



Please ask for Amanda Clayton  
Direct Line: 01246 34 5273  
Email [committee.services@chesterfield.gov.uk](mailto:committee.services@chesterfield.gov.uk)

The Chair and Members of Standards  
and Audit Committee

17 September 2019

Dear Councillor,

Please attend a meeting of the STANDARDS AND AUDIT COMMITTEE to be held on WEDNESDAY, 25 SEPTEMBER 2019 at 2.00 pm in Committee Room 1, Town Hall, Rose Hill, Chesterfield, the agenda for which is set out below.

AGENDA

Part 1(Public Information)

1. Declarations of Members' and Officers' Interests relating to Items on the Agenda
2. Apologies for Absence
3. Minutes (Pages 3 - 8)
4. Treasury Management Annual Report 2018/19 and Monitoring Report 2019/20 (Pages 9 - 24)
5. Summary of internal audit reports issued 2019/20 (Pages 25 - 30)
6. Outstanding Internal Audit Recommendations (Pages 31 - 40)
7. Annual Audit Letter 2018/2019 (Pages 41 - 54)
8. CIPFA Statement on the role of the head of internal audit (Pages 55 -

82)

9. RIPA - IPCO Inspection (Pages 83 - 88)
10. Local Government & Social Care Ombudsman Annual Review Letter 2018/2019 (Pages 89 - 104)
11. Local Government Act 1972 - Exclusion of Public

To move "That under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 1 of Part 1 of Schedule 12A of the Act".

Part 2 (Non Public Information)

12. Appointment to independent remuneration panel (Pages 105 - 110)

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Randy', written in a cursive style.

Local Government and Regulatory Law Manager and Monitoring Officer

**STANDARDS AND AUDIT COMMITTEE****Wednesday, 17th July, 2019**

Present:-

Councillor Rayner (Chair)

Councillors Caulfield  
Kellman  
T MurphyCouncillors Snowdon  
Wilson  
Brittain

\*Matters dealt with under the Delegation Scheme

**1 DECLARATIONS OF MEMBERS' AND OFFICERS' INTERESTS  
RELATING TO ITEMS ON THE AGENDA**

No declarations of interests were received.

**2 APOLOGIES FOR ABSENCE**

An apology for absence was received from Councillor Brady.

**3 MINUTES****RESOLVED –**

The Minutes of the previous meetings of the Standards and Audit Committee held on 24 April 2019 were approved and signed by the Chair as a correct record.

**4 SUMMARY OF INTERNAL AUDIT REPORTS ISSUED**

The Senior Auditor presented a report summarising the internal audit reports issued during the period 2 March 2019 to 31 May 2019, in respect of reports issued relating to the 2018/19 internal audit plan.

It was noted that eight reports had been issued during this period and had been given the following levels of assurance:

‘Substantial Assurance’ – 3

'Reasonable Assurance' – 3

'Limited Assurance' – 1

'Inadequate Assurance' - 1

The committee was informed that no fraud had been discovered. It was noted that there was an ongoing investigation into the Rufford Close New Build Project which had received an inadequate assurance rating. The report would be presented to the committee once it had been concluded.

The Assistant Director for Customers, Commissioning and Change attended to report on the limited assurance status given to Sickness Absence Management. It was explained that the Human Resources provision was being delivered by Chesterfield Borough Council after the termination of the Arvato contract in October 2018. The audit was welcomed as a basis from which to move forward and all the recommendations were accepted.

The software system used for sickness absence management had not been updated for some time and was very paper based. This would be upgraded by November and additional functions integrated so that it would be a fully automated process by April 2020. The reports on absence data would be broken down into service areas and HR Business Partners had been introduced to work with the service managers so that they understand the specific issues in each department. It was acknowledged that the sickness levels as a whole are higher than the national average and that each area was working on an action plan.

Discussions took place around the future provision of Occupational Health Services as the contract was due to expire. It was acknowledged that procurement could not be undertaken until each service area had identified their needs. Members highlighted the council's duty of care to its employees and the Assistant Director for Customers, Commissioning and Change agreed with the sentiment and explained that a paper had already been submitted to CMT to review the budget allocation for the Occupational Health provision.

\* RESOLVED –

That the report be noted.

## **5 APPOINTMENT TO INDEPENDENT REMUNERATION PANEL**

The Senior Democratic and Scrutiny Officer presented a report to update members on the preparations to reconstitute the Independent Remuneration Panel (IRP) in order to carry out a review of the Members' Allowances Scheme.

The committee was informed that Mr Nye had agreed to continue as an independent person on the panel, a second candidate was interviewed during the week prior to the meeting and the plan was to advertise the vacancy over the summer and interview prospective candidates. The new panel would be approved at the next meeting of the Standards and Audit Committee.

\* RESOLVED –

That the update be noted.

## **6 ANNUAL REPORT OF THE STANDARDS AND AUDIT COMMITTEE**

The Chair of the Standards and Audit Committee, Internal Audit Consortium Manager and the Local Government and Regulatory Law Manager submitted the Annual Report of the Standards and Audit Committee, attached at Appendix 1 to the officer's report, which summarised the work carried out by the Committee during the financial year 2018/19.

It was noted that the Annual Report would be considered for approval by full Council on 17 July, 2019.

\*RESOLVED –

That the Annual Report of the Standards and Audit Committee for 2018/19 be noted and referred to full Council for approval.

## **7 INTERNAL AUDIT CONSORTIUM ANNUAL REPORT 2018/19**

The Senior Auditor presented the Internal Audit Consortium Annual Report in respect of Chesterfield Borough Council for 2018/19.

The report provided a summary of the internal audit work undertaken during the year. Members were informed that 31 reports had been issued

during the year; the breakdown of audit classifications was included in paragraph 3.1 of the officer's report.

Section 3 of the officer's report also provided detail on the issues to be considered for inclusion in the Annual Governance Statement, and a summary of progress made against the Internal Audit Action Plan.

\*RESOLVED –

That the report be noted.

## **8 MANAGEMENT OF UNREASONABLE COMPLAINTS AND COMPLAINANTS - ANNUAL REVIEW 2019**

The Local Government and Regulatory Law Manager submitted an annual review of the Council's Policy and Procedure on the Management of Unreasonable Complaints or Customers. The report cited two examples of the policy being used in 2018/2019. The committee were advised that no amendments were recommended at that time.

\*RESOLVED –

That the report be noted.

## **9 AUDIT REPORT ON THE 2018/19 STATEMENT OF ACCOUNTS**

The Finance Officer submitted a report on the Statement of Accounts for 2018/19, the 'Letter of Representation' and the External Auditor's 'Report to those Charged with Governance'.

The audited Statement of Accounts was attached to the report at Annexe 1 and included the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund, the Disclosure Notices and the Annual Governance Statement.

The Council's external auditors were required to obtain written representations from management in respect of fraud, compliance with laws and regulations, contingent liabilities, related party disclosure and

post balance sheet events in the form of a letter of representation. The letter was attached to the report at Annexe 3.

The external auditor was required to 'communicate audit matters to those charged with governance', i.e. the Standards and Audit Committee, and a copy of the external auditor's report was attached to the report at Annexe 2. Mr Michael Norman of Mazars attended the meeting to present the External Auditor's 'Report to those Charged with Governance'.

The report confirmed that following the audit of the accounts a small number of presentational adjustments had been agreed but that these were not considered to be material. The external auditor noted that there had been two significant accounting policy changes internally but there were no significant control deficiencies and no significant new risks.

**\* RESOLVED –**

1. That the Statement of Accounts for 2018/19 be approved.
2. That the Management Letter of Representation be approved by the committee.
3. That the Report to those Charged with Governance be noted.
4. That a note of thanks be sent on behalf of the Chair and Committee to all persons involved in the production of the Statement of Accounts and its supporting documents.

**10 RISK MANAGEMENT STRATEGY AND ANNUAL REVIEW**

The Chief Finance Officer presented a report on risk management developments during the year 2018/19 and recommended for approval the updated Risk Management Policy, Strategy and Corporate Risk Register for 2018/19.

The Committee were informed of the key risks that the Council had faced during 2018/19, as set out in paragraph 7.1 of the officer's report, and were advised of the work undertaken to mitigate the risks.

**\* RESOLVED –**

1. That the progress made on developing the Council's approach to risk management during 2018/19, be noted.
2. That the Committee recommends that full Council approve the Risk Management Policy, Strategy and the Corporate Risk Register for 2019/20.

## For Publication

### TREASURY MANAGEMENT ANNUAL REPORT 2018/19 AND MONITORING REPORT 2019/20

---

Meeting: (1) Standards & Audit Committee  
(2) Council

Date: (1) 25 September 2019  
(2) 09 October 2019

Cabinet portfolio: Deputy Leader

Report by: Chief Finance Officer

---

## **For publication**

---

### **1.0 Purpose of report**

1.1 To consider the Annual Treasury Management Report for 2018/19.

1.2 To consider the Treasury Management activities for the first five months of 2019/20.

### **2.0 Recommendations**

2.1 That the **Council** is recommended to:

- (i) Approve the outturn Prudential Indicators for 2018/19;
- (ii) Approve the treasury management stewardship report for 2018/19;
- (iii) Note the treasury management position for the first five months of 2019/20.

2.2 That **Standards and Audit Committee** scrutinizes the report and makes recommendations to the full Council for consideration.

### 3.0 **Background**

3.1 The Council's Treasury Management Strategy requires the full Council to receive three treasury reports each financial year; the Strategy report before the start of each financial year, an annual report for the previous financial year and a mid-year review for the current year.

3.2 The Annual Report for 2018/19 is attached at Appendix A. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

3.3 Following the Icelandic banks collapse in 2008 the regulatory framework places a much greater emphasis on the review and scrutiny by Members of treasury management activities. The attached report provides details of the treasury management activities in 2018/19 and confirms compliance with the Council's approved policies.

### 4.0 **Summary of the Annual Report**

4.1 During 2018/19, the Council complied with its legislative and regulatory requirements. The key actual prudential and

treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2017/18 Actual £'000	2018/19 Revised £'000	<b>2018/19 Actual £'000</b>
Actual capital expenditure	19,631	34,319	<b>25,737</b>
Capital Financing Requirement:			
- General Fund	15,143	17,941	<b>14,911</b>
- HRA	132,343	130,358	<b>130,358</b>
- Total	147,486	148,299	<b>145,269</b>
External debt	131,303	129,336	<b>129,336</b>
Investments – under 1 year	46,360	45,600	<b>47,547</b>
1 year and above	-	-	-
Net borrowing	84,943	83,836	<b>81,789</b>

4.2 Other prudential and treasury indicators are to be found in Appendix A. The Chief Finance Officer also confirms that borrowing over the medium term is only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached in 2018/19.

4.3 The financial year 2018/19 continued the challenging environment of low investment return, however August 2018 saw an interest rate rise of 0.25% with the official bank rate rising to 0.75%. There was a large differential between borrowing and investments rates during the year.

**Investments** – Interest income received for the year was above budget at £418,000. This was due to increased yields on fixed deposits with banks and other local authorities during the last quarter of 2018/19. Following a review of investments during the 2018/19 financial year the Council continued with its policy of increasing its investments with other local authorities in order to achieve greater security. Further information can be found in Appendix A.

The in-house team managed average balances of £53.3m earning an average rate of return of 0.78%.

**Borrowing** – in terms of activity during the year on the Council’s debt portfolio:

- No new external long term borrowing was undertaken; &
- Long term loan repayments of £1m were made.

**Treasury Management Advisors** – Arlingclose continued to provide treasury management advice to the Council throughout 2018/19. Treasury recommendations were incorporated into the 2018/19 Treasury Management Strategy Statement that was approved by Council in February 2018.

## 5.0 **Mid- Year Review 2019/20**

### 5.1 Annual Investment Strategy

In accordance with the Cipfa Code and the Council’s Treasury Management Strategy, the investment priority is to ensure security and liquidity of capital, and to obtain an appropriate level of return which is consistent with the Council’s risk appetite. The Bank Rate has been maintained at 0.75% since August 2018; however the continuing uncertainty of economic recovery and the geo-political uncertainties prompt a low risk and short term strategy. The Bank of England has increased the possibility of interest rate cuts during the second half of 2019/20. Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the five months ended 31<sup>st</sup> August 2019.

### 5.2 Internally Managed Cash Balance

In the first quarter of the year the interest rates achieved were lower than those assumed when setting the budget (0.80% against 0.93%), which has resulted in internal investment

returns being £9,000 worse than forecast for the first quarter of the year.

5.3 Continuing uncertainty on the impact of the UK leaving the European Union and the increased risk of a global economic slowdown has led to a drop in investment rates during the first quarter of 2019/20. The budget forecast for investment income will be reviewed as part of the revised budget process in the Autumn.

5.4 Borrowing activities in the period:

- No new long term borrowing has been undertaken;
- No repayments of principal have yet been made; &
- No debt rescheduling was undertaken.

5.5 Compliance with Treasury & Prudential Limits

All treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices have been maintained.

The main Prudential Indicators relating to borrowing are:

- Authorised Borrowing Limit – the limit for the year was set at £142.5m, the limit has not been breached.
- Operational Boundary – this was set at £135.6m for the year, again the limit has not been breached.

5.6 Treasury Management Advisors

The contract for the Council's Treasury Management Advisors was tendered during the summer of 2019. The contract was awarded to Arlingclose for two years, with the option to extend for a further 12 months. The contract will commence in September 2019.

## 6.0 Treasury Management Indicators 2019/20

Amendments to the 2019/20 General Fund capital programme will be considered by Council in October. Further borrowing may be necessary and this additional borrowing would require an adjustment to the Prudential Indicators (PI's) approved as part of the Treasury Management Strategy Statement in February. The PI's detailed below would need to be amended:-

- General fund Capital Expenditure & Financing
- General Fund Capital Financing Requirement
- Operational Boundary
- Authorised Limit

These amended PI's will be reported to Cabinet as part of the budget monitoring report in the autumn.

## 7.0 Recommendations

7.1 That the **Council** is recommended to:

- (i) Approve the outturn Prudential Indicators for 2018/19;
- (ii) Approve the treasury management stewardship report for 2018/19;
- (iii) Note the treasury management position for the first five months of 2019/20.

7.2 That **Standards and Audit Committee** scrutinizes the report and makes recommendations to the full Council for consideration.

## 8.0 Reasons for recommendations

8.1 To comply with the Council's Treasury Management Policy and Practices, the CIPFA Code of Practice on Treasury

Management (2017) and the CIPFA Prudential Code for Capital Finance in Local Authorities (2017).

### **Decision information**

<b>Key decision number</b>	
<b>Wards affected</b>	All
<b>Links to Council Plan priorities</b>	

### **Document information**

<b>Report author</b>	<b>Contact number/email</b>
Karen Ludditt	01246 345457 Karen.ludditt@chesterfield.gov.uk
<b>Background documents</b> Local Government Act 2003, CIPFA Prudential Code & Guidance, Accountancy Services' final accounts working papers.	
<b>Annexes to the report</b>	
Appendix A	Annual Treasury Outturn Report 2018/19

This page is intentionally left blank

## Treasury Management Outturn Report 2018/19

### Introduction

The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve a treasury management annual report after the end of each financial year.

This report fulfils the Council's legal obligation to have regard to the CIPFA Code.

The Council's treasury management strategy for 2018/19 was approved at a meeting of the Authority on 22<sup>nd</sup> February 2018. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

### External Context

**Economic commentary** After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

With the 29<sup>th</sup> March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, including shooting down Theresa May's deal for the third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12<sup>th</sup> April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs have yet to yield any positive results. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France,

both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

**Financial markets:** Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. World trade growth collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

**Credit background:** Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms.

The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.

In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

## Local Context

On 31<sup>st</sup> March 2019, the Authority had net borrowing of £82m arising from its revenue and capital income and expenditure, a decrease on 2018 of £3.2m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	<b>31.3.18 Actual £000</b>	<b>2018/19 Movement £000</b>	<b>31.3.19 Actual £000</b>
General Fund CFR	15,143	(232)	14,911
HRA CFR	132,343	(1,985)	130,358
<b>Total</b>	<b>147,486</b>	<b>(2,217)</b>	<b>145,269</b>
Less: Usable reserves	(51,440)	664	(50,776)
Less: Working capital	(11,103)	(1,601)	(12,704)
<b>Net borrowing</b>	<b>84,943</b>	<b>(3,154)</b>	<b>81,789</b>

Net borrowing has decreased due to a fall in the CFR as new capital expenditure was lower than the financing applied including minimum revenue provision; together with a rise in working capital due to the timing of receipts and payments.

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31<sup>st</sup> March 2019 and the year-on-year change in show in table 2 below.

Table 2: Treasury Management Summary

	<b>31.3.18 Balance £000</b>	<b>2018/19 Movement £000</b>	<b>31.3.19 Balance £000</b>	<b>31.3.19 Rate %</b>
Long-term borrowing	131,303	(1,967)	129,336	
Short-term borrowing	0	0	0	
<b>Total borrowing</b>	<b>131,303</b>	<b>(1,967)</b>	<b>129,336</b>	<b>3.73</b>
Long-term investments	0	0	0	
Short-term investments	20,238	(7,324)	27,562	

Cash and cash equivalents	26,122	6,137	19,985	
<b>Total investments</b>	<b>46,360</b>	<b>(1,187)</b>	<b>47,547</b>	<b>0.85</b>
<b>Net borrowing</b>	<b>84,943</b>	<b>(3,154)</b>	<b>81,789</b>	

### **Borrowing Activity**

At 31<sup>st</sup> March 2019, the Authority held £129m of loans, a decrease of £2m on the previous year, as part of its strategy for funding previous years' capital programmes. The year-end borrowing position and the year-on-year change in show in table 3 below.

Table 3: Borrowing Position

	<b>31.3.18 Balance £m</b>	<b>2018/19 Movement £m</b>	<b>31.3.19 Balance £m</b>	<b>31.3.19 Rate %</b>	<b>31.3.19 Average maturity years</b>
Public Works Loan Board	131,302	(1,966)	129,336	3.73	28 years
Local Authorities (short term)	0	0	0		
Other	1	1	0		
<b>Total borrowing</b>	<b>131,303</b>	<b>(1,967)</b>	<b>129,336</b>		

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

In furtherance of these objectives, no new external borrowing was undertaken in 2018/19, while existing loans were allowed to mature without replacement. This strategy enabled the Authority to reduce net borrowing costs and reduce overall treasury risk.

The “cost of carry” analysis performed by the Authority’s treasury management advisor Arlingclose did not indicate any value in borrowing in advance for future years’ planned expenditure and therefore none was taken.

### **Investment Activity**

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19, the Authority’s investment balance ranged between £44m and £61m million due to timing differences between income and expenditure. The year-end investment position and the year-on-year change in show in table 4 below.

Table 4: Investment Position

	<b>31.3.18 Balance £m</b>	<b>2018/19 Movement £m</b>	<b>31.3.19 Balance £m</b>	<b>31.3.19 Rate %</b>	<b>31.3.19 Average maturity years</b>
Banks & building societies (unsecured)	12.0	(3.0)	9.0	0.95	<1 year
Government (incl. local authorities)	13.2	5.8	19.0	0.87	<1 year
Money Market Funds	21.1	(1.6)	19.5	0.76	<1year
<b>Total investments</b>	<b>46.3</b>	<b>1.2</b>	<b>47.5</b>		

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

In furtherance of these objectives, the Authority continued to increase deposits into more secure asset classes during 2018/19, particularly deposits with other Local Authorities. As a result investment risk was lowered.

### **Other Non-Treasury Holdings and Activity**

Although not classed as treasury management activities, the 2017 CIPFA Code now requires the Authority to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and regeneration purposes as well as commercial investments which are made mainly for financial reasons. The Authority holds £48m of directly owned investment property and land. This represents an increase of £1m on the previous year due to revaluation gains. The Authority also holds a £200,000 loan to the Derbyshire Building Control Partnership that commenced in March 2018.

### **Performance Report**

The Authority measures the financial performance of its treasury management activities in terms of its impact on the revenue budget, as shown in table 6 below.

Table 6: Performance

	<b>Actual £000</b>	<b>Budget £000</b>	<b>Over/ under</b>
<b>Total investment income</b>	(418)	(355)	(63)
<b>Total debt expense</b>	5,035	5,035	0
<b>GRAND TOTAL</b>	4,617	4,680	(63)

### **Compliance Report**

The Chief Finance Officer is pleased to report that all treasury management activities undertaken during 2018/19 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	<b>2018/19 Maximum</b>	<b>31.3.19 Actual</b>	<b>2018/19 Limit</b>	<b>Complied</b>
Any single organisation	<b>£5m</b>	<b>£5m</b>	<b>£5m</b>	✓

Any group of funds under the same management	£7.5m	£5m	£7.5m	✓
Enhanced Money Market Funds	£10m	£9.6m	£10m	✓

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 8: Debt Limits

	2018/19 Maximum £000	31.3.19 Actual £000	2018/19 Operational Boundary £000	2018/19 Authorised Limit £000	Complied
<b>Borrowing</b>	<b>£131,303</b>	<b>£129,336</b>	<b>£138,330</b>	<b>£147,970</b>	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was below the operational boundary for the whole of 2018/19.

### Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

**Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed was:

	31.3.19 Actual	2018/19 Limit	Complied
Upper limit on fixed interest rate exposure	£129m	£135m	✓
Upper limit on variable interest rate exposure	£48m	£60m	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

**Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	<b>31.3.19 Actual</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Complied</b>
Under 12 months	2%	10%	0%	✓
12 months and within 24 months	2%	10%	0%	✓
24 months and within 5 years	6%	10%	0%	✓
5 years and within 10 years	10%	20%	0%	✓
10 years and within 25 years	47%	50%	20%	✓
25 years and above	33%	70%	20%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

**Principal Sums Invested for Periods Longer than 364 days:** These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Actual principal invested > 364 days	£0	£0	£0
Limit on principal invested > 364 days	£5m	£3m	£0m
Complied	✓	✓	✓

## For publication

### Summary of Internal Audit Reports Issued 2019/20

---

Meeting:	Standards and Audit Committee
Date:	25th September 2019
Cabinet portfolio:	Governance
Report by:	Internal Audit Consortium Manager

---

## **For publication**

---

### 1.0 **Purpose of report**

- 1.1 To present for members' information a summary of Internal Audit Reports issued during the period 1<sup>st</sup> June 2019 to 16th August 2019 in respect of reports issued relating to the 2019/20 internal audit plan.

### 2.0 **Recommendation**

- 2.1 That the report be noted.

### 3.0 **Report details**

- 3.1 The Public Sector Internal Audit Standards require that the Internal Audit Consortium Manager reports periodically to the Standards and Audit Committee in respect of performance against the audit plan. Significant risk and control issues should also be reported.
- 3.2 Attached, as Appendix A, is a summary of reports issued covering the period 1st June 2019 to 16th August 2019, for audits included in the 2019/20 internal audit plan. This period 6 reports have been issued 2

with substantial assurance and 4 with reasonable assurance.

- 3.3 Appendix A shows for each report a summary of the scope and objectives of the audit, the overall conclusion of the audit and the number of recommendations made / agreed where a full response has been received.
- 3.4 The conclusion column of Appendix A gives an overall assessment of the assurance that can be given in terms of the controls in place and the system's ability to meet its objectives and manage risk in line with the definitions below.

<b>Assurance Level</b>	<b>Definition</b>
<b>Substantial Assurance</b>	There is a sound system of controls in place, designed to achieve the system objectives. Controls are being consistently applied and risks well managed.
<b>Reasonable Assurance</b>	The majority of controls are in place and operating effectively, although some control improvements are required. The system should achieve its objectives. Risks are generally well managed.
<b>Limited Assurance</b>	Certain important controls are either not in place or not operating effectively. There is a risk that the system may not achieve its objectives. Some key risks were not well managed.
<b>Inadequate Assurance</b>	There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk. There is little assurance of achieving the desired objectives.

- 3.5 In respect of the audits being reported, it is confirmed that there were no issues arising relating to fraud that need to be brought to the Committees attention.

3.6 The production of this report ensures that Members charged with governance are aware of any internal control weaknesses or fraud identified by internal audit.

#### 4.0 **Alternative options and reasons for rejection**

4.1 The report is for information.

### 5 **Recommendation**

5.1 That the report be noted.

### 6 **Reasons for recommendation**

6.1 To inform Members of the internal audit reports issued in order that the strength of the internal controls in place can be assessed.

#### **Decision information**

<b>Key decision number</b>	N/A
----------------------------	-----

<b>Wards affected</b>	All
<b>Links to Council Plan priorities</b>	This report links to the Council's priority to provide value for money services.

### Document information

<b>Report author</b>	<b>Contact number/email</b>
<b>Jenny Williams - Internal Audit Consortium Manager</b>	<b>01246 345468</b> <b>Jenny.williams@chesterfield.gov.uk</b>
<b>Background documents</b>	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
<b>Appendices to the report</b>	
Appendix A	Summary of Internal Audit Reports Issued

**Chesterfield Borough Council – Internal Audit Consortium****Report to Standards and Audit Committee****Summary of Internal Audit Reports Issued 1st June 2019 to 16th August 2019**

Report Ref No.	Report Title	Scope & Objectives	Assurance Level	Date			Number of Recommendations	
				Report Issued	Response Due	Response Received	Made	Accepted
32	Housing Repairs	To review the processes and procedures in place	Reasonable	27/6/19	18/7/19	17/7/19	7 (4M 3L)	7
1	Food Hygiene	To ensure that inspections are carried out in line with legislation and that there are adequate procedures in place	Reasonable	23/05/19	13/6/19	20/6/19	9 (2M 7L)	9
2	Risk Management	To ensure that there is a strategy in place and that the principles of risk management are embedded	Reasonable	23/05/19	13/6/19	13/6/19	11 (3M 8L)	11

Report Ref No.	Report Title	Scope & Objectives	Assurance Level	Date			Number of Recommendations	
				Report Issued	Response Due	Response Received	Made	Accepted
3	Dunston & Tapton Innovation Centres	To review the procedures in place	Substantial	6/6/19	27/6/19	7/8/19	2L	2
4	Crematorium	To review the procedures in place	Substantial	11/6/19	2/7/19	12/6/19	4 (1M 3L)	4
5	Pest Control & Stray Dog Income	To ensure that fees are charged at the correct rate and that all income is banked promptly	Reasonable	9/8/19	5/9/19		11L	Note 1

Note 1 Response not due at time of writing report

## For publication

### Outstanding Internal Audit Recommendations

---

Meeting: Standards and Audit Committee

Date: September 25th 2019

Cabinet portfolio: Governance

Report by: Internal Audit Consortium Manager

---

## For publication

---

### 1.0 Purpose of report

1.1 To present for members' information a summary of outstanding internal audit recommendations and the progress being made to implement them.

### 2.0 Recommendations

2.1 That the report be noted.

2.2 That Members' decide if they want to ask any officers to the next Standards and Audit Committee for further updates in relation to specific areas of concern.

2.3 That a further summary of outstanding internal audit recommendations be submitted to the Standards and Audit Committee in April 2020.

### 3.0 **Report details**

- 3.1 It has previously been agreed by the Standards and Audit Committee that a report detailing outstanding internal audit recommendations be brought to the Standards and Audit Committee every 6 months.
- 3.2 The implementation of audit recommendations is being monitored by the Corporate Management team on a regular basis and they have committed to being pro- active in ensuring that recommendations are implemented as agreed where possible.
- 3.3 Attached, as Appendix A, is a summary of outstanding internal audit recommendations as at the middle of August 2019.
- 3.4 The timely implementation of internal audit recommendations helps to ensure that the risk of error or fraud is reduced and that internal controls are operating effectively.

### 4.0 **Alternative options and reasons for rejection**

- 4.1 The report is for information.

### 5.0 **Recommendations**

- 5.1 That the report be noted.
- 5.2 That Members' decide if they want to ask any officers to the next Standards and Audit Committee for further updates in relation to specific areas of concern.
- 5.3 That a further summary of outstanding internal audit recommendations be submitted to the Standards and Audit Committee in April 2020.

## 6.0 **Reasons for recommendations**

- 6.1 To inform Members of the internal audit recommendations outstanding so that they can assess if appropriate and timely action is being taken.

### **Decision information**

<b>Key decision number</b>	N/A
<b>Wards affected</b>	All
<b>Links to Council Plan priorities</b>	This report links to the Council's priority to provide value for money services.

### **Document information**

<b>Report author</b>	<b>Contact number/email</b>
<b>Jenny Williams – Internal Audit Consortium Manager</b>	<b>01246 345468</b> <b>Jenny.williams@chesterfield.gov.uk</b>
<b>Background documents</b> These are unpublished works which have been relied on to a material extent when the report was prepared.	
<b>Appendices to the report</b>	
Appendix A	Summary of outstanding audit recommendations as at the middle of August 2019



### Summary of Outstanding Internal Audit Recommendations as at middle of August 2019

Audit Recs 17/18	Recommendations	Priority	Agreed Imp Date	Managers Comments
<b>Choice Based Lettings – May 17</b>  Page 35	<b>R1</b> Procedural notes, flowcharts and associated letter templates should be updated to accurately reflect current procedures and be aligned with the current policy	M	July 2018 <b>Extended to Dec 18</b> pending introduction of new system Locata by end of October 2018	<b>Manager Responsible : Liz Cooke / Carl Griffiths</b>  We have delayed the review, update and production of procedural notes in view of the new Allocations IT system and policy that we are still in the process of implementing. I had hoped to have this implemented in May of this year but due to contractual complications with the IT provider we were not able to do so. We are currently re-registering all applicants to the housing register and once this is complete we can start to work on the new procedural notes. The older notes, which were already out of date, are now even more out of date and redundant so an overall review of these will be carried out after full implementation of the new allocations policy and IT system. To be safe I would probably anticipate a completion date of end of March 2020.

<b>Audit Recs 17/18</b>	<b>Recommendations</b>	<b>Priority</b>	<b>Agreed Imp Date</b>	<b>Managers Comments</b>
<p><b>Section 106 / CIL – October</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 36</p>	<p>R4 As recommended in the previous audit evidence should be provided to confirm the payment of the offsite play contribution (£38,800) and the highways contribution (£5,000) for CHE/05/00053/FUL</p>	<p>M</p>	<p>March 2018</p>	<p><b>Manager Responsible : Neil Johnson</b></p> <p>The reference to the £5,000 highways contribution is not a matter for CBC. The contribution is required to be paid by the developer to Derbyshire County Council and not CBC. DCC were a signature to the agreement and it would be for them to pursue this matter.</p> <p><b>August Update</b> - An invoice for the £38,800 payment was sent to Bradbury Hall Developments Ltd on 25<sup>th</sup> January 2019. It has not been paid despite numerous reminders. It has been escalated to legal to secure recovery.</p>
<p><b>Corporate Health and Safety – January 18</b></p>	<p>20 recommendations made – all picked up in a separate Health and Safety recovery plan</p>	<p>Various</p>	<p>Various</p>	<p><b>Manager Responsible : Ian Waller</b></p> <p><b>August 19 update</b> - Health and Safety Internal audit is currently in progress that will assess the progress made against internal audit recommendations and the health and safety improvement plan.</p>

<b>Audit Recs 17/18</b>	<b>Recommendations</b>	<b>Priority</b>	<b>Agreed Imp Date</b>	<b>Managers Comments</b>
<p><b>Money Laundering – March 18</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 37</p>	<p>R3 It is essential that staff training for relevant employees (including PPP partners) is undertaken to ensure employees are clear about obligations in respect of the MLR 2017</p>	<p>L</p>	<p>March 19</p>	<p><b>Manager Responsible : Richard Staniforth</b></p> <p><b>August 19 update</b> - There is no in-house expertise for delivering the money laundering recommendations. We are trying to source an external provider but this is proving difficult. Request deadline extension to March 2020.</p>
<p><b>Money Laundering – March 18</b></p>	<p>R1 An internal risk assessment should be conducted to assess the level of exposure to the Authority, as required within the AML Regulations</p>	<p>L</p>	<p>March 19</p>	<p><b>Manager Responsible : Richard Staniforth</b></p> <p><b>August 19 update</b> - There is no in-house expertise for delivering the money laundering recommendations. We are trying to source an external provider but this is proving difficult. Request deadline extension to March 2020.</p>
<p><b>Procurement – April 18</b></p>	<p>R1 It should be ensured that when the procurement review has been completed that an updated procurement strategy is created and adopted by the council.</p>	<p>H</p>	<p>Jan 18</p>	<p><b>Manager Responsible : Rachel O Neil</b></p> <p><b>August 19 update</b> – there is a draft strategy in place that includes</p>

Audit Recs 17/18	Recommendations	Priority	Agreed Imp Date	Managers Comments
				modern slavery however needs updating for new policy approaches around social value and environmental considerations. Discussions have taken place with members.

### Outstanding Recommendations 2018/19

Audit Recs 18/19	Recommendations	Priority	Agreed Imp Date	Managers Comments
<b>Market Hall Café – May 2018</b>  Page 38	It is essential that procurement in respect of Arden Coffee is reviewed in line with the requirements of the initial contract as spend exceeds the £25,000 limit and consequently three written quotes is required.	M	September 18	<b>Manager Responsible: Andy Bond</b>  <b>August 19 update</b> - as part of a project Mick Blythe is looking into catering. We will be considering the overall procurement at the cafes, venues and town hall with a view to best value and efficiencies.  This is a 3 to 6 month project.
<b>Insurance – October 18</b>	The Senior Insurance Officer should ensure that there is a comprehensive set of procedures that reflect current policies and processes.	L	30th June 2019	<b>Manager Responsible :</b> <b>Karen Ludditt</b>  <b>August Update</b> In progress not complete

<b>Audit Recs 18/19</b>	<b>Recommendations</b>	<b>Priority</b>	<b>Agreed Imp Date</b>	<b>Managers Comments</b>
<b>Private Sector Housing Grants – November 18</b>	With regard to the outstanding fee element for adaptations on grant DF2038 1 Staveley Road, appropriate action should be taken to inform accountancy for the journal to be undertaken.	L	Jan 19	<b>Manager Responsible :</b> <b>Sarah Watts</b>  <b>August update</b> This is in the process of being checked
<b>Laptops and other Removable Media – January</b>  Page 39	A policy needs to be established to give clear guidance to management with regards to returning laptops / removable media equipment to IT when an employee leaves their post and ensuring IT are made aware if equipment is transferred to a different user.	M	1 <sup>ST</sup> June 2019	<b>Manager Responsible – Rachel O Neil</b>  <b>August 19 update –</b> Draft policy written by ICT. Needs approval by Policy Section before going to Council Committee.

This page is intentionally left blank

# Annual Audit Letter

## Chesterfield Borough Council

Year ending 31 March 2019





# CONTENTS

1. Executive summary
2. Audit of the financial statements
3. Value for Money conclusion
4. Other reporting responsibilities
5. Our fees
6. Forward look

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Chesterfield Borough Council for the year ended 31 March 2019. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Council's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none"><li>• The other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>
Value for Money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 31 July 2019 we reported to the group auditor in line with the requirements applicable to the Council's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report issued to the Council on 31 July 2019 stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Standards and Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure at a Surplus/Deficit on Provision of Services level	£2,108k
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£63k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Officers remuneration (bandings) - Members allowances - Audit Fees	£5k £87k £10k

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Standards and Audit Committee within the audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p><b>Management override of controls</b></p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> <li>• Documenting our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding;</li> <li>• Testing the appropriateness of journal entries recorded in the general ledger and other material adjustments made in the preparation of the financial statements;</li> <li>• Evaluating the business rationale for any significant transactions outside the course of the business;</li> <li>• Understanding the oversight given by those charged with governance of management process over fraud;</li> <li>• Making enquiries of management and Internal Audit regarding actual or any suspicions of fraud; and</li> <li>• Considering whether the Council's accounting policies are consistent with industry standards.</li> </ul>	<p>There are no matters arising from our work on management override of controls</p>
<p><b>Valuation of property, plant and equipment (PPE) and investment properties</b></p> <p>The Council employs a valuation expert to provide information on revaluations, however there remains a high degree of estimation uncertainty associated with the revaluations of PPE and investment properties due to the significant judgements and number of variables involved.</p>	<p>We addressed this risk through performing the following audit work:</p> <ul style="list-style-type: none"> <li>• Testing a sample of assets valued during the year to valuation reports;</li> <li>• Where material, testing the basis for impairment of assets, the value and correct accounting treatment;</li> <li>• Critically assessing the Council's valuer's scope of work and methodology used for a sample of valuations; and</li> <li>• Considering the impact of any assets not valued during the year.</li> </ul>	<p>We are satisfied the estimates were reasonable and materially correct.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p><b>Valuation of defined benefit pension net liability</b></p> <p>The Council's accounts contain material liabilities relating to the Local Government Pension Scheme (LGPS). The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p>	<p>To address this risk we:</p> <ul style="list-style-type: none"> <li>• Reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office;</li> <li>• Agreed the data in the IAS 19 valuation reports provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements;</li> <li>• Critically assessed the competency, objectivity and independence of the Derbyshire Pension Fund's Actuary, Hymans Robertson; and</li> <li>• Liaised with the auditors of the Derbyshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate.</li> </ul>	<p>The Council obtained an updated IAS19 valuation report from the Actuary in July 2019, to take into account the implications of the GMP and McCloud judgments, which impacted on the estimated pension liabilities and had not been taken into account by the Actuary in their original report</p> <p>The report included non-material differences to the original report used to prepare the draft financial statements. Management chose to not amend the draft financial statements for these differences and we reported this finding in our Audit Completion Report to the Standards and Audit Committee.</p> <p>We are satisfied that the final estimates included in the financial statements are reasonable and materially correct.</p>

# 2. AUDIT OF THE FINANCIAL STATEMENTS

## Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. The matters we report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. We have not identified any significant control deficiencies that we are required to report to you.

# 3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

## Our approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our auditor's report, issued to the Council on 31 July 2019, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31<sup>st</sup> March 2019.

## Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Completion Report we reported that we had not identified any significant Value for Money risks but we set out our findings in relation to the following area which we had identified as needing to be kept under review:

- Financial sustainability - the 2020/21 onwards financial position is uncertain (common to all bodies in the sector) and the demands/funding assumptions indicate a likely shortfall in those years. The Medium Term Financial Plan (MTFP) identifies that a further £1m in savings is needed to be made to bridge the forecast deficit for that year. Savings are being achieved through a combination of efficiency targets, business transformation, reviewing reserve contributions and new income streams. We need to monitor the progress made and revisit the position in relation to this significant risk before forming our VFM conclusion.

Before forming our Value for Money Conclusion we:

- Reviewed the 2018/19 financial performance and forecasts during the year and considered the Council's financial outturn position as presented in the financial statements.
- Reviewed the 2019/20 Revenue and Capital budgets and Medium Term Financial Plan, Treasury Management Strategy, incorporating the Minimum Revenue Provision Policy and Capital and Investment Strategies
- Considered the Council's latest financial monitoring information and its updated medium term outlook.

The Council recognises the key issues are achieving efficiencies to balance its medium term financial plan, in the face of demand and cost pressures, and managing its general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. The MTFP sets out the key assumptions on both income and expenditure as well as the savings required over the period. The Council delivered a £0.4m surplus in 2018/19 and has set aside around £2.9m in reserves to cover medium term budget risks and support service improvements, innovation and redesign. The identification and delivery of savings will continue to be challenging and further work is in hand to firm up specific saving plans for 2020/21 and over the medium term. This is a priority area of focus for our 2019/20 conclusion and we will critically review the progress being made early and throughout our 2019/20 audit.

## 4. OTHER REPORTING RESPONSIBILITIES

<b>Exercise of statutory reporting powers</b>	<b>No matters to report</b>
<b>Reporting to the NAO in respect of Whole of Government Accounts consolidation data</b>	<b>Assurance Statement submitted</b>
<b>Other information published alongside the audited financial statements</b>	<b>Consistent</b>

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- Issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

### Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 31 July 2019.

### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

## 5. OUR FEES

### Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Standards and Audit Committee in April 2019.

We have completed our work for the 2018/19 financial year, including the additional work required relating to the Pension estimates included in the Financial Statements as described at page 5. The final fee for the audit is subject to PSAA approval and has not been confirmed yet:

Area of work	2018/19 proposed fee	2018/19 final fee*
Delivery of audit work under the NAO Code of Audit Practice	£40,383	£40,383

\* the final fee for the 2018/19 audit has not been confirmed yet.

### Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.

## 6. FORWARD LOOK

### Audit Developments

#### **Code of Audit Practice**

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (<https://www.nao.org.uk/code-audit-practice/about-code/>)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

#### **Financial Resilience**

##### **Fair Funding Review**

The Council will need to incorporate the outcome of the Spending Review, due in the latter half of 2019, into its Medium Term Financial Plan. The Spending Review will set out the department allocations for 2020/21 and potentially beyond. Regardless of the timing and period covered by the Spending Review, the Council recognises the key issue is the management of general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. It must, therefore, ensure it clarifies and quantifies how it will bridge the funding gap through planned expenditure reductions and/ or income generation schemes.

##### **Local Authority Financial Resilience Index**

CIPFA is moving forward with its financial resilience index, which it believes will be a barometer on which local authorities will be judged. We would expect the Council to have at least considered the index once it is formally released.

##### **Commercialisation**

The National Audit Office will be publishing a report on Commercialisation during 2019. Depending on the Council's appetite for Commercialisation, we would expect the Council to consider the outcome of the report and ensure any lessons learnt are incorporated into business practice.

Further, the UK Debt Management Office's Annual Report, published on 23 July 2019, reported that, as at 31 March 2019, the Public Works Loan Board's loan book was £78.3 billion with 1,308 new loans totalling £9.1 billion advanced during the year. As a result, we expect local authorities to clearly demonstrate:

- the value for money in the use of Public Works Loan Board funds to acquire commercial property
- the arrangements for loan repayment through the updated Statutory Guidance on Minimum Revenue Provision in 2019/20, 2020/21 and beyond.

#### **Financial Reporting**

##### **UK Local Government Annual Accounts**

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

##### **Lease accounting**

The implementation of IFRS 16 Leases in the Code is delayed until 1 April 2020. The Council will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

# 6. FORWARD LOOK

## Financial outlook

It is clear that the Council faces some of the most difficult decisions it has ever faced in balancing the budget going forwards. Although the Council does have reserves available to minimise the immediate impact these are a temporary or transitional cushion while the savings needed are identified and delivered.

In addition, the reserves available to support the budget are reducing and the available balances will soon reach the minimum needed to deal with unforeseen circumstances and risk, and will not be available to support the revenue budget in the way that they have in recent years. The key message from those councils that have already faced a financial crisis, such as Northamptonshire and others, is the importance of taking early action to secure financial sustainability before the position becomes unmanageable.

The position beyond 2019/20 is very uncertain as much depends on the outcome of the comprehensive spending review, fair funding review and the measures that will be taken in relation to the future operation of the business rates system. However, it seems unlikely that the overall financial position for the Council will improve sufficiently to allow it to defer any of the difficult decisions that are now needed.

Decisive action to bridge the budget gap over the medium term is a key priority for the Council.

## How we will work with the Authority

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to support the Council by:

- continued liaison with the Council's Internal Auditors to minimise duplication of work;
- attending Standards and Audit Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet with key Council officers to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

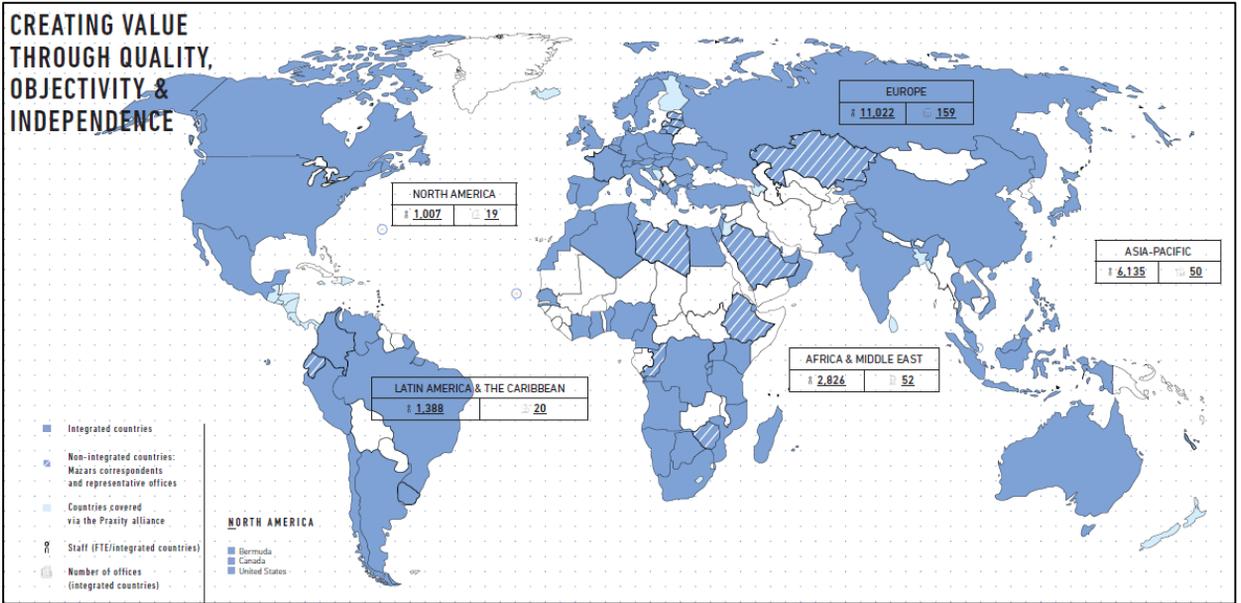
The Council has taken a positive and constructive approach to our audit and we wish to thank Members and officers for their support and co-operation during our audit.

# MAZARS AT A GLANCE

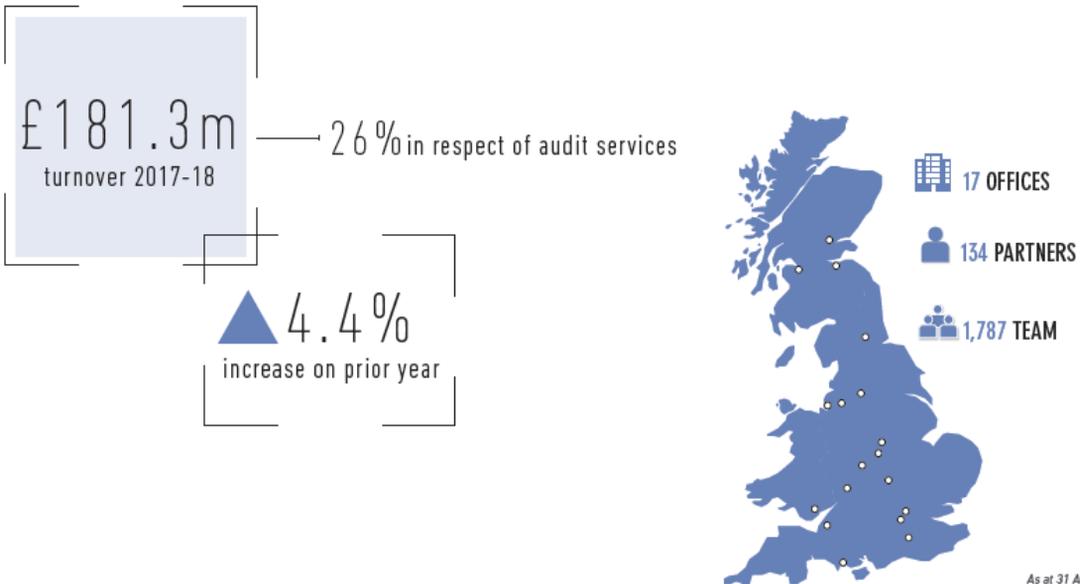
## Mazars LLP

- Fee income €1.6 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

## Mazars Internationally



## Mazars in the UK



## CONTACT

### **Mark Surridge**

Director & Engagement Lead

Phone: 07875 974291

Email: [Mark.Surridge@Mazars.co.uk](mailto:Mark.Surridge@Mazars.co.uk)

### **Mike Norman**

Senior Manager

Phone: 07909 984151

Email: [Michael.Norman@Mazars.co.uk](mailto:Michael.Norman@Mazars.co.uk)

## For publication

### **The Role of the Head of Internal Audit**

---

Meeting: Standards and Audit Committee

Date: 25<sup>th</sup> September 2019

Cabinet portfolio: Governance

Report by: Internal Audit Consortium Manager

---

## **For publication**

---

### **1.0 Purpose of report**

1.1 This report is to inform members of an updated publication by The Chartered Institute of Public Finance and Accountancy (CIPFA) which is CIPFA's Statement on the role of the head of internal audit in Public Service Organisations (2019 edition). This replaces the previous 2010 edition.

### **2.0 Recommendation**

2.1 That the Standards and Audit Committee endorse the arrangements and processes set out in the report as meeting the requirements of the CIPFA statement on the Role of the Head of Internal Audit.

## 3.0 Report details

### Background

- 3.1 Heads of internal audit in the public services face challenges ensuring that professional standards are maintained and their internal audit teams remain effective. The organisation in which internal audit operates has a direct impact on the level of resource, scope and authority given to internal audit. CIPFA considers it essential that public service organisations properly support their internal auditors to enable them to meet the standards. For these reasons CIPFA felt it was an opportune time to refresh and update the 2010 statement on the role of the head of internal audit.
- 3.2 The statement sets out the five principles that define the core activities and behaviours that belong to the role of the head of audit in public service organisations and the organisational arrangements needed to support them.

### Core Principles

- 3.3 The core principles are detailed below along with a summary of the CBC situation.
- 3.4 The head of internal audit in a public service organisation plays a critical role in delivering the organisations strategic objectives by:
- 1 objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence based opinion on all aspects of governance, risk management and internal control

**CBC situation** – The internal audit plan is a risk based plan that covers all of the council’s activities on a cyclical basis. Each audit considers the risks faced by the service being audited

and the internal controls in place. Internal Audit review the council's risk management processes and sit on the risk management group. Along with the Corporate Management team the Internal Audit Consortium Manager assesses the council's compliance with the Code of Corporate Governance and formulates the Annual Governance Statement.

- 2 championing best practice in governance and commenting on responses to emerging risks and proposed developments

**CBC situation** – internal audit test schedules are based on best practice. Emerging risks and proposed developments are identified when setting the audit plan and built in to the audit programme. More focus is now placed on emerging risks in non -financial areas such as health and safety and safeguarding. The internal audit team are part of the working group that is monitoring the implementation of the IT Improvement Plan.

The Internal Audit Consortium Manager introduced a review of the Standards and Audit Committee's effectiveness against CIPFA' best practice guidance with the aim of identifying opportunities for improvement. This exercise is to be undertaken on an annual basis.

In 2018/19 the Internal Audit Consortium undertook a review of and provided assurance in respect of the commercial works service that is now offered to homeowners.

To perform this role the head of internal audit must:

- 3 be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee

**CBC situation** – The Internal Audit Consortium Manager is a senior manager that regularly attends Corporate Management

Team Meetings and reports directly to a member of the Senior Management Team. The Internal Audit Consortium Manager also has direct access to the Standards and Audit Committee and attends every committee meeting with a variety of reports.

- 4 lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively

**CBC situation** – The Joint Board approve the Internal Audit Consortium’s budget. The budget is based on an audit plan that enables the Internal Audit Consortium Manager to provide an opinion on the adequacy of governance, risk management and internal control arrangements.

Being part of a consortium enables best practice, skills and knowledge to be shared across the council’s.

The team undertake continuous professional development by attending training events, team meetings and reading professional magazines.

The Consortium had an external review of its service in October 2016 that concluded that the service was compliant with the Public Sector Internal Audit Standards. A self - assessment is also undertaken on an annual basis.

- 5 be professionally qualified and suitably experienced.

**CBC Situation** – The Internal Audit Consortium Manager is CIPFA qualified, undertakes continuous professional development and has been in internal audit since 1996.

The participation in Nottinghamshire and Midlands audit group meetings enables network opportunities, professional development and the sharing of best practice.

#### 4.0 **Human resources/people management implications**

4.1 There are no human resource implications.

#### 5.0 **Financial implications**

5.1 There are no financial implications.

#### 6.0 **Legal and data protection implications**

6.1 There are no Legal and Data Protection implications.

#### 7.0 **Consultation**

7.1 Not Applicable.

#### 8.0 **Risk management**

8.1 The Head of Internal Audit occupies a critical position as it helps the council to achieve its objectives by evaluating the effectiveness of governance, risk management and internal control arrangements. By complying with the principles in CIPFA's Statement on the role of the head of internal audit the risk of not having sound corporate governance arrangements in place is reduced.

#### 9.0 **Equalities Impact Assessment (EIA)**

9.1 Not applicable.

#### 10.0 **Alternative options and reasons for rejection**

10.1 Not Applicable.

## 11.0 Recommendation

11.1 That the Standards and Audit Committee endorse the arrangement and processes set out in the report as meeting the requirements of the CIPFA statement on the Role of the Head of Internal Audit.

## 12.0 Reasons for recommendation

12.1 This report ensures that Members are aware of best practice in relation to the role of the head of internal audit and can consider if the head of internal audits role at the council is appropriate and meets best practice.

### Decision information

<b>Key decision number</b>	N/A
<b>Wards affected</b>	All
<b>Links to Council Plan priorities</b>	This report links to the Council's priority to provide value for money services.

### Document information

<b>Report author</b>	<b>Contact number/email</b>
Jenny Williams	01246 345468
<b>Background documents</b> These are unpublished works which have been relied on to a material extent when the report was prepared.	
<b>Appendices to the report</b>	
Appendix A	CIPFA Statement on the role of the head of internal audit in Public Service Organisations (2019 edition)

CIPFA Statement on

# the role of the head of internal audit

in Public Service Organisations  
(2019 edition)

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

### **Head of internal audit**

The executive responsible for the organisation's internal audit service, including drawing up the internal audit strategy and annual plan and giving the annual audit opinion. This could be someone from another organisation where internal audit is contracted out or shared with others. In PSIAS this role is referred to as the chief audit executive.

## **Contents**

Introduction.....	<b>3</b>
Status of the CIPFA statment.....	<b>4</b>
Principle 1 .....	<b>6</b>
Principle 2 .....	<b>9</b>
Principle 3 .....	<b>11</b>
Principle 4 .....	<b>13</b>
Principle 5 .....	<b>16</b>
Personal skills and professional standards.....	<b>18</b>
Definitions used throughout the document.....	<b>20</b>

# \ introduction

The head of internal audit (HIA) occupies a critical position in any organisation, helping it to achieve its objectives by evaluating the effectiveness of governance, risk management and internal control arrangements and playing a key role in promoting good corporate governance. The aim of this Statement is to set out the role of the HIA in public service organisations and to help ensure organisations engage with and support the role effectively.

The UK Public Sector Internal Audit Standards (PSIAS) provide clear standards for internal audit but heads of internal audit in the public services face challenges ensuring professional standards are maintained and their internal audit teams remain effective. One key reason for this is that the organisation in which they operate has a direct impact on the resources, scope and authority given to internal audit. While HIAs must step up and deliver a professional service to the best of their ability, it is important to recognise this responsibility does not lie solely with the HIA. As one of the setters of the PSIAS, CIPFA considers it essential that public service organisations properly support their internal auditors to enable them to meet the standards.

For this reason it is critical that the CIPFA statement sets out not only the responsibilities of the HIA but also those of the organisation. CIPFA champions good governance and strong public financial management in public services and believes internal audit has an essential role to play in supporting those objectives. CIPFA considers that HIAs need recognition for their contributions, together with support and encouragement. For these reasons we believe the time is right for an updated CIPFA Statement.

Many heads of internal audit have already risen to the challenges and so alongside the updated CIPFA Statement we are publishing examples of how they are putting principles into practice, providing excellent support and assurance to their organisations and clients. We hope the Statement and this resource will both inspire and support internal audit going forward.

This edition ensures there is alignment to the PSIAS 2017. It explicitly links to the Core Principles for the Professional Practice of Internal Auditing, helping to demonstrate how the HIA role supports internal audit effectiveness.

The intended audience for this statement is not just HIAs in the public services. It should be read by all those with a leadership role in public bodies and by members of audit committees. CIPFA recommends those bodies evaluate their organisational arrangements for internal audit and consider the extent to which they align to the principles. We hope it will be the basis of conversations between the HIA, the leadership team and the audit committee and that the vital role of the HIA is given its due recognition and support.

Let's create the conditions in which heads of internal audit and their teams can thrive.

**Rob Whiteman**  
Chief Executive, CIPFA

# status of the CIPFA Statement

The Statement is principle-based and should be relevant to all public service organisations and their HIAs. It is intended to be helpful to a wide audience including leadership teams, chief executives, audit committees and other stakeholders as well as HIAs themselves.

We believe organisations should see the Statement as best practice and use it to support their HIA arrangements and drive up audit quality and governance arrangements.

We also commend the Statement to individual internal audit professionals. It articulates the core responsibilities of the HIA, as well as the personal and professional skills that they need.

## The CIPFA Statement and the Public Sector Internal Audit Standards

The Relevant Internal Audit Standard Setters (RIASS)<sup>1</sup> mandate the PSIAS for their respective areas of responsibility in the public services. They work together to agree standards taking advice from the Internal Audit Standards Advisory Board.

In PSIAS, as in the International Professional Practices Framework, the term chief audit executive is used to describe the role of the person responsible for managing internal audit. CIPFA has decided to use the more familiar term head of internal audit for the benefit of the wider readership of this Statement.

## Statement approach and structure

The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right ingredients in terms of:

- the organisation
- the role
- the individual.

For each principle the Statement sets out the organisation's responsibilities to ensure HIAs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the HIA, consistent with PSIAS. Where responsibilities are delegated the nominated HIA retains overall accountability.

Summaries of personal skills and professional standards then detail the leadership competencies and technical expertise organisations can expect from their HIA. These include the requirements of CIPFA and the other professional bodies' codes of ethics and the PSIAS Code of Ethics to which the HIA is bound. The personal skills support all five principles and are shown together, providing a handy reference for the person specification of the HIA.

<sup>1</sup> The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

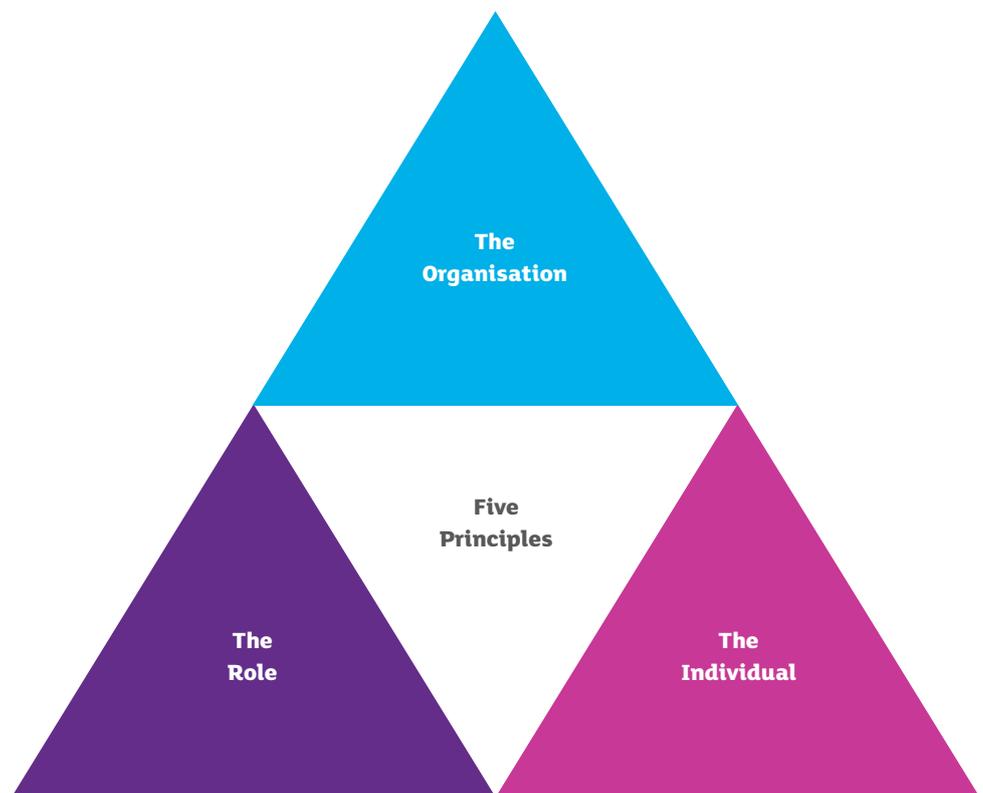
## The Principles

The head of internal audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:

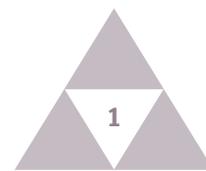
- 1 objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control
- 2 championing best practice in governance and commenting on responses to emerging risks and proposed developments.

To perform this role the head of internal audit must:

- 3 be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee
- 4 lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively
- 5 be professionally qualified and suitably experienced.



# \ principle 1



The head of internal audit (HIA) plays a critical role in delivering the organisation's strategic objectives by objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control.

The UK Public Sector Internal Audit Standards (PSIAS) set out the mission of internal audit which is to 'enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'. They also set out Core Principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness.

The following core principles are of particular relevance for Principle 1 of the CIPFA Statement:

- Provides risk based assurance.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.



## Organisational responsibilities

**To enable the HIA to fulfil their role the leadership team should ensure they:**

- set out the responsibilities of the leadership team for internal audit
- establish an internal accountability and assurance framework including how internal audit works with other providers of assurance
- set out how the framework of assurance supports the annual governance statement and identify internal audit's role within it. The HIA should not be responsible for the statement
- set out the responsibilities of the HIA and ensure the independence of the role is preserved. If additional responsibilities are taken on then appropriate safeguards should be put in place
- ensure internal audit is independent of external audit
- establish clear lines of reporting of the HIA to the leadership team and to the audit committee
- ensure the HIA reports in their own right and that the annual internal audit opinion and report are issued in the name of the HIA
- ensure the internal audit charter and plan are approved by the audit committee in accordance with the PSIAS.



## Core HIA responsibilities

### To fulfil Principle 1 the HIA should:

- ensure that internal audit's work is risk-based and aligned to the organisation's strategic objectives and will support the annual internal audit opinion
- identify where internal audit assurance will add the most value or do most to facilitate improvement
- produce an evidence-based annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

## Commentary

### Independence and objectivity

The leadership team is responsible for the organisation achieving its objectives and for the underlying governance arrangements and effective frameworks of risk management and internal control. The HIA's unique role is to evaluate these arrangements and provide independent assurance on their effectiveness. So it is important that the HIA is independent of operational management and is seen to provide objective views and opinions. Where the HIA has responsibilities beyond internal audit the risks to independence must be recognised and adequate safeguards need to be approved by the audit committee and put in place to protect independence and objectivity.

### Broad scope of assurance

The leadership team needs regular assurance that the organisation has good governance arrangements and is effectively managing its risks. The assurance framework that provides this will have a number of sources including a clearly defined management accountability framework, performance management and risk management, together with internal compliance functions such as legal, HR and health and safety. Assurance is also available from external inspectors and agencies and external auditors. Some organisations use the 'three lines of defence' model to explain these relationships. Setting out this framework of assurance should also help in explaining to others how internal audit fits into the wider governance picture.

The annual HIA opinion is on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control in accordance with PSIAS. It is the most important output from the HIA and is one of the main sources of objective assurance that chief executives and the leadership team have for their annual governance statement. The HIA opinion is unique within the wider assurance framework in that it is independent and objective and in accordance with professional standards. This opinion must reflect the work done during the year and it must summarise the main findings and conclusions together with any specific concerns the HIA has. To build a robust opinion on the adequacy of the governance, risk and control framework the HIA will need to review and if appropriate place reliance on the work of others.

### Evidence-based assurance

The HIA's opinion must be well founded if it is to give proper assurance to the organisation and improve governance and control arrangements. This means internal audit planning must be well focused and in accordance with professional standards.

The HIA may look to the work of other functions, partner organisations and other agencies as evidence for their assurance. Here the HIA must understand the basis for their assurances and its adequacy and whether the HIA needs to carry out any additional review work. A summary of assurances given and relied upon should be included in the HIA's annual report.

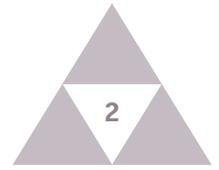
One of the HIA's key relationships must be with the external auditor. The role of the external auditor is to provide an opinion on the financial statements of the organisation together with wider reporting on value for money or best value. The external auditor will share internal audit's interest in the governance risk and control environment and both auditors should share their plans and findings on a regular basis.

### **Develop and implement a risk-based audit approach**

Risk management is key to the effective delivery of public services. Organisations are becoming more mature in how they identify, evaluate and manage risks and opportunities. The HIA should encourage the organisation to improve its approach to risk management and the HIA opinion on the adequacy and effectiveness of risk management will provide assurance on an annual basis.

The audit plan must identify the priorities for internal audit based on an assessment of the key risks to organisational objectives and the extent of alternative sources of assurance, as well as the resources and skills needed to deliver it. Responsibility for effective governance, risk management and control arrangements remains with the organisation; the HIA cannot be expected to prevent or detect all weaknesses or failures in internal control nor can the internal audit plan cover all areas of risk across the organisation.

# \ principle 2



The head of internal audit (HIA) in a public service organisation plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance and commenting on responses to emerging risks and proposed developments.

The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 2 of the CIPFA Statement:

- Aligns with the strategies, objectives, and risks of the organisation.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.



## Organisational responsibilities

**To enable the HIA to fulfil their role the leadership team should ensure that they:**

- establish top level commitment to the principles of good governance, recognising its importance for achieving strategic objectives
- set out the HIA's role in good governance and how this fits with the role of others
- recognise and support the role internal audit can play in providing advice and consultancy internally
- ensure that the HIA has the opportunity to advise on or provide assurance on all major projects, programmes and policy initiatives
- take account of the HIA's advice in new and developing systems.



## Core HIA responsibilities

### To fulfil Principle 2 the HIA should:

- work with others in the organisation to promote and support good governance
- help the organisation understand the risks to good governance
- give advice to the leadership team and others on the control arrangements and risks relating to proposed policies, programmes and projects
- promote the highest standards of ethics and standards across the organisation based on the principles of integrity, objectivity, competence and confidentiality
- demonstrate the benefits of good governance for effective public service delivery and how the HIA can help
- offer advisory or consulting services where appropriate
- give advice on risk and internal control arrangements for new and developing systems, including major projects, programmes and policy initiatives whilst maintaining safeguards over independence.

## Commentary

### Promoting good governance

Good governance is fundamental to establishing confidence in public services. All managers have a responsibility for exercising good governance but the HIA can promote the principles of good governance across the organisation through their assurance and advisory work, encouraging good practice. This is consistent with the Core Principles for the Professional Practice of Internal Auditing. The internal audit charter sets out the scope of internal audit activities and provides the opportunity to outline how the HIA will fulfil this role.

Good governance is core to achieving strategic aims and demonstrating that public money is used well. The HIA can support the leadership team in establishing, maintaining and improving governance by promoting the benefits of good governance, interpreting and advising on the application of governance principles as well as reporting on governance risks. There are also benefits for the HIA in taking such an approach as this helps staff and the audit committee see the wider purpose of internal audit's work and the support they can provide. While the HIA is not responsible for the organisation's public report on governance, the HIA can

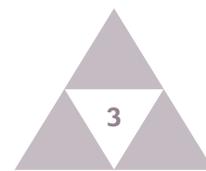
provide support to ensure the assessment is robust and the statement itself is effective.

The HIA should understand the range of risks to good governance the organisation faces, such as entering into new collaborative arrangements, managing resource pressures or taking on new statutory responsibilities. The HIA should then assess how best to support good governance and organisational improvement.

### Advising on proposed developments

The HIA will seek to ensure the work of internal audit is aligned to the organisation's strategic goals and governance responsibilities. To facilitate this HIAs must be asked to consider the impact of proposed policy initiatives, programmes and projects as well as responses to emerging risks. HIAs should be made aware of major new systems and proposed initiatives such as new collaborative or commercial arrangements to help ensure risks are properly identified and evaluated and appropriate controls built in. Managers and the HIA must therefore be clear on the scope of any internal audit work here and of the kind of advice that is given to ensure the independence of other audit work and the HIA annual opinion is not compromised.

# \ principle 3



The HIA must be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee.

The UK Public Sector Internal Audit Standards set out core principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 3 of the CIPFA Statement:

- Is objective and free from undue influence (independent).
- Is appropriately positioned and adequately resourced.



## Organisational responsibilities

**To enable the HIA to fulfil their role the leadership team should:**

- designate a named individual as HIA in line with the principles in this Statement. The individual could be someone from another organisation where internal audit is contracted out or shared. Where this is the case then the roles of the HIA and the client manager must be clearly set out in the contract or agreement
- ensure that where the HIA is an employee they report functionally to a member of the leadership team. The HIA should be sufficiently senior and independent within the organisation's structure to allow them to carry out their role effectively and be able to provide credibly constructive challenge to management
- engage constructively with the HIA and facilitate their role throughout the organisation
- ensure the audit committee terms of reference<sup>2</sup> includes oversight of internal audit including the monitoring of adherence to professional standards
- ensure the HIA's reporting relationship with the audit committee and its chair as set out in the internal audit charter is applied
- ensure the organisation's governance arrangements give the HIA:
  - direct access to the chief executive, other leadership team members, the audit committee and external audit; and
  - attendance at meetings of the leadership team and management team when the HIA considers this to be appropriate
- set out unfettered rights of access for internal audit to all papers and all people in the organisation, as well as appropriate access in arms-length bodies
- set out the HIA's responsibilities relating to organisational partners including collaborations and outsourced and shared services.

<sup>2</sup> In Local Government and Police CIPFA's Position Statement and supporting guidance include examples of audit committee terms of reference, including the committee's responsibilities for internal audit. [Audit Committee Practical Guidance for Local Government and Police](#), CIPFA, 2018



## Core HIA responsibilities

### To fulfil Principle 3 the HIA should:

- ensure the internal audit charter clearly establishes appropriate reporting lines that facilitate engagement with the leadership team and audit committee
- escalate any concerns about maintaining independence through the line manager, chief executive, audit committee and leadership team or external auditor as appropriate
- contribute to the review of audit committee effectiveness, advising the chair and relevant managers of any suggested improvements
- consult stakeholders, including senior managers and non-executive directors/elected representatives on internal audit plans.

## Commentary

### Senior manager

Heads of internal audit face increasing challenges and higher expectations from stakeholders, especially in helping organisations look forward. Regardless of how the internal audit is provided the HIA must be able to operate at the heart of the organisation, challenging and supporting the leadership team with authority and credibility. They should also be seen as a leader, promoting improvement and good governance. To do this effectively, make an impact and add value, the HIA position must be at a senior management level.

The HIA must also have unfettered access to key people across the organisation, especially to the chief executive, leadership team and audit committee chair.

The HIA role must be filled by a named individual so that all are clear about lines of responsibility. Where the service is provided in-house this should be straightforward. Where the service is contracted out or shared with others then the organisation must decide whether the HIA should come from within the organisation or from the supplier of the audit service. In the latter case the relationship between the HIA and the organisation, including the audit committee, must be clearly set out and arrangements made to ensure there is adequate access and visibility of the HIA to the leadership team. In practice it is likely that the HIA will be the person who is responsible for drawing up the internal audit charter

and plan, issuing the HIA annual internal audit opinion and engaging with the audit committee.

### Engagement with the leadership team

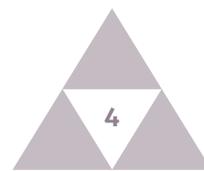
The leadership team in public service organisations takes many forms, with different mixes of executive and non-executive members, as well as elected representatives. Collectively the leadership team is responsible for setting the strategic direction for the organisation, its implementation and the delivery of public services. The HIA must also have a right of access to individual members of the leadership team and should expect the support of the team consistent with reporting relationships set out in PSIAS.

Wherever the HIA is in the organisational structure the HIA will need to ensure and demonstrate adequate independence and objectivity. A senior position supports this, alongside appropriate safeguards if they have other management responsibilities.

### Engagement with the audit committee

The HIA's relationship with the audit committee, and especially the chair, is crucial. They should be mutually supportive in their aim to be objective and to provide challenge and support across the organisation and improve governance, risk management and internal control. The HIA must work closely with the audit committee chair so that they are clear about their respective roles and make best use of internal audit.

# \ principle 4



The HIA must lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively.

The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 4 of the CIPFA Statement:

- Demonstrates integrity.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.



## Organisational responsibilities

**To enable the HIA to fulfil their role the leadership team should:**

- provide the HIA with the status, resources, expertise and systems necessary to perform their role effectively
- ensure the audit committee contributes to a performance framework for the HIA and the internal audit service and takes action as appropriate
- ensure an external review of internal audit quality is carried out at least once every five years in accordance with PSIAS
- ensure the audit committee provides support for and participates in the quality assurance and improvement programme as set out in PSIAS.



## Core HIA responsibilities

### To fulfil Principle 4 the HIA should:

- lead and direct the internal audit service so that it meets the needs of the organisation and external stakeholders and fulfils professional standards
- demonstrate how internal audit adds value to the organisation
- determine the resources, expertise, qualifications and systems for the internal audit service that are required to meet internal audit's objectives
- inform the leadership team and audit committee as soon as they become aware of insufficient resources to carry out a satisfactory level of internal audit, and the consequence for the level of assurance that may be given
- ensure the professional and personal training needs for staff are assessed and that these needs are met
- establish a quality assurance and improvement programme that includes:
  - ensuring professional internal audit standards are complied with
  - reviewing the performance of internal audit and ensuring the service provided is in line with the expectations and needs of its stakeholders
  - providing an efficient and effective internal audit service – demonstrating this by agreeing key performance indicators and targets with the line manager and audit committee; annually reporting achievements against targets
  - putting in place adequate ongoing monitoring and periodic review of internal audit work and supervision and review of files, to ensure that audit plans, work and reports are evidence-based and of good quality
  - seeking continuous improvement in the internal audit service
- keep up to date with developments in governance, risk management, control and internal auditing, including networking with other HIAs and learning from them, implementing improvements where appropriate.

## Commentary

### Meeting the needs of the business

Effective governance is critical in public service organisations and internal audit needs to play its part. The HIA must have a firm grasp and understanding of the organisation's business as well as its control environment. This will allow HIAs to give an opinion to the leadership team on how well these arrangements are working.

Whether internal audit is provided in-house, through a shared service or outsourced, the internal audit resources available must be proportionate to the size, complexity and risk profile of the organisation and must be enough for the HIA to give a reliable annual internal audit opinion on the organisation's framework of governance, risk management and control. Responsibility for ensuring that an effective and appropriately resourced internal audit service is in place rests with the organisation.

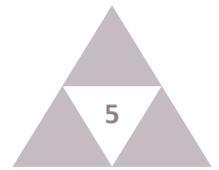
The HIA must set out the audit coverage and audit resources needed to give a sound, evidence-based annual audit opinion and must advise the audit committee and the leadership team where the available resources are inadequate and the consequences for the level of assurance that the HIA is able to give. Where concerns are raised by the HIA it is vital that they are listened to and the consequences understood.

### Appropriately developed internal audit skills

A great deal of reliance is placed on the work of internal audit and the HIA must ensure all the work, including planning and individual assignments, is consistently of a high quality and in line with professional standards. The HIA must also ensure that all staff demonstrate the highest ethical standards. The HIA therefore has a responsibility to ensure that internal audit staff have appropriate qualifications, knowledge, skills and competencies and have access to development opportunities.

The HIA must provide clear guidance for internal audit staff with appropriate quality assurance for internal audit as a whole and for each audit assignment. The HIA has a duty to ensure their staff comply with the PSIAS and must have systems to verify this. More widely the HIA should ensure they and the team are up to date on current issues affecting their organisation and on internal audit techniques and developments.

# \ principle 5



The HIA must be professionally qualified and suitably experienced.

The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 5 of the CIPFA Statement:

- Demonstrates competence and due professional care.
- Communicates effectively.



## Organisational responsibilities

To enable the HIA to fulfil their role the leadership team should:

- appoint a professionally qualified HIA<sup>3</sup> whose core responsibilities include those set out in the PSIAS as well as under the other principles in this statement and ensure that these are properly understood throughout the organisation
- ensure the HIA has the skills, knowledge and internal audit experience, together with sufficient resources to perform effectively in the role
- support continuing professional development of the HIA.



## Core HIA responsibilities

To fulfil Principle 5 the HIA should:

- be a full member of an appropriate professional body and have an active programme for personal professional development
- adhere to professional internal audit and ethical standards (and where appropriate accounting and auditing standards).

<sup>3</sup> PSIAS requires that the HIA must hold a professional qualification (CCAB, CMIIA or equivalent).

## Commentary

### Demonstrating professional and interpersonal skills

The HIA must be able to demonstrate their own professional credibility to exercise influence throughout the organisation. The HIA must be professionally qualified.

The HIA must adhere to the professional values of accuracy, honesty, integrity, objectivity, impartiality, transparency, confidentiality, competence and reliability and promote these throughout the internal audit service.

The HIA must be able to operate effectively in different modes including directing, influencing, evaluating and informing. The HIA must be able to give objective opinions and advice even if this may be unwelcome and to intervene with authority where necessary. The HIA must be able to challenge the status quo and be a catalyst for change, achieving results through influence, without direct authority.

The HIA must be sensitive to the complexities and pressures facing organisations.

### Applying business and professional experience

The HIA must have an understanding and commitment to the organisation's wider business and its delivery objectives, to inspire respect, confidence and trust amongst colleagues, with the leadership team, audit committee and other stakeholders.

The HIA must have a good understanding of business processes and governance including strategic planning and performance, financial and risk management.

The HIA should be seen as a catalyst to improving governance and internal control and also supporting the organisation in its wider business objectives. The HIA's leadership must set the tone that good governance, risk management, and internal control matter to everyone in the organisation.

# personal skills and professional standards



This section sets out the personal skills and professional standards of the HIA that are necessary to support the five principles in practice.

## Principle 1

- Give clear, professional and objective advice.
- Report on what is found, without fear or favour.
- Demonstrate integrity to staff and others in the organisation.
- Exercise sound judgement in identifying weaknesses in the organisation's control environment and a balanced view on how significant these are.
- Work well with others with specific responsibilities for internal control, risk management and governance including (as appropriate to the sector) the chief executive, chief legal officer, chief financial officer, audit committee, non-executive directors and elected representatives.
- Work positively and constructively, influencing the leadership team, audit committee and others to ensure the HIA's recommendations are implemented.
- Be a role model – dynamic, determined, positive and robust. They should demonstrate resilient leadership and the ability to inspire confidence and exemplify high standards of conduct.

## Principle 2

- Provide leadership by giving practical examples of good governance that will inspire others.
- Deploy effective facilitating and negotiating skills.
- Build and demonstrate commitment to supporting continuous improvement of the organisation.

## Principle 3

- Network effectively to raise the profile and status of internal audit.
- Adopt a flexible style, being able to collaborate, advise and challenge as appropriate.
- Build productive professional relationships both internally and externally.
- Work effectively with the leadership team and audit committee, showing political awareness and sensitivity.
- Be seen to be objective and independent but also pragmatic where appropriate.

#### Principle 4

- Demonstrate leadership and be an ambassador for internal audit.
- Create, communicate and implement a vision for the internal audit service.
- Create a customer-focused internal audit service.
- Establish an open culture, built on effective coaching and a constructive approach.
- Promote effective communication within internal audit, across the broader organisation and with external stakeholders.
- Manage and coach staff effectively.
- Comply with professional standards and ethics.
- Require the highest standards of ethics and standards within internal audit based on the principles of integrity, objectivity, competence and confidentiality.

#### Principle 5

- Demonstrate a range of skills including communicating, managing and influencing, as well as an understanding of IT and consulting services.
- Understand and have experience of strategic objective setting and management.
- Understand the internal audit and regulatory environment applicable to public service organisations.
- Demonstrate a comprehensive understanding of governance, risk management and internal control.
- Undertake appropriate development or obtain relevant experience in order to demonstrate an understanding of the full range of the organisation's activities and processes.

# definitions used throughout the document

The public services have a wide variety of organisational structures and governance arrangements. The definitions used in this document are primarily based on those used in CIPFA's Role of the Chief Financial Officer Statement and in the Public Sector Internal Audit Standards (PSIAS).

## Annual governance report

The mechanism by which an organisation publicly reports on its governance arrangements each year.

## Assurance

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation.

Assurance can come from a variety of sources and internal audit can be seen as the 'third line of defence' with the first line being the organisation's policies, processes and controls and the second being managers' own checks of this first line.

## Assurance framework

This is the primary tool used by a board to ensure that it is properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.

## Audit committee

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

## Board

The group of people charged with setting the strategic direction for the organisation and responsible for its achievement.

## Chief financial officer

The organisation's most senior executive role charged with leading and directing financial strategy and operations.

## Control environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

## Governance<sup>4</sup>

The arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

## Head of internal audit opinion

The opinion issued each year by the HIA on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The opinion is used by the chief executive in some public service organisations as a key source in drafting the annual governance report.

<sup>4</sup> The International Framework: Good Governance in the Public Services (CIPFA/IFAC, 2014)

### **Internal audit**

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

### **Leadership team**

Comprises the board and management team.

### **Managers**

The staff responsible for the achievement of the organisation's purpose through services/ businesses and delivery to its clients/customers.

### **Management team**

The group of executive staff comprising the senior management charged with the execution of strategy.

### **Public service organisation**

One or more legal bodies managed as a coherent operational entity with the primary objective of providing goods or services that deliver social benefits for civic society, are not privately owned and receive public and/or charitable funding.

### **Risk management**

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.



Registered office:

77 Mansell Street, London E1 8AN

T: 020 7543 5600 F: 020 7543 5700

[www.cipfa.org](http://www.cipfa.org)

The Chartered Institute of Public Finance and Accountancy.  
Registered with the Charity Commissioners of England and Wales No 231060  
Registered with the Office of the Scottish Charity Regulator No SC037963

## FOR PUBLICATION

### RIPA – IPCO INSPECTION REPORT

---

**MEETING:** (1) STANDARDS AND AUDIT COMMITTEE  
(2) CABINET MEMBER FOR FINANCE AND GOVERNANCE

**DATE:** (1) 25<sup>TH</sup> SEPTEMBER 2019  
(2) tbc

**REPORT BY:** MONITORING OFFICER

**WARD:** ALL

---

#### **1.0 PURPOSE OF REPORT**

1.1 To inform members about the outcome of the routine Regulation of Investigatory Powers Act (RIPA) inspection by the Investigatory Powers Commissioner's Office.

#### **2.0 RECOMMENDATION**

2.1 To note the report.

2.2 That the Local Government and Regulatory Law Manager (RIPA Senior Responsible Officer) be authorized to make the relevant changes to Council RIPA policy and procedures.

#### **3.0 BACKGROUND**

3.1 At the 24<sup>th</sup> April 2019 meeting of committee (when the RIPA Annual Report was considered) members were informed that a routine RIPA Inspection had been arranged for July.

3.2 The Inspection took place on 25<sup>th</sup> July. The IPCO Inspector, Samantha Jones, interviewed:

- Huw Bowen - Chief Executive
- Gerard Rogers - Senior Responsible Officer (SRO) and Monitoring Officer
- Stephen Oliver – Solicitor, Deputy Monitoring Officer and Data Protection Officer
- Angela Stone - CCTV Supervisor
- Forum of Authorising Officers and Applicant(s)

3.3 A report on the inspection was received under cover of a letter from The Rt Hon. Lord Justice Fulford, The Investigatory Powers Commissioner (IPC), dated 29<sup>th</sup> July.

#### **4.0 COVERING LETTER**

4.1 The letter confirms:

- The three recommendations from the 2016 RIPA inspection are discharged
- The report contains one new recommendation relating to procedures relating to online activity
- Regular ongoing internal oversight of actual or potential use of powers should be managed through the SRO
- Officers need to maintain their levels of training, particularly when powers are rarely used

4.2 The IPC concludes by saying he is concerned at the reduction of use of investigatory powers across the UK and that there may be more scope for considering the use of authorized investigations. The IPCO is a resource to assist in the lawful use of these powers.

#### **5.0 INSPECTION REPORT**

5.1 The Inspection was carried out to assess compliance with RIPA in respect of use and management of

- covert surveillance
- covert human intelligence sources
- communications data

The main findings were as follows:

5.2 It noted that since 2010 the Council had not used its RIPA powers.

### *2016 Inspection*

5.3 The report discharges the recommendations of the 2016 Inspection report as they had been complied with:

- SRO no longer the principle authorizing officer
- Clear policy and guidance for staff with links to the Codes of Practice
- All authorizing officers are in the regulatory law team and are regularly trained
- The RIPA database has been updated and a separate database had been created to record errors to reflect current guidance
- While there are no formal RIPA arrangements with the local courts, the Council has a good working relationship with the Magistrates Court
- The current RIPA policy (adopted at the April meeting of this committee) was already updated to reflect current best practice, and some further changes were recommended.
- There is an annual report to Standards and Audit committee
- A system is in place for reporting of activity by service managers to the SRO

### *Policy and Procedures*

5.4 The Inspection found that the RIPA policy was comprehensive, with clear guidance, and available to all staff on the council intranet. It is supported by policies relating to social media use by staff and members. A staff newsletter is used to bring any RIPA related issues to relevant staff.

### *Surveillance*

5.5 While it hadn't used directed surveillance, the Council is ready to use it if appropriate. Staff are knowledgeable about what constitutes surveillance. Its cameras could, if necessary, be used covertly.

5.6 Currently surveillance is overt. There had been no instances of unregulated surveillance. Procedures for using unregulated surveillance had been discussed with the SRO, as this process could be used as a last resort where the Council needs to act to fulfil its statutory functions, overt action is not feasible and RIPA authorization is not available (as the offence being investigated falls under the 6 month imprisonment penalty). Any unregulated surveillance should mirror RIPA processes and any authorisation should be properly reasoned.

### *CCTV*

5.7 Proper procedures were in place for allowing Police access to footage, but a written protocol could be adopted in accordance with 2016 OSC guidance.

Training is given to relevant staff on use of CCTV to ensure it is not used for direct or unregulated surveillance. Body worn cameras are used overtly, after a warning, mainly to aid safety of officers in potentially confrontational encounters. Footage is retained for 30 days before destruction. If required for evidential purpose footage would be retained in line with the Criminal Procedures and Investigations Act 1996.

#### *Online activity*

- 5.8 The internet has potential for investigatory purposes and while not currently used there is good understanding as to what activity would require directed surveillance or covert human intelligence source (CHIS) authorization.
- 5.9 Officers' personal social media profiles should not be used for investigatory purposes, particularly because this practice puts welfare and safety of those officers at risk. Any such investigations should be carried out in line with relevant Codes of Practice and with properly authorized council profiles.

#### *Training*

- 5.10 The SRO has received appropriate training over the period since the last inspection with materials shared with authorising officers. There was potential for sharing this more widely.
- 5.11 The online training package (on Aspire Learning) about RIPA had achieved 100% compliance by relevant users.

#### *Other matters*

- 5.12 The report contained some best practice recommendations for improved procedures to take advantage of changes to investigatory powers.
- 5.13 The report concluded that there was potential benefit to using digital media to assist investigations and the Council should review social media policies. The benefits of a CRM system will help guard against drift into unwittingly using the public as CHIS.
- 5.14 Particular thanks were given to the SRO for making arrangements for the inspection and providing comprehensive reading materials in advance.

## **6.0 INSPECTION REPORT RECOMMENDATIONS**

- 6.1 The Inspection Report recommended:

- Personal profiles should not be used for online activity, which should be carried out in accordance with Codes of Practice and guidance and regularly audited

6.2 The Inspectors key observations were:

- The RIPA Policy should be updated to take further account of social networking and internet in the revised Codes of Practice as well as other minor amendments to reflect current rules on RIPA
- RIPA forms need to be updated to reflect the latest Codes of Practice
- A CRM system will assist good practice

## **7.0 CONCLUSION**

7.1 The report found that the Council's procedures were fit for purpose, though some small changes should be made.

7.2 The inspection provided a good opportunity for a review of the Council's RIPA processes and enabled discussions with the Inspector on how processes could be enhanced in accordance with best practice.

7.1 The changes and recommendations should be taken account of in RIPA policy and procedure updates. Discussions have already been held with the Information Assurance Manager in relation to the comments and recommendation on social media use and with the steps agreed by the committee in April will form part of the RIPA action plan for the coming year.

## **8.0 RECOMMENDATION**

8.1 To note the report.

8.2 That the Local Government and Regulatory Law Manager (RIPA Senior Responsible Officer) be authorized to make the relevant changes to Council RIPA policy and procedures.

## **8.0 REASON FOR RECOMMENDATION**

8.1 To inform members about the outcome of the July 2019 RIPA Inspection and to authorise updates to RIPA Policy and procedures.

GERARD ROGERS  
RIPA SENIOR RESPONSIBLE OFFICER

## MONITORING OFFICER

Further information from Gerard Rogers, Monitoring Officer and Regulatory & Local Government Law Manager, Legal Services - Tel 345310 or [gerard.rogers@chesterfield.gov.uk](mailto:gerard.rogers@chesterfield.gov.uk)

## FOR PUBLICATION

### LOCAL GOVERNMENT OMBUDSMAN ANNUAL REVIEW LETTER

---

**MEETING:** (1) STANDARDS AND AUDIT COMMITTEE  
(2) CABINET MEMBER FOR FINANCE AND GOVERNANCE

**DATE:** (1) 25<sup>TH</sup> SEPTEMBER 2019  
(2) tbc

**REPORT BY:** MONITORING OFFICER

**WARD:** ALL

---

#### **1.0 PURPOSE OF REPORT**

1.1 To inform members about the Local Government and Social Care Ombudsman Annual Review Letter.

#### **2.0 RECOMMENDATION**

2.1 To note the report.

#### **3.0 BACKGROUND**

3.1 Each year local authorities are sent an annual review letter by the Ombudsman. This summarises statistics about complaints received by the Ombudsman and their outcome.

3.2 This report informs members about the latest annual letter, received in July 2019, relating to Chesterfield Borough Council's performance in the year ending 31<sup>st</sup> March 2019.

3.3 A complaint to the Ombudsman stage is the final stage that a complaint about council service can be taken. The Ombudsman usually requires a complaint to have completed the Council's internal procedures before considering it.

This can mean that a complaint is referred back to the Council if it has not completed the internal stages.

#### **4.0 ANNUAL LETTER**

- 4.1 A copy of the Annual Letter is attached at Appendix 1.
- 4.2 The letter shows that 7 complaints were made about the council to the Ombudsman in the period ending 31<sup>st</sup> March 2019.
- 4.3 These related to Benefits and Tax (3), Planning and Development (2), Environmental Services (1) and 'Other' (1).
- 4.4 Of the complaints, 5 were referred back for local resolution, 2 were not upheld after detailed investigation. On one further complaint advice was given.
- 4.5 Significantly no complaints have been upheld by the Ombudsman in the year.
- 4.6 The Annual Review Letter also contains information about interpretation of performance, the new interactive data map (see below) and complaint handling training and best practice advice.

#### **5.0 COMPARISON OF RECENT YEARS**

- 5.1 A table attached at Appendix 2 compares the past 5 years of Annual Letters.
- 5.2 With 2016, 2019 has the lowest number of complaints (both 7). The highest number of Ombudsman complaints was in 2015 (23), 2018 (17) and then 2017 (11).
- 5.3 In no cases in the last 5 years were complaints about the Council upheld by the Ombudsman. This is also consistent with the Council's performance in years prior to 2015.
- 5.4 The Ombudsman website contains a newly launched interactive data map of council performance. This is at:

<https://www.lgo.org.uk/your-councils-performance>.

5.5 The national average for upheld complaints is 43%, with the figures for nearby local authorities as follows:

Chesterfield Borough Council	0%
Derbyshire County Council	Over 60%
Derbyshire Dales District Council	Over 60%
North East Derbyshire District Council	0%
Bolsover District Council	0%

## **6.0 CONCLUSION**

6.1 The Council's has performed consistently well in the past 5 years, with no upheld Ombudsman complaints.

## **7.0 RECOMMENDATION**

7.1 To note the report.

## **8.0 REASON FOR RECOMMENDATION**

8.1 To inform members about the Council performance on complaints to the Ombudsman.

GERARD ROGERS  
MONITORING OFFICER

Further information from Gerard Rogers, Monitoring Officer and Regulatory & Local Government Law Manager, Legal Services - Tel 345310 or [gerard.rogers@chesterfield.gov.uk](mailto:gerard.rogers@chesterfield.gov.uk)

This page is intentionally left blank

24 July 2019

*By email*

Huw Bowen  
Chief Executive  
Chesterfield Borough Council

Dear Mr Bowen

### **Annual Review letter 2019**

I write to you with our annual summary of statistics on the complaints made to the Local Government and Social Care Ombudsman about your authority for the year ending 31 March 2019. The enclosed tables present the number of complaints and enquiries received about your authority, the decisions we made, and your authority's compliance with recommendations during the period. I hope this information will prove helpful in assessing your authority's performance in handling complaints.

### **Complaint statistics**

As ever, I would stress that the number of complaints, taken alone, is not necessarily a reliable indicator of an authority's performance. The volume of complaints should be considered alongside the uphold rate (how often we found fault when we investigated a complaint), and alongside statistics that indicate your authority's willingness to accept fault and put things right when they go wrong. We also provide a figure for the number of cases where your authority provided a satisfactory remedy before the complaint reached us, and new statistics about your authority's compliance with recommendations we have made; both of which offer a more comprehensive and insightful view of your authority's approach to complaint handling.

The new statistics on compliance are the result of a series of changes we have made to how we make and monitor our recommendations to remedy the fault we find. Our recommendations are specific and often include a time-frame for completion, allowing us to follow up with authorities and seek evidence that recommendations have been implemented. These changes mean we can provide these new statistics about your authority's compliance with our recommendations.

I want to emphasise the statistics in this letter reflect the data we hold and may not necessarily align with the data your authority holds. For example, our numbers include

enquiries from people we signpost back to your authority, some of whom may never contact you.

In line with usual practice, we are publishing our annual data for all authorities on our website, alongside our annual review of local government complaints. For the first time, this includes data on authorities' compliance with our recommendations. This collated data further aids the scrutiny of local services and we encourage you to share learning from the report, which highlights key cases we have investigated during the year.

### **New interactive data map**

In recent years we have been taking steps to move away from a simplistic focus on complaint volumes and instead focus on the lessons learned and the wider improvements we can achieve through our recommendations to improve services for the many. Our ambition is outlined in our [corporate strategy 2018-21](#) and commits us to publishing the outcomes of our investigations and the occasions our recommendations result in improvements for local services.

The result of this work is the launch of an interactive map of council performance on our website later this month. [Your Council's Performance](#) shows annual performance data for all councils in England, with links to our published decision statements, public interest reports, annual letters and information about service improvements that have been agreed by each council. It also highlights those instances where your authority offered a suitable remedy to resolve a complaint before the matter came to us, and your authority's compliance with the recommendations we have made to remedy complaints.

The intention of this new tool is to place a focus on your authority's compliance with investigations. It is a useful snapshot of the service improvement recommendations your authority has agreed to. It also highlights the wider outcomes of our investigations to the public, advocacy and advice organisations, and others who have a role in holding local councils to account.

I hope you, and colleagues, find the map a useful addition to the data we publish. We are the first UK public sector ombudsman scheme to provide compliance data in such a way and believe the launch of this innovative work will lead to improved scrutiny of councils as well as providing increased recognition to the improvements councils have agreed to make following our interventions.

### **Complaint handling training**

We have a well-established and successful training programme supporting local authorities and independent care providers to help improve local complaint handling. In 2018-19 we delivered 71 courses, training more than 900 people, including our first 'open courses' in Effective Complaint Handling for local authorities. Due to their popularity we are running six more open courses for local authorities in 2019-20, in York, Manchester, Coventry and London. To find out more visit [www.lgo.org.uk/training](http://www.lgo.org.uk/training).

Finally, I am conscious of the resource pressures that many authorities are working within, and which are often the context for the problems that we investigate. In response to that situation we have published a significant piece of research this year looking at some of the

common issues we are finding as a result of change and budget constraints. Called, [Under Pressure](#), this report provides a contribution to the debate about how local government can navigate the unprecedented changes affecting the sector. I commend this to you, along with our revised guidance on [Good Administrative Practice](#). I hope that together these are a timely reminder of the value of getting the basics right at a time of great change.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M King', with a horizontal line underneath.

Michael King  
Local Government and Social Care Ombudsman  
Chair, Commission for Local Administration in England

**Local Authority Report:** Chesterfield Borough Council  
**For the Period Ending:** 31/03/2019

For further information on how to interpret our statistics, please visit our [website](#)

## Complaints and enquiries received

Adult Care Services	Benefits and Tax	Corporate and Other Services	Education and Children's Services	Environment Services	Highways and Transport	Housing	Planning and Development	Other	Total
0	3	0	0	1	0	0	2	1	7

## Decisions made

Detailed Investigations							
Incomplete or Invalid	Advice Given	Referred back for Local Resolution	Closed After Initial Enquiries	Not Upheld	Upheld	Uphold Rate (%)	Total
0	1	5	0	2	0	0	8

**Note:** The uphold rate shows how often we found evidence of fault. It is expressed as a percentage of the total number of detailed investigations we completed.

## Satisfactory remedy provided by authority

Upheld cases where the authority had provided a satisfactory remedy before the complaint reached the Ombudsman	% of upheld cases
0	0

**Note:** These are the cases in which we decided that, while the authority did get things wrong, it offered a satisfactory way to resolve it before the complaint came to us.

## Compliance with Ombudsman recommendations

Complaints where compliance with the recommended remedy was recorded during the year*	Complaints where the authority complied with our recommendations on-time	Complaints where the authority complied with our recommendations late	Complaints where the authority has not complied with our recommendations	
0	0	0	0	<b>Number</b>
	0%		-	<b>Compliance rate**</b>
<p><b>Notes:</b></p> <p>* This is the number of complaints where we have recorded a response (or failure to respond) to our recommendation for a remedy during the reporting year. This includes complaints that may have been decided in the preceding year but where the data for compliance falls within the current reporting year.</p> <p>** The compliance rate is based on the number of complaints where the authority has provided evidence of their compliance with our recommendations to remedy a fault. This includes instances where an authority has accepted and implemented our recommendation but provided late evidence of that.</p>				

This page is intentionally left blank

No compliance data recorded for this period.

This page is intentionally left blank

Reference	Authority	Category	Decided	Decision	Decision Reason	Remedy	Service improvement recommendations
18001979	Chesterfield Borough Council	Environmental Services & Public Protection & Regulation	09 May 2018	Premature Decision - advice given	Referred back for local resolution	Null	
17016406	Chesterfield Borough Council	Planning & Development	26 Jun 2018	no mal	Not Upheld	Null	
17014521	Chesterfield Borough Council	Planning & Development	27 Jun 2018	no mal	Not Upheld	Null	
18011876	Chesterfield Borough Council	Benefits & Tax	31 Oct 2018	Premature Decision - advice given	Referred back for local resolution	Null	
18012893	Chesterfield Borough Council	Other	20 Nov 2018	Signpost - go to complaint handling	Advice given	Null	
18013362	Chesterfield Borough Council	Planning & Development	28 Nov 2018	Premature Decision - advice given	Referred back for local resolution	Null	
18013575	Chesterfield Borough Council	Benefits & Tax	11 Dec 2018	Premature Decision - referred to BinJ	Referred back for local resolution	Null	
18014394	Chesterfield Borough Council	Benefits & Tax	18 Dec 2018	Premature Decision - advice given	Referred back for local resolution	Null	

This page is intentionally left blank

Reference	Authority	Category	Received
18001979	Chesterfield Borough Council	Environmental Services & Public Protection & Regulation	09 May 2018
18011876	Chesterfield Borough Council	Benefits & Tax	31 Oct 2018
18012893	Chesterfield Borough Council	Other	19 Nov 2018
18013362	Chesterfield Borough Council	Planning & Development	28 Nov 2018
18013575	Chesterfield Borough Council	Benefits & Tax	04 Dec 2018
18014394	Chesterfield Borough Council	Benefits & Tax	18 Dec 2018
18016721	Chesterfield Borough Council	Planning & Development	04 Feb 2019

This page is intentionally left blank

By virtue of paragraph(s) 1 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 1 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank