

The Annual Audit Letter for Derby City Council

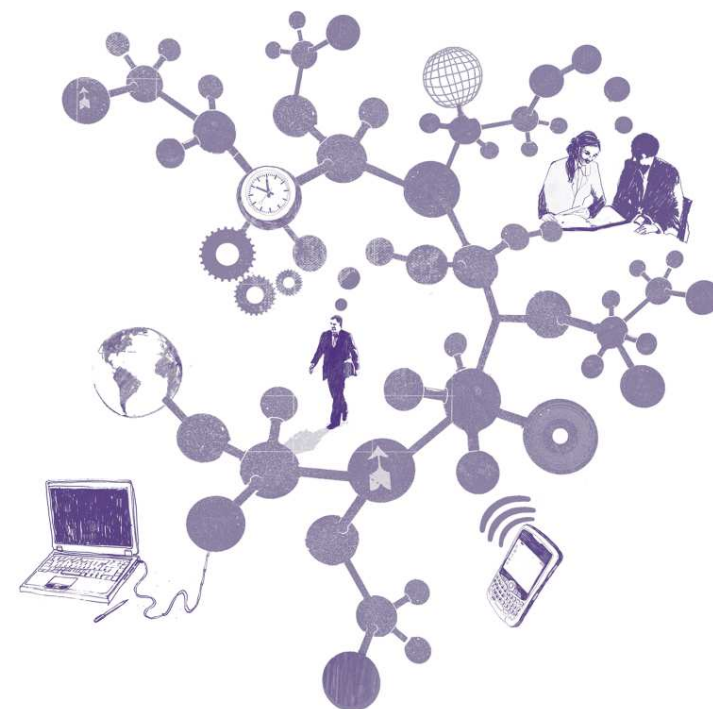
Year ended 31 March 2015

October 2015

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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Derby City Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 6 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 29 September 2015 to the Audit and Accounts Committee.

We issued an unqualified opinion on the Council's 2014/15 financial statements on 30 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

The key messages arising from our audit of the Council's financial statements were:

- We identified four adjustments affecting the Council's draft reported financial position. The draft financial statements recorded a net surplus of £40,791k; the audited financial statements show a net surplus of £35,773k. Most of this change related to the adjustments for the Equal Pay provision.
- We identified a significant number of audit adjustments during the course of the audit.
- We experienced significant delays in obtaining some supporting evidence for our testing.
- A full set of supporting working papers were not provided at the start of the audit and there is scope to improve the quality of those provided.
- We have also identified a number of adjustments to improve the presentation of the financial statements.

Key messages continued

Value for Money (VfM) conclusion	<p>We issued a qualified VfM conclusion for 2014/15 on 30 September 2015.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we gave a qualified 'except for' VfM conclusion for the following reason.</p> <p>There are weaknesses in the Council's medium-to long-term financial planning, specifically the absence of a sustainable medium-term financial plan for the three year period from 1 April 2015 and a lack of robust plans to deliver the savings required to balance the budget over this period. This matter is evidence of weaknesses in arrangements of financial planning.</p>
Whole of Government Accounts	<p>We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We identified a significant number of audit adjustments to the consolidation pack. Management have adjusted the consolidation pack for these changes.</p>
Certification of housing benefit grant claim	<p>Our work on certification of the housing benefit grant claim is on-going. Our work to date has not identified any issues which we wish to highlight. The detailed findings of our work will be reported in our Grant Certification report upon completion of our work.</p>
Audit fee	<p>Our fee for 2014/15 was £190,070 which is the same as the planned fee. Further detail is included within appendix B.</p>
Certificate	<p>We are not in a position to conclude the audit for the financial years 2013/14 and 2014/15 as it remains the case that, as we stated in our Audit Findings Report for 2013/14, we were awaiting the outcome of the Council's investigation into failures of governance highlighted in the Council's Annual Governance Statement (AGS) for 2013/14. Whilst the Council has taken action to address a number of the weaknesses outlined in the AGS, the failings which led to the governance breakdown, and the actions that have been taken to address these failings, have not been put into the public domain.</p>

Key messages continued

	<p>Given the significance of these failings, we have concluded that it is proper for us as auditors to investigate the background to these events to establish whether there any matters which would require the auditor to produce a report under section 8 of the Audit Commission Act 1998 (public interest report). In addition, a series of additional allegations have been made which we have determined that we should investigate.</p>
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Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>There are weaknesses in the Authority's medium-to long-term financial planning, specifically the absence of a sustainable medium-term financial plan for the three year period from 1 April 2015 and a lack of robust plans to deliver the savings required to balance the budget over this period. This matter is evidence of weaknesses in arrangements of financial planning.</p> <p>Recommendation: The Council should develop a robust medium term financial plan to deliver the savings required to balance the budget over the medium term.</p>	High	<p>The CFO and CE have set out the arrangements to present a three year MTFP. Proposals to address the three year forecast savings requirement have been shared with Cabinet, with plans to close the forecast gap of £17m by 2018/19 still in development. The MTFS for 2016-19 will recognise the importance of addressing the MTFP for all three years. A series of consultation exercises across a range of service areas are in the process of commencing and will support the MTFP</p> <p>Responsible office: Director of Finance</p> <p>Due date: March 2016</p>
2.	<p>There has been poor communication by the leadership team to the public of the medium- to long-term financial strategy, current financial position and likely financial challenges. The new leadership team recognise this is not a sustainable approach and that there should be greater transparency.</p> <p>Recommendation: The Council should ensure that there is greater transparency in the communication of the financial strategy to the public.</p>	High	<p>The financial position for 2016-19 has already been communicated at Council meetings, in the press and with Ministers in DCLG. The extent of savings required to balance the budget and the gaps currently arising have been communicated. A budget simulator is currently live for members of the public and other interested groups to input into the budget process. The budget report for 2016/17 will clearly explain the extent to which the balance of the MTFP for 2016-19 has been firmly addressed.</p> <p>Responsible office: Director of Finance</p> <p>Due date: On-going</p>

Appendix A: Key issues and recommendations continued

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
3.	<p>The Council's job evaluation project is still on-going. As a result of concerns about its strategic partner, the Council appointed new consultants, Hay Group, to complete the job evaluation process. Until this project is completed there remains uncertainty for staff and around the additional costs to the Council.</p> <p>Recommendation: The Council should continue to closely monitor progress with the job evaluation project to ensure that the planned implementation date of 1 January 2016 can be achieved.</p>	High	<p>The implementation of Job Evaluation is being overseen by the Chief Executive and the Director of Governance. Strategy Board Meetings, chaired by the Leader of the Council and supported by members of the Cabinet, occur on a fortnightly basis. Project meetings take place at least weekly, with the Manager of the Pay and Reward Team to monitor progress against the project timeline and ensure steps are in place to enable robust decision making in a timely manner. In addition, the Personnel Committee meets frequently to offer challenge and monitoring of the delivery of the project.</p> <p>Ability to meet the implementation date of 1st January 2016 may be impacted depending on the outcome of a potential trade union ballot with staff.</p> <p>Responsible office: Chief Executive and Director of Governance</p> <p>Due date: 1st January 2016, subject to the outcomes of a potential trade union ballot.</p>
4.	<p>The Council has been subject to an Ofsted review of childrens centres and a LGA peer challenge of social care. A number of areas have been noted for improvement and improvement plans have been produced.</p> <p>Recommendation: The Council should monitor progress against the Ofsted and LGA improvement plans and ensure that the recommendations are being addressed.</p>	High	<p>The Council monitors progress against recommendations arising from all Ofsted inspections at an Improvement Board chaired by the Strategic Director for Children; this ensures that all recommendations are addressed and impact identified.</p> <p>Key actions arising specifically from the inspection of children's centres have either already been implemented or are in the process of being implemented. It is common practice to implement recommendations and learning from children centre inspections across the entire children's centre network in Derby.</p>

Appendix A: Key issues and recommendations continued

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
5.	<p>Weaknesses in the accounts preparation led to a number of significant changes to the accounts.</p> <p>Recommendation: The Council should review its quality assurance arrangements and level of resources for producing the financial statements and responding to audit queries.</p>	High	<p>As for all previous years the Council will conduct a post audit review of our arrangements for preparing the Councils accounts. Quality assurance and response times will be key consideration and will be shared across relevant parties within Directorates. The level of resources assigned to the closure of the accounts will be subject to overall resource levels across the service and the Council. In addition the Council will investigate best practice used in other authorities.</p> <p>Responsible office: Corporate Head Finance</p> <p>Due date: March 2016</p>
6.	<p>The Council has used indices to adjust the carrying value of property, plant and equipment assets. This practice is not allowed by the Code and indices should only be used to support market based evidence that valuations are kept up to date, rather than be used to update the valuations. However, we are content that this is unlikely to have resulted in a material error.</p> <p>Recommendation: The Council should review its valuation of property, plant and equipment to ensure that it complies with the Code.</p>	High	<p>The Council will review its valuation policy to ensure it complies with the code of practice.</p> <p>Responsible office: Corporate Head Finance</p> <p>Due date: March 2016</p>

Appendix A: Key issues and recommendations continued

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
7.	<p>Internal audit gave a 'reasonable assurance' opinion as most of the areas reviewed were found to be adequately controlled. In arriving at this opinion it was noted that the level of coverage provided by Internal Audit was considered minimal. In view of the governance issues identified over the last couple of years and the challenges facing the Council, minimal Internal Audit coverage poses a risk to the financial control of the Council.</p> <p>Recommendation: The Council should ensure that it has an appropriate level of Internal Audit coverage taking account of the governance issues identified over the last couple of years and the challenges facing the Council.</p>	High	<p>The Council is addressing the identified governance issues via the Governance Working Group chaired by the Director of Governance and the Governance Board chaired by a Cabinet Member. The Head of Governance and Assurance is a member of the Working Group. As the strategies to deliver robust governance arrangements are formulated, consideration will be actively given to the future monitoring of their implementation and adherence.</p> <p>The Director of Governance will work closely with the Head of Governance and Assurance, the Chief Executive and colleagues from CMAP to determine a satisfactory level of internal audit for the Council.</p> <p>The Director of Governance will, as part of the monitoring process, seek the independent views from External Audit, where appropriate and would also actively monitor the progress of the internal audit plan and levels of assurance as they are reported on a quarterly basis.</p> <p>The Director of Governance will also closely consult and actively seek views from the Director of Finance and the Chair of Audit & Accounts Committee. The Audit and Accounts Committee will continue to receive reports on the work of Internal Audit and this will also act as a monitor and challenge in respect of the level of internal audit coverage being provided to the Council.</p> <p>Responsible office: Director of Governance</p> <p>Due date: this will be under on-going review but with formal monitoring occurring at pre-scheduled Audit and Account Committee meetings.</p>

Appendix A: Key issues and recommendations continued

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
8.	<p>Our review of the Council's ICT arrangements identified the following weaknesses:</p> <ul style="list-style-type: none"> • Oracle EBS audit trails are not formally monitored • Administrative access within Oracle EBS was granted to those performing financial reporting processes or controls • Excessive privileges granted to Oracle users • Weak logical access controls for Oracle EBS • Termination of Oracle leavers access rights • Oracle EBS users with greater than read-only access to production database • No evidence of user access rights review being performed <p>Recommendation: The Council should ensure that the ICT weaknesses identified are addressed as a priority</p>	High	<p>1) A full review of the Oracle related issues has been undertaken and</p> <ul style="list-style-type: none"> • The processes around checking of bank account details entered onto the Finance system will be reviewed <p>Responsible office: Head of Procurement Due date: December 2015</p> <ul style="list-style-type: none"> • Access to the system have been restricted <p>Responsible office: Principal Information Software Support Officer Due date: Complete.</p> <ul style="list-style-type: none"> • The termination of leavers process is being reviewed to ensure that all leavers from the Council's employment are removed from the system <p>Responsible office: Review of the leaver process is being undertaken jointly with the information governance team. Due date: Review by December 2015, changes by March 2016.</p> <p>2) The Academy system weakness has been addressed by raising a call with the supplier and is in the latest release of the software. This provides a warning message should a new claim be set up with the same NI number.</p> <p>Responsible office: Information Software Support Manager Due date: December 2015</p>

Appendix A: Key issues and recommendations continued

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
			<p>3) The general weaknesses have been addressed by :</p> <ul style="list-style-type: none"> • a full review of information security policies is being undertaken jointly between IT and information governance teams <p>Responsible office: Director of Digital Services and Head of Information Governance. Due date: Dec 2015</p> <ul style="list-style-type: none"> • Access rights reviews will be undertaken for network access and for application systems twice a year <p>Responsible office: Head of ICT – network access Application System Owners – applications. Due date: From Oct 2015 For network access this is in place and has been since 2013.</p> <ul style="list-style-type: none"> • The network password has been set to meet recommended security with a combination of different characters, a minimum length, forced periodic change and maximum number of attempts all set. The same rules are applied within application systems where the system password management utilities allow for such. <p>For applications this is in place where the application software has the required password management tools.</p>

Appendix A: Key issues and recommendations continued

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
			<ul style="list-style-type: none"> The leaver process requires line managers to complete an on line form, this is supplemented by a regular leaver list from payroll. All temporary/agency staff with access have accounts set up with expiry dates that suspend the user and require them to be re-authorised <p>A review of the leaver process is being undertaken jointly with the information governance team appropriate changes will be made. Review by December 2015, changes by March 2016.</p> <ul style="list-style-type: none"> Back up testing and restoration is a task carried out regularly by Serco for systems and servers they host. The payroll system is hosted by Midland Software and we have instructed them to demonstrate regular back-up and restoration (as we do not have admin rights on the servers). <p>The payroll manager to receive regular (at least monthly) evidence of a test back-up and test restore. October 2015</p> <ul style="list-style-type: none"> There is a robust change management process with change control forms and with a daily change log and a weekly change board. Major changes are individually reviewed, standard changes follow ITIL change management procedures. <p>These procedures have been in place for some considerable time. These will be reviewed and amended as we end the contract with Serco and implement the new Information Systems operating model. Head of ICT responsible by January 2016.</p>

Appendix A: Key issues and recommendations continued

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
			<ul style="list-style-type: none">Audit logs are reviewed based on a combination of alerts and triggers that notify a potential issue and/or when concerns come to light. This is supplemented by random checks of audit logs but we do not have the time or capacity to undertake a full proactive review of audit logs for all applications. <p>ICT service reviews alerts and triggers on an on-going basis. System administrators and system owners can request audit log review. Head of ICT.</p> <p>Each application owner will be asked to review and provide a new risk assessment regarding audit logging. Head of Information Software Support – December 2015.</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Council audit	190,070	190,070
Housing benefit grant certification fee	26,770	26,770
Total audit fees	216,840	216,840

Fees for other services

Service	Fees £
Audit related services	
• Teachers pension certification	4,500
• Regional growth fund certification	7,000
Non-audit related services	
• Service review	18,016
• Corporate restructure	15,432

Reports issued

Report	Date issued
Audit Plan	March 2015
Informing the Audit Risk Assessment	March 2015
Audit Committee Update report	June 2015
Audit Findings Report	September 2015
Annual Audit Letter	October 2015



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