



## **Derby City Council**

Interim Audit Report 2009/10

June 2010

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# 1 Executive Summary

## Introduction

- 1.1 In carrying out our audit, we comply with statutory requirements governing our duties, in particular, the Audit Commission Act 1998 and the Code of Audit Practice (the Code).
- 1.2 The Code of Audit Practice emphasises the respective responsibilities between audited bodies and their auditors. The Council is responsible for putting in place proper arrangements for the preparation of its accounts, governance of its affairs and for making adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources. We are required to form an opinion on the Council's annual financial statements and whether the Council has adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources.

## Scope

- 1.3 We have completed our interim audit at the Council in accordance with our agreed audit strategy as set out in the Audit Approach Memorandum presented to the Audit and Accounts Committee on 25 March 2010. The scope of our interim audit covered:
  - Use of Resources
  - interim accounts audit
  - follow up of prior year recommendations.

## Overall Conclusions

- 1.4 For the 2009/10 Use of Resources conclusion we have provisionally assessed the Council as meeting at least minimum requirements for delivering economy, efficiency and effectiveness in all areas. Whilst the wider requirements of the Use of Resources assessment have recently been abolished and won't be formally scored for this year, we have included provisional scores at Section 2 of this report, based on the work we had completed at the time the arrangements ceased. These provisional scores assessed the Council at level 3 for managing finances and governing the business and level 2 for managing resources. In particular, we noted that the Council has continuing good arrangements in place for the use of information and securing good data quality. The Council also has good partnership arrangements in place for securing good governance and risk management.
- 1.5 During our interim accounts audit we have reviewed our detailed risk assessment for our audit of the 2009-10 accounts, which reflects both national developments and issues as well as local risks that emerged during the course of our 2008-09 audit, and have concluded that appropriate action is currently being taken by the Council to address all of these risks.
- 1.6 Furthermore, our review of the risks facing the Council has not identified any new risk areas. We have, however, amended our planned interim audit work programme to defer elements of our assessment of processes and controls relating to the Council's fixed assets. This was due to the Council being in the process of implementing a new fixed asset register and reviewing the robustness of the underlying source data and accounting treatments at the

time of our interim visit. Whilst we have held a number of meetings with members of the Council's Resources Department to discuss the changes to the fixed asset register, the introduction of a new system, the data changes being made and the audit issues identified last year increase the risk of material misstatement of the 2009/10 accounts.

- 1.7 We consider that the Council has made good progress implementing the recommendations made in our Audit Strategy Document and ISA 260 report issued last year, fully implementing 35 of the 42 recommendations. Work is ongoing to complete the remaining recommendations.

### **Use of this report**

- 1.8 This report has been prepared to advise you of the matters arising from our interim audit and should not be used for any other purpose or be given to third parties without our prior written consent.
- 1.9 Our report is part of a continuing dialogue between the Council and ourselves and should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist. The Council should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implement them, seeking your own specialist advice as appropriate.
- 1.10 We accept no responsibility in the event that any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

### **The way forward**

- 1.11 We have set out our findings and recommendations in the appendices to this report. We have agreed action to implement the recommendations made with the Head of Accountancy.

### **Acknowledgements**

- 1.12 We would like to record our appreciation for the assistance and co-operation provided to us during our interim audit by the Council's staff.

**Grant Thornton UK LLP**

23 June 2010

## 2 Use of Resources

### Introduction

- 2.1 In providing our opinion on the statement of accounts, we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Use of Resources conclusion).
- 2.2 Our Use of Resources (UoR) conclusion has historically been informed by our work on the UoR assessments, which considers how well the Council is managing and using its resources to deliver value for money against a number of Key Lines of Enquiry (KLoE). This was in accordance with the procedures for Comprehensive Area Assessment (CAA), which has recently been abolished with immediate effect.
- 2.3 Our statutory responsibility to come to an opinion on the adequacy of your use of resources for delivering economy, efficiency and effectiveness remains and we will use the work completed to date this year on our Use of Resources assessment to inform this VFM opinion. As the opinion is essentially a 'pass or fail test', rather than a grading of arrangements, in most cases we have already obtained sufficient evidence to come to an unqualified opinion for the year ended 31 March 2010. This applies where we are satisfied that the Use of Resources score is supported at level 2 or over.
- 2.4 We have therefore cease our audit enquiries in all these areas where we have already indicated satisfaction with, at least, level 2 for individual KLoEs.
- 2.5 We have summarised at Exhibit One below the provisional scores for 2010 based on the assessment we had completed at the time the CAA framework was abolished. These score would have been subject to moderation which will not now occur, but have been reported to provide an indication of the direction of travel for the Council.
- 2.6 The Use of Resources assessment was structured into three themes that focus on:
- sound and strategic financial management - Managing Finances
  - strategic commissioning and good governance - Governing the Business
  - the management of natural resources, assets and people - Managing Resources.

#### Exhibit One: Use of Resources scores 2010 compared to 2009

Theme	KLoE	KLoE description	2010 provisional audited score	2009 finalised score
Managing Finances	1.1	Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	3	3

Theme	KLoE	KLoE description	2010 provisional audited score	2009 finalised score
	1.2	Does the organisation have a sound understanding of its costs and performance and achieves efficiencies in its activities?	3	2
	1.3	Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	Subject to final accounts audit	2
Governing the Business	2.1	Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	2	2
	2.2	Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	3	3
	2.3	Does the organisation promote and demonstrate the principles and values of good governance?	3	3
	2.4	Does the organisation manage its risks and maintain a sound system of internal control?	3	3
Managing Assets	3.1	Is the organisation making effective use of natural resources?	2	2
	3.2	Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?	2	2
	3.3	Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	2	Not assessed in 2009

2.7 As part of KLoE 1.3, we are required to assess the performance of the Council in reporting the 2009/10 final accounts. This assessment will be undertaken in July/August during the final accounts audit and will be reported in the ISA 260 to be considered at the Audit and Accounts Committee in September. This assessment will still be required to inform the VFM opinion discussed at paragraph 2.3 above.

2.8 The main areas where action is required by the Council include:

- improving the effectiveness of asset management arrangements for KLoE 2.4; and

- developing further existing arrangements across the other KLoEs to ensure that the Council continues to deliver positive outcomes for local people in 2010/11.

### **Theme: Managing Finances**

- 2.9 This theme focuses on assessing whether the Council has sound strategic and financial management. This comprises whether it plans its finances to deliver its priorities, the extent to which it has a sound understanding of its costs and performance, and whether its financial reporting is timely, reliable and meets the needs of its population.
- 2.10 The Council has achieved an improved overall score of level 3 for this theme (2009 - level 2).
- 2.11 The Council has achieved scores of level 3 for KLoEs 1.1 and 1.2 and a scores of level 2 for KLoE 1.3, including an improved score of level 3 for KLoE 1.2 as a consequence of improved efficiency savings.

### **Theme: Governing the Business**

- 2.12 This theme focuses on strategic commissioning and good governance. In particular, how well the Council governs itself and commissions services that provide value for money and deliver better outcomes for local people.
- 2.13 The Council has achieved an overall score of level 3 for this theme (2009 - level 3).
- 2.14 The Council has achieved scores of level 3 for KLoEs 2.2, 2.3 and 2.4 and a score of level 2 for KLoE 2.1.
- 2.15 In particular, the Council has good arrangements in place for the use of information and securing good data quality. The Council also has good partnership arrangements in place for securing good governance and risk management.

### **Theme: Managing Resources**

- 2.16 This theme considers areas which have not previously been assessed on their own in detail. There are three elements to this theme, but only asset management (KLoE 3.2) and workforce management (KLoE 3.3) have been assessed in 2009/10. In addition, the Audit Commission's methodology states that organisations will carry forward scores for any KLoEs assessed in prior years that are not being assessed in the current. This applies to KLoE 3.1 (Managing natural resources), for which the Council was assessed at level 2 in 2008/09.
- 2.17 The Council has achieved an overall score of level 2 for this theme (2009 - level 2).
- 2.18 The Council has been assessed at level 2 for KLoEs 3.2. The implementation of a new fully integrated asset management system is still being pursued to replace the existing system, which is not fully integrated at the time of assessment. The new system should provide a platform from which the Council will be able to further develop its strategic asset management approach in future years.

- 2.19 The Council has been assessed at level 2 for KLoE 3.3 was being assessed for the first time at the Council in 2009/10. There are a number of areas to be addressed in this area, in particular, the Council needs to ensure its workforce plan is designed to improve efficiency, productivity and value for money outcomes against local priorities.
- 2.20 We will continue to work with the Council during the year to help officers in the identification of outcomes and supporting them in telling "the story" of Derby, and ultimately to help with the ongoing planning for the 2010/11 UoR assessment.
- 2.21 A separate Use of Resources report will be issued later in the year.



## 3 Interim Accounts Audit

### Introduction

- 3.1 We are required to evaluate the design of an entity's controls, including relevant control activities, over risks that could lead to material misstatement in the financial statements, and determine whether they have been implemented.
- 3.2 We undertake this work during our interim audit visit, which primarily focuses on our accounts audit responsibilities, under the Code of Audit Practice, but, where relevant, informs our Use of Resources responsibilities.
- 3.3 As part of the interim audit, and in advance of our final accounts audit visit, we considered:
- the key risks facing the Council
  - the extent to which we can place reliance on the Council's Internal Audit function
  - the adequacy of controls over financial reporting systems
  - closedown procedures in preparation for the final accounts
  - the information technology control environment
  - employment tax control environment
  - VAT control environment
  - the National Fraud Initiative (NFI)
  - emerging accounting issues.
- 3.4 Our 2009/10 Audit Approach Memorandum was presented to the Audit and Accounts Committee on 25 March 2010 and set out the following key risks facing the Council which could impact on the 2009/10 audit:
- SORP 2009 - changes in accounting for Private Finance Initiative schemes
  - the economic climate - impact on the Council's ability to manage its finances and risk of misstatement in the accounts related to asset valuations, treasury management, increased pension costs and debtor recoverability
  - SORP 2009 - changes in accounting for National Non Domestic Rates and Council Tax
  - asset valuations - appropriateness of the basis of valuation and formal consideration of impairment
  - fixed asset register (FAR) - completeness and accuracy of the new FAR developed by the Resources Department incorporating the asset register of the Estates Department
  - creditors/accruals cut off - accuracy of the allocation of liabilities between accounts years
  - group accounts - appropriateness of the accounting treatment adopted and the consistency of the accounting policies applied by Derby Homes Limited
  - capitalisation policy and non enhancing capital expenditure - appropriateness of the updated capitalisation policy and the new formal policy for capitalising non-enhancing capital expenditure

- technical review of financial statements - adequacy of additional procedures introduced to strengthen arrangements in this area
- presentation and format of the accounts - compliance with financial reporting requirements as set out in the 2009 SORP
- joint waste project - appropriate recognition of this project in the accounts.

- 3.5 As part of our interim audit, we have discussed each of these risks and, based on discussions with Council officers, consider that appropriate steps are being taken at this stage to address the matters identified. We will continue to work with the Council over the coming months to manage our audit risks and discuss any emerging issues. Our review of the risks facing the Council has not identified any new risk areas.
- 3.6 From these specific risks we have highlighted the following matters as being critical to our audit and it is in these areas that we focus much of our audit effort:

	Existence/ Occurrence	Assertion <sup>1</sup> Valuation	Completeness
Council tax revenues	✓		
NNDR revenues	✓		
Grant revenues	✓		
Financial instruments			
Property, plant and equipment		✓	
Operating expenses			✓

<sup>1</sup> Assertions are used in assessing risks by considering the different types of potential misstatements that may occur:

- valuation - assets and liabilities are included in the financial statements at appropriate amounts.
- completeness - all transactions and events that should have been recorded have been recorded
- existence/occurrence - transactions and events that have been recorded have occurred and pertain to the Council. Assets & liabilities exist.

### Internal Audit

- 3.7 The Council's Internal Audit function was reviewed against CIPFA's Standards for Internal Audit as part of our 2007/08 audit. Our review concluded that Internal Audit provides an independent and effective service to the Council and substantially complies with the CIPFA Code of Practice for Internal Audit.
- 3.8 As we review the Council's Internal Audit function against CIPFA's Standards for Internal Audit on a triennial cycle, our next detailed review will be undertaken as part of our 2010/2011 audit.
- 3.9 Having established in 2007/08 that Internal Audit arrangements were sufficient for us to place reliance on relevant systems work, we have used Internal Audit's system documentation as a basis to assist in our evaluation of the design effectiveness of the Council's controls. Their work has also contributed to our understanding of the Council's control environment and assurance framework.

3.10 The Internal Audit files and reports we reviewed as part of our work are detailed below:

- main accounting system
- NFI 2008-09 - extractions and matches
- fixed assets
- debtors
- creditors
- housing and council tax benefits
- NNDR and BID levy collection
- payroll
- treasury management.

### **Review of financial reporting controls**

3.11 Our work in this area evaluates the design of the Council's controls, including relevant control activities, over risks that could lead to material misstatement in the financial statements, and determine whether they have been implemented. Emphasis is placed on identifying and obtaining an understanding of control activities that address the areas where we consider that material misstatements are more likely to occur.

3.12 Our work in this area considered the appropriateness of the Council's processes over the key accounting systems:

- housing benefit and council tax benefit expenditure;
- recognised financial performance;
- HRA rental revenue;
- council tax revenues;
- NNDR revenues;
- grant revenues;
- other revenues;
- cash;
- investments;
- financial instruments;
- property, plant and equipment;
- employee remuneration;
- operating expenses;
- value added taxes; and
- debt.

3.13 In addition, for the areas identified as presenting a higher risk of material misstatement in the financial statements, as set out at paragraph 3.6, we also evaluated the design of the Council's controls.

3.14 At the time of our interim audit, the Council was in the process of reviewing and cleansing the data held in its 2008/09 fixed asset register, prior to the data being migrated to an Access database. The database was also being developed at that time, together with a review of the appropriateness of existing accounting treatments and calculations that would feed into the underlying coding within the database to produce the accounting entries.

3.15 As a result, we were unable to complete our documentation and assessment of processes and controls relating to fixed assets and will complete this work as part of the final audit.

- 3.16 Subject the limitations set out above relating to fixed assets, we found that the Council's processes over its key accounting systems and controls in these areas were generally sound with no material weaknesses. We have however made a few minor improvement recommendations which are set out at Appendix A.

### **Closedown procedures**

- 3.17 Our review considered the Council's timetable for closedown, and the arrangements for preparing the draft accounts, including guidance provided on working papers to be made available as part of the closedown process. The Council continues to closely monitor the timetable and expects to meet the statutory deadline of 25 June 2010, and also expects to provide detailed working papers to support the accounts at the start of our final accounts audit visit.

### **Information Technology Control Environment**

- 3.18 We completed a high level review of the general Information Technology control environment as part of the overall review of the internal control system. We concluded that there were no material weaknesses within the IT arrangements that could adversely impact on our audit of the accounts.
- 3.19 Our work did, however, identify a few issues that require attention, which are summarised below and included at Appendix A:
- there is insufficient segregation of duties within the Business Systems team as it performs duties in respect of financial reporting, security administration and managing interfaces
  - security settings for the Active Directory allow for passwords that are not complex
  - reviews of audit logs created by the Active Directory and by the Oracle system are not periodically undertaken.

### **Employment Tax Compliance**

- 3.20 We completed a high level review of the general employment tax control environment as part of the overall review of the internal control system. This review, based on discussions with the Council's Taxation Manager, was limited to the consideration of material employment tax obligations of the Council and included:
- payroll
  - construction industry scheme
  - self employed workers (individuals rather than companies)
  - general expenses and benefits
  - car scheme arrangements (e.g essential/casual)
  - van fleet operation and usage
  - termination payments
  - completion of the end of year returns e.g P35, P11Ds
- 3.21 We concluded that there were no material weaknesses within the systems nor the knowledge of relevant employees that could adversely impact on our audit of the accounts.

3.22 Our work did however identify some minor improvement opportunities which are summarised below and included in the action plan at Appendix B:

- **Provision of vans to employees** - employees provided with a van are not required to complete an annual declaration confirming the use of the vehicle to support the exclusion of a benefit in kind from the recipient's form P11D. In addition, the Council does not formally consider the employment tax implications of any instances of vehicle usage abuse identified.
- **Construction Industry Scheme**
  - **Materials** - invoices received that include materials costs are not currently checked to ensure that the amount claimed is reasonable and only reflects materials necessary for the work performed.
  - Mixed contracts:** the decision as to whether a payment falls within the scope of the Construction Industry Scheme is made at the time of payment, based on the invoice, rather than on the overarching contract.
  - Small works:** work commissioned directly by the Council's leisure centres does not appear to follow the normal systems, of central commissioning by designated teams, in place to capture work falling within the scope of construction operations.
- **P11D completion** - the information provided by the head of each department annually to populate forms P11D is not subject to sample checks.
- **Expense claims** - over 8% of claim forms are returned to the claimant by the expense claim team due to the form being incorrectly completed or incorrect information being provided. The forms are formally checked and authorised by a manager before submission to the team. The expense team is only required to undertake a 'reasonableness' check on receipt.

This is not only inefficient but also represents a risk the Council's tax compliance obligations, as it raises concerns over the rigour of the review being undertaken by managers.

- **Payments in Lieu of Notice** - the Council's standard practice is to make termination payments, that include a payment in lieu of notice (PILON), subject to PAYE and National Insurance Contributions (NIC). A tax savings opportunity may exist in this area.

### VAT Compliance

3.23 We completed a high level review of the general VAT control environment as part of the overall review of the internal control system. This review, based on discussions with the Council's Taxation Manager, was limited to the consideration of material VAT obligations of the Council and included:

- VAT return and payment compliance
- VAT return compliance and internal controls
- capital spend
- reclaim opportunities
- VAT knowledge and training.

3.24 We concluded that there were no material weaknesses within the VAT arrangements that could adversely impact on our audit of the accounts.

3.25 Our work did however identify a number of issues that require attention which are summarised below and included at Appendix A:

- the Taxation Manager is the sole person responsible for the compilation of VAT returns. He has the requisite knowledge within the Council's accounting systems to not only source all of the data required but also to check its accuracy upon arrival. Whilst this ensures consistency it also brings with it a Key Personnel risk
- the Taxation Manager is the main repository of VAT knowledge within the Council. Whilst we understand that this is disseminated on an "as required" basis to the various personnel responsible for entering the VAT data onto the system, an in depth technical repository for VAT issues is not available for staff to access.

### **National Fraud Initiative**

3.26 The National Fraud Initiative (NFI) matches electronic data within and between audited bodies to prevent and detect fraud and is operated by the Audit Commission. As part of our planned programme of work for 2009/10, we reviewed the procurement matches identified by the 2008/09 NFI exercise.

3.27 By matching NFI data to Companies House data, the procurement matches reports identify potential undeclared interests and possible areas for procurement corruption. The four reports are split between those highlighting employees who appear to be registered directors of companies that the employing body has traded with and those where the employees address appears to have links to the company.

3.28 We found that there were 212 matches across the four reports. Following review of these matches we identified a number that we deemed appropriate for further investigation, which we have released to the Council's Internal Audit function to investigate further.

### **International Financial Reporting Standards (IFRS)**

3.29 From 2010/11 the Council is required to produce their Statement of Accounts under IFRS based on an IFRS Code of Practice on Local Authority Accounting prepared by CIPFA. As part of our procedures, we have discussed with the relevant officers their readiness for conversion to IFRS and the preparation they have undertaken to date. We are pleased to note that the Council are keen to make positive steps towards conversion and are looking at working in partnership with other Council's locally.

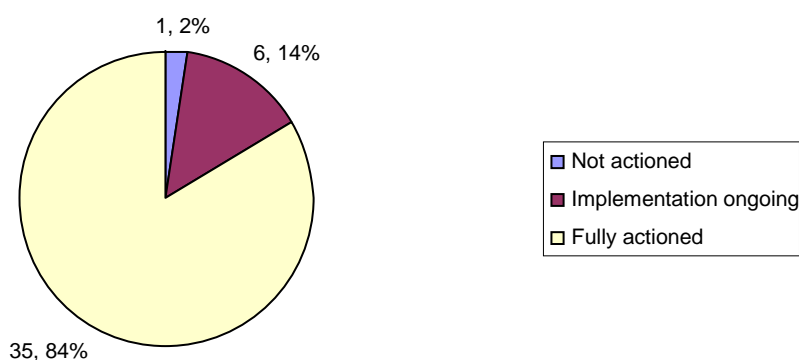
3.30 We will continue to work with the Council's finance team to ensure that arrangements are in place to prepare an IFRS transition plan and we will monitor progress against this plan throughout 2009-10 and into 2010-11. We will discuss with the Council the required accounting treatments under IFRS, where this will not compromise our independence, through sharing our experiences of IFRS transition from other public sector bodies and the commercial sector.

## 4 Follow Up of Prior Year Recommendations

### Progress in implementing recommendations

- 4.1 As part of our planned programme of work, we followed up the recommendations made in our reports issued last year. Our work indicates that the Council has made good progress, fully implementing 35 of the 42 recommendations as set out below.

#### 2008/09 recommendations implemented



- 4.2 Six recommendation were being actioned at the time of our review and are expected to be fully implemented by July 2010 as follows:
- the Council is continuing to review the appropriateness of its debt recovery procedure and, where necessary, will introduce additional procedures to cover specific areas of debt recovery
  - the Council is in the process of developing a fixed asset register
  - the accounting policies of Derby Homes Ltd have not yet been fully aligned with those of the Council
  - the Council has not yet fully completed a review of the percentage rates applied each year to calculate bad debt provisions, against collection patterns, to ensure the percentages remain appropriate
  - a high level, evidenced, review of the 09/10 Statement of Accounts by senior members of the Resources department has been included in the accounts closedown timetable but will not occur until June 2010
  - the Council has not fully completed the updating of its Capitalisation Policy, in particular a formal policy for capitalising non-enhancing capital expenditure has yet to be fully formulated.
- 4.3 In addition, the Council is still consider asset management solutions and has not therefore implemented our recommendation regarding the introduction of an integrated asset management system.

## A Action Plan - Interim Accounts Audit

Rec. No.	Matter Arising	Priority H/M/ L	Recommendation	Management response
1	<p><b>NNDR and Council Tax - Security Access Arrangements</b></p> <p>There have not been periodic reviews undertaken of user access arrangements for all staff within the Council Tax and Business Rates departments.</p>	Low	The Head of Exchequer Services should perform periodic reviews of user access arrangements for staff in both departments to ensure access rights to Oracle, Academy and other software is commensurate with their roles and responsibilities.	<p><b>Partly Agreed</b></p> <p>Agreed to undertake six monthly reviews of access to Academy systems for all Council Tax and NNDR system. Access rights to Oracle are already reviewed through a separate control process.</p> <p>Responsible Officer: John Massey Deadline: First list has been produced &amp; will be completed by 30 June 2010</p>
2	<p><b>NNDR Access Rights to Write Off Function</b></p> <p>There are members of staff within the Business Rates department who are not authorised to perform write offs from customer accounts but have sufficient access to enable them to do so.</p>	Low	User access rights within the Academy system, which allow account balance amounts to be written-off, should be reviewed to ensure only the appropriate staff have such access.	<p><b>Agreed</b></p> <p>A review has been undertaken and write-off access has been restricted.</p> <p>Responsible Officer: John Massey Actioned</p>



3	<p><b>Council Tax and NNDR - Review Procedures</b></p> <p>The Academy system is updated by way of weekly update notifications from the Valuation Office Agency (VOA) for both Council Tax and Business Rates (e.g. Council Tax bandings and Rateable Values). These updates are made in Academy by staff from both the Council Tax department and the NNDR department, however no independent review is undertaken to ensure updates are accurate and in line with VOA notifications.</p>	Low	<p>A departmental team leader / manager should perform a second review of the updated Academy records to ensure updates from the Valuation Office Agency are accurate, complete and performed in a timely manner.</p>	<p><b>Agreed</b></p> <p>A reconciliation is being performed between Academy and the VOA totals after processing each schedule. Appropriate records verifying that such a check has been undertaken are being kept.</p> <p>Responsible Officer: John Massey Actioned</p>
4	<p><b>Council Tax - Suspense Account Review Procedures</b></p> <p>The Council Tax suspense account is managed by the Revenue Control Officer, however there is no second review or periodic assessment of suspense account management and clearance.</p>	Medium	<p>Periodic review procedures should be put in place to oversee the clearance of the Council Tax suspense account. The validity and timeliness of the clearance of suspense account items should be reviewed by an independent person.</p>	<p><b>Agreed</b></p> <p>Random checks will be performed monthly by the Income &amp; Post Manager to check that items cleared out of suspense have been correctly allocated. Relevant records will be kept.</p> <p>Responsible Officer: John Massey Deadline: Immediate</p>

5	<p><b>NNDR - Suspense Account Review Procedures</b></p> <p>From walkthroughs performed and meetings conducted with the NNDR Team Leader and the Revenue Control Officer, there would not appear to be a single person who has overall responsibility for clearance of the NNDR suspense account.</p> <p>It was noted that there were items on the suspense account dating as far back as 01/04/1994, with credit amounts uncleared of £62,129.00 and debit amounts uncleared of £84,175.66.</p>	Medium	<p>Responsibility for the clearance and management of the NNDR suspense account should be assigned to a specific officer. Periodic review procedures should also be put in place to ensure the validity and timeliness of the clearance of the NNDR suspense account.</p>	<p><b>Agreed</b></p> <p>A review will be undertaken to determine who should have responsibility for clearing the NNDR suspense account. Once agreed this person will have responsibility for undertaking regular reviews to check the validity and accuracy of monies moved from suspense.</p> <p>Responsible Officer: John Massey Deadline: 31 July 2010</p>
6	<p><b>IT - Segregation of Duties</b></p> <p>The Business Systems team perform financial reporting duties, security administration duties, and they also manage the interfaces. A transfer of some of the Business Systems teams duties to the core business has already been agreed.</p> <p>As a result of the lack of segregation of duties there is a possibility that a single person could be responsible for critical functions in such a way that errors or misappropriations could occur and not be detected in a timely manner and in the normal course of business</p>	Medium	<p>Whilst it is acknowledged that an agreed transfer of duties has been outlined, we would encourage the Business Systems team to ensure that this is implemented on a timely basis.</p>	<p><b>Agreed</b></p> <p>Control Review Group to agree individual officer responsibility and deadlines for implementation.</p> <p>Deadline 31 July 2010</p>

7	<p><b>IT - Security Setting</b></p> <p>We noted the following during our review:</p> <ul style="list-style-type: none"> <li>password complexity - the security policy states that when setting up passwords employees should use a minimum of 10 characters, ideally including a mixture of upper and lower case characters and numbers. However, this has not been enabled on Active Directory and on the Academy system</li> <li>account lockout - Active Directory settings provide for lockout after 20 failed login attempts</li> <li>screensaver password - the security policy states that if the user has a password protected screensaver function, they should use it. This is not activated automatically</li> </ul> <p>Without adequate settings for password complexity and account lockout, security is not strong enough to prevent password compromise via brute force attacks. Without timeout facilities, unattended workstations are vulnerable to misuse and unauthorised access.</p>	Low	<p>Password complexity should be more appropriately enabled within the Academy system. This should also be the case for the Active Directory.</p> <p>Whilst Active Directory settings are not yet set to require complex passwords, it is recommended that account lockout should be set to 3-5 attempts, as per best practice, i.e. ISO27001.</p> <p>It is also recommended that officers enable screensaver passwords, after 15 minutes, at Group Policy settings.</p>	<p><b>Agreed</b></p> <p>It is not possible to increase the password complexity on Academy. We will however issue users with guidelines on using a mixture of upper and lower case characters and numbers to improve security.</p> <p>We are planning to move to a complex password by 01/10/2010. In the interim we are advising users that when their password expires, that they start to use a complex password immediately so there will be a gradual change to the password complexity. The Network, Internet and Email user policy already instructs users to use a complex password.</p> <p>We will investigate the feasibility of automatically implementing screensaver passwords. We understand that there may be some issues with a Group Policy implementation.</p> <p>Responsible Officer: Mike Thompson Deadline : 1 October 2010</p>
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8	<p><b>IT - Audit Logs Monitoring</b></p> <p>There are no reviews undertaken of the audit logs created by the Active Directory and by the Oracle system.</p> <p>Without routinely reviewing audit trail data and event logs, detection of unauthorised access, attempted access or system misuse may go undetected.</p>	Low	<p>Officers should develop procedures for regularly checking audit trails and event logs from all critical systems (including Network Active Directory, Oracle, and Academy), which would potentially identify suspicious and inappropriate user behaviour.</p>	<p><b>Agreed</b></p> <p>We are currently developing the Audit Trails and should have these in place on Oracle by the end of September 2010.</p> <p>Government Connect network users already have pro-active management of the audit logs.</p> <p>We currently do not have any tools available to analyse AD logs outside of Government Connect network. We will need to investigate the feasibility with our outsourced partners, Serco, to identify options available to us.</p> <p>Responsible Officer: Mike Thompson Deadline: 30 September 2010</p>
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9	<p><b>Provision of Vans to Employees</b></p> <p>The Council does not currently report the provision of a van to an employee as a benefit in kind on the recipient's form P11D. This is on the basis that a benefit in kind does not arise and the Council should be in a position to demonstrate that this treatment is appropriate.</p> <p>The Council supports this position by undertaking usage checks using tracking system data.</p> <p>From our discussions, we understand that usage checks have, on occasion, identified instances of abuse but that these cases have not been formally considered to determine whether the abuse has led to a reportable benefit. Such cases should be reviewed and if appropriate disclosed to HM Revenue &amp; Customs (HMRC).</p>	Medium	<p>We recommend that:</p> <ul style="list-style-type: none"> <li>• vehicle usage checks are further enhanced by the introduction of an annual vehicle declaration form, for completion by all drivers, and the addition of checks to the information captured by the tracking system</li> <li>• any instances of abuse identified from usage checks are formally considered, to determine whether the abuse has led to a reportable benefit. If appropriate, such cases should be disclosed to HMRC</li> <li>• the Council seeks written clearance from HMRC that the processes and evidence available would be considered sufficient to demonstrate that a reportable benefit does not arise.</li> </ul>	<p><b>Agreed</b></p> <p>The Fleet Manager (FM) sent the annual vehicle declaration form to vehicle users for comment. He reports no objections so it will be introduced for the year ended March 2010.</p> <p>The FM has also instructed service managers to carry out random checks in order to try and identify private use. One vehicle per week will be chosen and the driving history for the 4 weeks prior will be checked, looking for instances where it has been used outside normal operational hours, at weekends or in unexpected places.</p> <p>In the event of private use being discovered, details will be sent to the Taxation Manager for him to consider if a taxable benefit arises, and if so to report it to HMRC. The Taxation Manager will give the new procedures 3 months to bed in and then seek clearance from HMRC.</p> <p>Responsible Officer: Richard Kniveton Deadline: Immediate</p>
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10	<p><b>Construction Industry Scheme - Materials</b></p> <p>We were advised that, where invoices are submitted that include an element for the cost of materials, this cost is accepted at face value.</p>	Medium	<p>Any costs relating to materials should be checked and challenged as necessary to ensure that the amount claimed is reasonable and reflect materials.</p> <p>As materials are not subject to a CIS deduction on payment of an invoice, failure to undergo this process would leave the Council open to a challenge from HMRC where the cost are proved to have been inflated by the subcontractor.</p>	<p><b>Agreed</b></p> <p>A copy of the three recommendations has been sent to Heads of Finance and the Accounts Payable User Group for dissemination amongst staff who need to know so they can be incorporated into our workflow.</p> <p>The Taxation Manager will carry out spot checks with regard to adherence</p> <p>Responsible Officer: Keith Dalton Deadline: Immediate</p>
11	<p><b>Construction Industry Scheme - Mixed contracts</b></p> <p>We understand that the decision as to whether a payment falls within the scope of the Construction Industry Scheme is made at the time of payment and therefore based on the invoice rather than the contract itself. Where a series of invoices are submitted over a period of time from a contract that falls within the CIS, all payment arising from that contract should be subject to CIS. A general exception to this is call-off contracts.</p>	Medium	<p>The Council should review this process to ensure that individual invoices are being correctly treated based on the over arching contract.</p>	<p><b>Agreed</b></p> <p>A copy of the three recommendations has been sent to Heads of Finance and the Accounts Payable User Group for dissemination amongst staff who need to know so they can be incorporated into our workflow.</p> <p>The Taxation Manager will carry out spot checks with regard to adherence</p> <p>Responsible Officer: Keith Dalton Deadline: Immediate</p>

12	<p><b>Construction Industry Scheme - Small works</b></p> <p>We understand that work commissioned directly by the Council's leisure centres does not follow the normal systems, of central commissioning by designated teams such as Corporate and Adult Services, in place to capture work falling within the scope of construction operations.</p> <p>There is a reliance on the Central Payments Team to identify relevant invoices when received. This increases the risk that invoices are not correctly treated which could lead to non-compliance with CIS requirements, potentially exposing the Council to liabilities and penalties.</p>	Medium	<p>The Council should consider extending its existing procedures to leisure centres to ensure compliance with CIS requirements and any other area where there is autonomy over the commissioning of small works. In addition, a review of historical payments should be undertaken, to assess any potential historic liabilities.</p>	<p><b>Agreed</b></p> <p>A copy of the three recommendations has been sent to Heads of Finance and the Accounts Payable User Group for dissemination amongst staff who need to know so they can be incorporated into our workflow.</p> <p>The Taxation Manager will carry out spot checks with regard to adherence</p> <p>Responsible Officer: Keith Dalton Deadline: Immediate</p>
13	<p><b>P11D completion</b></p> <p>Forms P11D are completed based on information provided by the head of each department annually. The accuracy and completeness of the Council's P11Ds is therefore dependant on the quality of the submissions returned.</p>	Low	<p>The Council should consider introducing sample checks to verify that this system is robust.</p>	<p><b>Agreed</b></p> <p>We will carry out some sample checks to determine the accuracy of departmental submissions. This will be built into the 2010/11 return process and timetable.</p> <p>Responsible Officer: Keith Dalton Deadline: For April 2011 return</p>

14	<p><b>Expense claims</b></p> <p>From discussion we noted that over 8% of claim forms are returned to the claimant by the expense claim team, due to the form being incorrectly completed, or incorrect information being provided. The forms are formally checked and authorised by a manager before submission to the team. The expense team are only required to undertake a 'reasonableness' check on receipt.</p> <p>This not only inefficient but also represents a risk the Council's tax compliance obligations, as well as raising concerns over the rigour of the review being undertaken by managers.</p>	High	<p>The Council should reinforce the importance and requirements of its expense policy compliance and, if necessary, should provide specific training in this area.</p> <p>Given the level of expense claims being returned to the claimant, we recommend that the Council undertakes a specific sample review of expenses. This should seek to ensure that the current standard of expense claim form completion and authorisation is at a level that would be acceptable to HMRC and within the terms and conditions of the Dispensation and that tax compliance obligations have been met. This sample should specifically include expenses that have been processed for payment to identify whether the existing system is consistently rejecting non-compliant claims.</p>	<p><b>Agreed</b></p> <p>Regular communication is provided to Managers reinforcing the importance of claiming and completing the claim forms correctly. Managers accept responsibility.</p> <p>From the 1<sup>st</sup> July 2010 a new policy which simplifies the conditions and a new claim form giving less choices and less personal information required thereby simplifying the whole process. The new policy and form are on Derbynet. New policy is based on the HMRC payments and allowances.</p> <p>Monitoring in place to track the performance. Simple guidelines issued with the new claim form on completion.</p> <p>Envoy Central is a specific travel and subsistence payment system set to ensure we meet HMRC guidelines. Some of the reasons the claims were returned was to ensure we met their requirements</p> <p>With the new policy, the payments have been set at HMRC levels this will also ensure that we are fully compliant.</p> <p>Responsible Officer: Faye Dulon Deadline: 1 July 2010</p>
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15	<p><b>Payments in Lieu of Notice</b></p> <p>We understand that when the Council makes a termination payment that includes a payment in lieu of notice (PILON) it is standard practice for the payment to be subject to PAYE and National Insurance Contributions (NIC).</p> <p>In certain circumstance it is possible to make such payments without the PILON be subject to PAYE and NIC which would result in a tax saving for the individual and the Council.</p>	Medium	The Council should explore this opportunity further.	<p><b>Agreed</b></p> <p>Responsible Officer: Keith Dalton Deadline: 30 September 2010</p>
16	<p><b>Key Personnel Risk</b></p> <p>The Taxation Manager is the sole person responsible for compilation of the VAT returns. He has the requisite knowledge within the Council's accounting systems to, not only source all of the data required but also to check its accuracy upon arrival.</p> <p>Whilst this ensures consistency it also brings with it a Key Personnel risk.</p>	Medium	The Council should consider training an alternate person to be able to take on this role in the event of an emergency. This could be to the level of their acquiring sufficient knowledge regarding the location of the differing data sources used to compile the return which would be adequate to assist an external VAT specialist if this type of cover was required. Alternatively, the Council could consider subsequently widening the training to amass the technical knowledge necessary to check the accuracy of the information provided from the system, providing full internal cover.	<p><b>Agreed</b></p> <p>This is currently being considered as part of the decision as to the most appropriate finance team for the Taxation Manager post to be part of.</p> <p>Responsible Officer: Carolyn Wright Deadline: 30 September 2010</p>

17	<p><b>VAT Training</b></p> <p>The Taxation Manager is the main repository of VAT knowledge within the Council. We understand that this is disseminated on an "as required" basis to the various personnel responsible for entering the VAT data onto the system.</p>	Low	<p>Staff should have access to an in depth technical repository for VAT issues. This could be in the form of a physical VAT manual or by electronic resource. In either case, staff would then be able to resolve some of the more common queries arising and this would release some of Taxation Manager's time in not having to deal with such questions. The Taxation Manager would then be responsible for ensuring that the "VAT manual", in whatever form it took, was up to date and accurate.</p>	<p><b>Agreed</b></p> <p>We already have an in depth technical repository on Derbynet. It can be found on Corporate Info/Tax/VAT. The Taxation Manager updates it and reminds staff of its existence at regular intervals. A reminder was sent out In May 2010.</p> <p>Recurrent issues and questions will be monitored with a view to developing further targeted guidance and training.</p> <p>Responsible Officer: Keith Dalton Deadline: Immediate</p>
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## B Use of Resources - Underlying principles

Level 2 Performs adequately	Level 3 Performs well	Level 4 Performs excellently
Arrangements consistent with established professional practice and guidance, meet <b>statutory requirements</b> and operate effectively.	Implemented effective arrangements that are: <ul style="list-style-type: none"> <li>➤ <b>forward looking</b> and <b>proactive</b> in identifying and developing opportunities for improvement; and</li> <li>➤ include more sophisticated measuring and assessment techniques.</li> </ul>	Demonstrating <b>innovation</b> or <b>best practice</b> .
Arrangements sufficient to address the KLoE.	<b>Outputs</b> and <b>outcomes</b> demonstrate arrangements which are effective and have the <b>intended impact</b> , and show evidence of effective <b>partnership working</b> .	Demonstrating strong <b>outcomes for the community</b> including through <b>partnership working</b> .
Arrangements achieve minimum <b>acceptable levels of performance</b> .	Evidence of performing <b>consistently above minimum acceptable levels</b> and achieving <b>VFM</b> .	Evidence of performing <b>well above minimum acceptable levels</b> and achieving <b>excellent VFM</b> .



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