations.

As a result of this report, the Council carried out further investigations into the role of certain individuals; this was undertaken within the appropriate HR procedures of the Council.

The Effectiveness of Internal Audit

The Council has adopted the Public Sector Internal Auditing Standards as set out by the regulatory body (CIPFA). This requires Internal Audit to operate within an Internal Audit Charter, together with a Quality Improvement and Assessment Programme.

Performance against this programme is reported to the Audit Board which oversees the performance of the Central Midlands Audit Partnership (CMAP) in conjunction with other partners and service clients.

Under Auditing Standards, CMAP are subject to an independent review of their operational effectiveness at least once in every 5 years.

2016/17 Review

A review was carried out in 2016/17 by an independent assessor. Their provisional report concluded that CMAP generally conforms to auditing standards in most instances but recommended some changes to strengthen the management/resources of the audit team, together with the governance and forward direction of CMAP itself. This was in recognition of the growth of the Partnership during 2015 and 2016. A development plan has been drawn up.

Annual Internal Audit Report

Under the Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) the Head of Internal Audit (HIA) provided a written report to those charged with governance.

This was considered and noted by the Council's Audit Committee on 14th June 2017 in a separate report. The Chief Audit Executive gave an opinion on the overall adequacy and effectiveness of the Council's internal control environment for 2016/17. The opinion is detailed below (this is to follow).

Communication

Corporate communication covers the full range of media management, publications, external and internal communications. This is provided by a central team within the Council.

By targeting communication activities, the Council can enhance its reputation and profile at a local and national level in its role as a community leader. Good corporate communications can encourage people to feel positively about the Council because they are better informed, have higher levels of satisfaction and can make an assessment on whether they are getting value for money.

The Council's Communications Strategy and Action Plan is reviewed and updated on an annual basis. It is reported to and considered by the Council's Finance and Management Committee in June each year.

A series of media campaigns are also undertaken by the Council each year. During 2016/17, these included:

- Supporting the promotion, marketing and creation of a lasting legacy for infrastructure projects including the Midway Community Centre and Melbourne Sports Park
- Focusing on the wide variety of facilities, activities, opportunities and events in South Derbyshire for people of all ages and targeting new audiences across all channels (e.g. social media)
- Working with partner agencies to further push initiatives that help drive down poverty and support the vulnerable, for example the Community Food Hub
- Working closely with Swadlincote TIC and other organisations to promote the area's rich and diverse culture, supporting tourism growth
- Building on the District's positive reputation of being 'open for business,' celebrating the success of both large and small enterprises and promoting events and initiatives that help town centres to thrive
- Supporting efforts to raise aspirations of youngsters and promoting employability and entrepreneurship

The Council continued to make extensive use of social media to communicate and promote community events.

In addition, the Council upgraded its website during 2016/17 to make it more modern and user friendly, together with providing greater opportunities for people to transact on-line. The new website is due to go live in July 2017.

Consultation

The Corporate Plan is informed by consultation and is based on the views of stakeholders including local people, voluntary and community groups, together with local businesses.

The Council's Consultation Strategy aims to coordinate consultation activities between the services within the Council and with key partners, to ensure that residents' views are used effectively to inform council decision-making. This Strategy is reviewed and updated on an annual basis.

During 2016/17, there was a wide-ranging series of consultation in order to inform service provision. The main areas of consultation

- A proposal to create a new parish council in Newhall and Stanton
- Local Plan Part 2
- Design development for the Diana Memorial Garden in Swadlincote
- Joint request from Barrow upon Trent Parish Council and Stenson Fields Parish Council to change their parish boundaries
- Introduction of a Public Spaces Protection Order in Swadlincote town centre
- Future of the Hillside Recreation Ground in Findern
- Outdoor gym at Eureka Park, Swadlincote

The Constitution

The Monitoring Officer has a duty to monitor and review the operation of the Constitution to ensure that its aims and principles are given full effect. Major changes to the Constitution have to be approved by Full Council and reflect any changes to the Council's structure and responsibilities.

Changes were made to the Constitution in 2016/17. This consisted of amendments to the Financial Regulations and the addition of a Conflicts of Interest Policy. These changes were approved by Annual Council on 18th May 2017.

Work of the Overview and Scrutiny Committee

Under the Constitution, the Overview and Scrutiny Committee has the power to "call in" a decision, which has been made by a policy committee but not yet implemented, to enable them to consider whether the decision is appropriate.

No decisions were called in during 2016/17.

The Overview and Scrutiny Committee also scrutinises key service issues and priorities in the Corporate Plan, recommending and reporting back actions to the main policy committees. Their annual report to Full Council set out details of the Committee's work and outcomes during the year. The Annual Report for 2016/17 is available at:

<http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/2056/Committee/439/Default.aspx>

In particular, the Committee scrutinised and supported the following areas:

- Section 106 health based NHS contributions
- Use of the Regulation of Investigatory Powers Act 2000
- Festival of Leisure
- Public Health funding
- Provision of care facilities
- Telecare provision
- Street Scene, Recycling and Bulky Waste collections
- Voluntary sector contributions
- Member IT provision
- Member training
- The Council's budget proposals for 2017/18

Propriety in the Conduct of Council Business

In respect of 2016/17, the following matters are noted.

Complaints

There were no cases of maladministration found against the Council.

Code of Conduct

There were no breaches of either the Member or Employee Codes of Conduct, or referral of a matter by the Monitoring Officer to the Standards Committee.

Register Of interests

There were no issues raised in the year regarding the register of interests and declarations of gifts/hospitality which required formal investigation.

Whistleblowing

In April 2016, one whistleblowing matter was reported to the Council. This was investigated in accordance with the Council's Whistleblowing Policy. Some further issues were investigated regarding Housing Contracts following a separate report by Internal Audit as highlighted earlier in this Statement.

Data Protection

The Council were contacted by the Information Commissioner's Officer (ICO) to explain a response relating to a Subject Access Request received in the year. This followed a complaint from a third party that the Council had withheld information that it should have released.

The Council provided responses to clarify its procedures and the reasons for not releasing certain information. This was noted by the ICO and no further action was required.

Health and Safety

There were 2 reportable accidents under Health & Safety Regulations during 2016/17 involving either council employees or members of the public. This compares with 7 in 2015/16, 5 in both 2014/15 and 2013/14, 3 in 2012/13 and 10 in 2011/12.

Following investigation of each accident, risk assessments were reviewed and updated as appropriate. No enforcement or other action was taken by the Health & Safety Executive (HSE) regarding these accidents.

Legal Claims

As in the previous 2 years, during 2016/17 the Council had several appeals upheld regarding refusals of planning permission. These arose where refusal by the Council's Planning Committee for residential development, was subsequently overturned on appeal by the Government's Planning Inspector.

The Council makes provision in its accounts each year to meet the associated costs.

Monitoring Performance

The Performance Management framework specifies the performance monitoring regime. A “traffic light” monitoring system is used to highlight areas at risk of not being achieved.

During the year, policy committees received quarterly performance monitoring reports and agreed remedial measures in action plan where these were necessary. In addition, the Finance and Management Committee received quarterly financial monitoring reports. Performance reporting includes a review of both service and corporate risks.

The monitoring framework was reviewed and updated in April 2016 following the adoption of the new Corporate Plan in 2016/17. The framework was introduced for monitoring performance from 2016/17.

Service Recognition

Several areas of the Council’s work is regularly reviewed independently and recognised as being of an excellent standard. The following awards are currently relevant to the Council’s activities.

Health and Safety - the Council has attained the Gold Award in the Royal Society for the Prevention of Accidents (RoSPA) Occupational Health and Safety Programme. This is in recognition of an excellent safety record. The Award is only given to those organisations that have demonstrated their commitment to continuous improvement in accident and ill health prevention.

Environmental Management - the Council has attained an international standard for its approach to reducing the carbon footprint in its own services and for supporting work across the District.

Leisure Facilities - the Council has attained a Green Flag Award for its urban parks acknowledging how well they are maintained and managed and for providing good facilities.

Town Centre - the Council is nationally recognised as providing the best small market and is recognised regionally as providing the best Farmer’s market.

Business Continuity

There were no major incidents during 2016/17.

Value for Money (VFM) Assessment

The External Auditor is required to make a judgement on the Council’s arrangements for securing value for money. During 2016/17, based on work for the financial year 2015/16, they concluded that the Council had put proper arrangements in place to secure value for money in its use of resources.

In addition, the Annual Audit Letter reports any significant weaknesses in the overall control framework. None were reported which related to their work in 2015/16 and they had no significant matters to report across the Council. The Audit Letter for the financial year 2015/16 is available at:

<http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1951/Committee/413/Default.aspx>

E KEY GOVERNANCE MATTERS FOR SOUTH DERBYSHIRE

The Council operates within a changing environment with constant development in electronic communications and increasing public expectations, together with additional demand on its services due to Growth.

Consequently, Governance needs to be subject to constant review to take account of changing circumstances. Good governance is a key outcome underpinning the Council's Corporate Plan.

Some areas for review were identified in the Governance Statement for 2015/16 to strengthen the Council's arrangements and these were addressed in 2016/17. These related to:

- Adoption of an updated National Code for Corporate Governance as approved by the Committee in December 2016.
- A review of mandatory training for all staff. This followed an internal audit report in April 2016 regarding governance, which made some recommendations to ensure relevance and consistency of approach.
- Updated ICT disaster recovery procedures. This followed 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 programmes.
- Service guides produced for dealing with service disruption arising from an external incident.

These actions were noted by the Audit Sub-Committee on 14th June 2017 following consideration of a detailed report.

Work Plan 2017/18

The areas identified for development during 2017/18 are:

- Continue to review on a 6-monthly basis the Local Code of Corporate Governance.
- To review information governance arrangements and to prepare for changes in Data Protection regulations in May 2018.
- To undertake a series of training and briefing sessions for staff on the Council's procurement procedures.

These developments are set out and included in the Governance Work Plan for 2017/18 in **Appendix 1**.

Council Sign Off

We propose over the coming year to take steps to address the issues identified in the Work Plan to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review. This Annual Governance Statement is signed by the Leader of the Council and the Chief Executive on behalf of South Derbyshire District Council.

Signed:
(Leader of the Council)

Dated:

Signed:
(Chief Executive)

Dated:

APPENDIX 1: GOVERNANCE WORK PLAN 2017/18

Work Area	Timescale	Responsible Officer (s)	Governance / Corporate Plan Priority	Action and Outcome
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	Reviews to be held in December 2017 and June 2018.
Information Governance	March 2018	Director of Finance and Corporate Services	To ensure that the Council complies with data protection principles and safeguards the data that it manages	Policies and monitoring arrangements to be reviewed during the year to ensure consistency of approach and compliance ahead of changes to Data Protection Regulations in May 2018.
Procurement Regulations	December 2017	Director of Finance and Corporate Services	Proper procurement practice	To ensure all staff involved in procurement at whatever level are updated on the Council's procurement procedures and wider procurement practice.