

The Chair and Members of Joint Board

Please ask for Rachel Lenthall

Direct Line 01246 345277

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3 March 2017

Dear Councillor,

Please attend a meeting of the JOINT BOARD to be held on MONDAY, 13 MARCH 2017 at 10.30 am in **Chamber 1** at **North East Derbyshire District Council, District Council Offices, Mill Lane, Wingerworth, S42 6NG**, 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 5 - 12)
  - Record of decisions of the Joint Board held on 12 September, 2016.
  - Notes of the meeting of the Joint Board held on 12 September, 2016.
4. Chesterfield and North East Derbyshire Credit Union - Business Plan (Pages 13 - 28)
5. Internal Audit Consortium 2017/18 Business Plan (Pages 29 - 40)
6. External Review of Internal Audit (Pages 41 - 88)

Yours sincerely,

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

Local Government and Regulatory Law Manager and Monitoring Officer  
(Chesterfield Borough Council)

# Agenda Item 3

## RECORD OF EXECUTIVE DECISIONS – JOINT WORKING

CBC:LEADER		Date of Decision 12.09.2016		
BDC: LEADER				
NEDDC:LEADER				
Title Reference: Minutes				
Key Decision References (if applicable): CBC: N/A BDC: N/A NEDDC: N/A		Delegation Reference: CBC: R080L BDC: NEDDC:		
Report and background papers	Yes	Public <input checked="" type="checkbox"/>	Exempt <input type="checkbox"/>	
			Confidential <input type="checkbox"/>	
Decision Status	Notice of Key or Private Decision	Authorised By: N/A		
	General Urgency			N/A
	Special Urgency			N/A
	Exempt Urgency			N/A
Record of Decision:				
That the notes and the Record of Decisions of the Joint Board meeting held on 18 August, 2016 be noted.				
Reasons for Decision:				
To note progress on joint working.				
Alternative options considered and rejected (if any): N/A				
Declarations of interests: None				
Decision subject to call-in: No Date of implementation if not called in: N/A				
Date Record Issued 12.09.2016 Contact Officer: Rachel Lenthall, Chesterfield Borough Council rachel.lenthall@chesterfield.gov.uk				

CBC:LEADER		Date of Decision 12.09.2016	
BDC: LEADER			
NEDDC:LEADER			
Title Reference: Internal Audit Consortium Annual Report 2015/16			
Key Decision References (if applicable): CBC: N/A BDC: N/A NEDDC: N/A		Delegation Reference: CBC: R080L BDC: NEDDC:	
Report and background papers	Yes	Public <input checked="" type="checkbox"/>	Exempt <input type="checkbox"/> Confidential <input type="checkbox"/>
Decision Status	Notice of Key or Private Decision		
	General Urgency		N/A
	Special Urgency		N/A
	Exempt Urgency		N/A
Record of Decision:  That the annual report of the Internal Audit Consortium be approved.			
Reasons for Decision:  To enable the Joint Board to consider and approve the 2015/16 Annual Report of the Internal Audit Consortium.			
Alternative options considered and rejected (if any): N/A			
Declarations of interests: None			
Decision subject to call-in: Yes Date of implementation if not called in: 19.09.2016			
Date Record Issued 12.09.2016 Contact Officer: Rachel Lenthall, Chesterfield Borough Council rachel.lenthall@chesterfield.gov.uk			

CBC:LEADER		Date of Decision 12.09.2016		
BDC: LEADER				
NEDDC:LEADER				
Title Reference: Building Control Transformation Project – Progress Update				
Key Decision References (if applicable): CBC: N/A BDC: N/A NEDDC: N/A		Delegation Reference: CBC: R080L BDC: NEDDC:		
Report and background papers	Yes	Public <input type="checkbox"/>	Exempt <input checked="" type="checkbox"/> Confidential <input type="checkbox"/>	
Decision Status	Notice of Key or Private Decision		Authorised By: N/A	
	General Urgency			N/A
	Special Urgency			N/A
	Exempt Urgency			N/A
Record of Decision:				
(1) That the current financial position of BCN as at the end of July 2016 be noted.				
(2) That the work undertaken in implementing the option for a unified Derbyshire wide service be noted.				
Reasons for Decision:				
To effectively manage BCN in accordance with legislation and the legal agreement for the joint working consortium.				
Alternative options considered and rejected (if any): N/A				
Declarations of interests: None				
Decision subject to call-in: Yes Date of implementation if not called in: 19.09.2016				
Date Record Issued 12.09.2016 Contact Officer: Rachel Lenthall, Chesterfield Borough Council rachel.lenthall@chesterfield.gov.uk				

## **Notes to Record of Decisions (Joint Working):**

### **CBC - CALL-IN REQUESTS**

*The implementation of certain decisions is suspended until the call-in period has expired without a call-in being validly invoked. Any Member of the Council shall be entitled to call for a decision to be suspended by giving notice to the Monitoring Officer either by telephone, fax, email or in writing **not later than 5.00 pm on the day following the date of the Joint Board meeting.** Any decisions so suspended shall not be capable of implementation for a period of **five calendar days** from the date of the Joint Board meeting. During the call-in period a request may be made in respect of any decision so suspended by not less than one quarter of the total membership of the Overview and Performance Scrutiny Committee. To do this you will need to notify the Monitoring Officer in writing, by fax or by email by 5.00 pm on the date being five days following the day of the Joint Board meeting.*

### **BDC - CALL-IN REQUESTS**

*All Key Decisions come into effect **five working days** after the meeting unless three members give notice in writing to the Governance Manager requesting to call in the decision. The call-in request should be on a **completed 'call-in' request form and include the names and signatures of the three signatories**, the decision making principles it is believed have been breached and also the reasons for this. Non Key Decisions may not be called in.*

### **NEDDC - CALL-IN REQUESTS**

*The implementation of key decisions is suspended until the call-in period has expired without a call-in being validly invoked. The call-in period is **five working days** after the publication of this decision. During the call-in period the **Chair or Vice Chair together with three other members of any Overview and Scrutiny committee** may object to a key decision and call it in. Non-Key decisions cannot be called in at North East Derbyshire District Council.*

## **JOINT BOARD**

**Monday, 12th September, 2016**

Present:-

Councillor Baxter (Chair)

Councillors Dooley  
Hill

Councillors Syrett

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

No declarations of interest were received.

12 **APOLOGIES FOR ABSENCE**

Apologies were received from Councillors Burrows and T Gilby.

13 **MINUTES**

The notes and the Record of Decisions of the Joint Board meeting held on 18 August, 2016 were noted.

14 **INTERNAL AUDIT CONSORTIUM ANNUAL REPORT 2015/16**

The Internal Audit Consortium Manager submitted a report to inform the Joint Board of the Consortium's performance during 2015/16.

The report gave a summary of the progress made with regard to:

- The preparation of Internal Audit Plans for the three Councils
- Changes made to Working Procedures / Improvement Plans
- The Consortium's Financial performance
- Staffing, Training and Development

It was noted that the 2015/16 budget outturn showed a surplus of £63,041; the main reason being due to lower staffing costs. The accumulated surplus at 31 March 2016 was therefore £113,041 (made up of the 2015/16 surplus and £50,000 from previous years.) The purposes

for the retention of part of the surplus and the distribution of the remainder were agreed by the Joint Board in March 2016.

The Risk Register had been updated and this was attached to the report.

It was noted that there would be an external review of internal audit undertaken in October 2016 by Gateway Assure, as was required at least every five years by the Public Sector Internal Audit Standards that came in to effect in April 2013. The results of the review will be fed back to each Council's audit committee.

### **AGREED –**

That the annual report of the Internal Audit Consortium be noted.

## **15 LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF THE PUBLIC**

### **AGREED –**

That under Regulation 21 (1)(b) of the Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2000, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined by Paragraphs 4 of Part 1 of Schedule 12A to the Local Government Act 1972' on the grounds that it contains information on consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority and employees of, or office holders under, the authority.

## **16 BUILDING CONTROL TRANSFORMATION PROJECT - PROGRESS UPDATE**

The Chesterfield Borough Council Development and Growth Manager submitted a report detailing the current financial position of BCN at the end of July 2016. The report also outlined the progress made towards implementing a unified Building Control service for Derbyshire.

It was noted that the BCN continued to perform well financially and was able to sustain the reduction in authority contributions of £79,275, a reduction of just over 22%.



A new commercial entity under the name The Derbyshire Building Control Partnership had been established and negotiations with the Pension Authority had concluded. The new company would commence operations on 1 October, 2016 with staff transferring to the company on 1 November, 2016.

The Joint Board thanked the managers and staff at BCN for their commitment and hard work.

**AGREED –**

- (1) That the current financial position of BCN as at the end of July 2016 be noted.
- (2) That the work undertaken in implementing the option for a unified Derbyshire wide service be noted.

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# **Chesterfield and North East Derbyshire Credit Union (CNEDCU)**

**Your Local Community Bank**  
run by local people to serve the  
financial needs of communities in  
Derbyshire

## **Business Plan**

**October 2016 –  
September 2019**

Chesterfield Credit Union Limited is Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. Reference Number 213954

**CHESTERFIELD & NORTH EAST  
DERBYSHIRE CREDIT UNION**  
*Your Community Credit Union*



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## 1. About Chesterfield & North East Derbyshire Credit Union (CNEDCU)

Chesterfield & North East Derbyshire Credit Union (CNEDCU) is a not-for-profit financial co-operative which provides a safe and responsible place to save and borrow at a low rate of interest. The aim of all Credit Unions is to encourage and support people to manage their money wisely and not get tempted to borrow from high interest lenders and even worse, from loan sharks.

As with most high street banks and building societies CNEDCU is regulated and authorised by the Prudential Regulation Authority and Financial Conduct Authority (FCA), which means that its members' money is completely safe and is also protected by the Financial Services Compensation Scheme (FSCS). CNEDCU's Common Bond (the licence from the FCA which identifies where CNEDCU can operate) was extended in June 2015 to enable it to accept anyone who lives or works in the county of Derbyshire as a member. CNEDCU's Reference Number is 213954. Your Local Community Bank was also accepted by the Regulator as a tag line. Derbyshire County Council are promoting the "Community Banks" in their information sheets and their Website.

## 2. Our Current Position

Our Business Plan sets out the various targets and profiles we need to meet to continue to be sustainable and broadly how we will go about achieving these. Close liaison and working together with existing and future partners will be critical to our success. We believe that our targets are realistic and achievable but we also recognise that they are challenging and that there is very little headroom for failure without having to go back to our supporters for further funding. Whilst this can't be ruled out the Board are committed to making CNEDCU a successful, respected and financially viable credit union.

Within the past five years the Board, staff and volunteers of CNEDCU have worked tirelessly to secure short-term funding in order to establish the foundations for a sustainable organisation, assisted by National and Local Government recognition of the need for credit union services. CNEDCU is recognised by members and service providers as a key vehicle to assist with the Social Reforms facing the people in Chesterfield and North East Derbyshire the extension of its Common Bond of course has the flexibility to work further afield.

The significant financial and professional support in recent years from partner agencies (in particular Chesterfield Borough Council, Derbyshire County Council, Derby & Derbyshire Primary Care Trust, North East Derbyshire District Council and Rykneld Homes) has been fundamental in achieving some impressive growth and in the transformation of the credit union into an organisation ready and able to expand in the present financial landscape. The increase in the number of paid staff, the move to high street premises, the establishment of the Junior Savers Scheme and the front-loading of the Family Loan Scheme (FLS) have been vital to CNEDCU's significant overall growth which is recognised in our Audited Accounts:

Year Ended	Members	Shares Value	Loans Balance	
September	No	£	No	£
2012*	704	188,506	212	166,480
2013	1,153	245,203	491	300,582
2014	1,870	335,134	800	490,959
2015	2,417	396,632	969	564,526
* Growth 2012-15		210%		339%

This has placed CNEDCU in a position where it can continue to grow in order to achieve its Mission, address its Vision and meet its Aims and Objectives, whilst maintaining its core Values. By meeting these Aims and Objectives we will have ensured financial sustainability and growth and improved our governance and operations. This will enable us to establish CNEDCU as a trusted, recognised brand within our local communities which provides a range of accessible financial products and services and supports the financial education of our members.

For more background information on CNEDCU and its past successes please refer to our Annual Report, which can be found at our website: [www.cnedcu.co.uk](http://www.cnedcu.co.uk).

### 3. Our Mission, Vision & Values

**Mission Statement:** Working towards the financial inclusion of all throughout Derbyshire

To achieve this CNEDCU is committed to providing a broad range of innovative financial products supported by the dedicated service of volunteers and professional staff. These products will be administered in accordance with sound management practices to maintain the financial strength of the Credit Union. The Board of Directors, Management and Staff of the Credit Union hereby affirm that the efforts of CNEDCU will be consistently and professionally dedicated to the accomplishment of this mission, which establishes the foundations for our overall Vision:

**Vision:** CNEDCU will be a financially stable, innovative and responsive Credit Union, widely recognised and respected by members and partners for our ability to deliver a range of products which meet local need, the quality of our customer service and partnership working and our commitment to ensuring the financial inclusion of residents and workers across Derbyshire.

We are committed to the belief that everyone has the right to access affordable loans and savings opportunities which reward financial prudence. We will also help people to understand how to most effectively manage their finances to avoid financial hardship, thus ensuring more secure and sustainable households and communities. This commitment is underpinned in our core Values:

#### **Values:**

- **Accessibility** – we will ensure that our written materials will be clear and easy to understand and that our members can access our services in the most appropriate way, whether at our office, through our secure website or collection points hosted by our partners.
- **Confidentiality** – we will act with discretion to protect our members' privacy
- **Flexibility** – we will continually review and develop our products, services and methods of delivery to ensure that we meet the ever-changing needs of our members
- **Honesty** – we will be sincere and open in our support to members, providing frank advice and clearly explaining our interest rates
- **Inclusivity** – we will support all residents within Derbyshire who wish to use our services however we can, no-matter their personal circumstances and enable our members to have a say in how we operate
- **Impartiality** – we will provide fair and objective guidance and support to all of our members
- **Reliability** – we will provide a consistent and dependable service to our members and partners
- **Sustainability** – we will promote thrift and a savings culture to our members to help them maintain sustainable households, whilst we will ensure that we run on sound, ethical and financially sustainable principles through the use and control of members' savings for their mutual benefit

### 4. The Market: Local Need

The Office for National Statistics 2014 Mid-term population estimates for Derbyshire (including Derby) are 1,032,300, with 203,700 residing in CNEDCU's historic target area of Chesterfield Borough and North East Derbyshire District. In July 2007 the Financial Inclusion Taskforce reported on the difference between the demand for, and supply of affordable credit in each Local Authority area in Great Britain; 25 local authorities, including Chesterfield, were placed into red alert showing a serious need for that area, with a further 56, including North East Derbyshire, placed on Amber Alert, meaning a high but less urgent need to tackle the problem. Within our target population there remain numerous challenges for different age groups, including child and fuel poverty, unemployment, and reliance on household benefits. The Welfare Reform Act 2012 continues to drive the biggest changes in the benefits system since its history, with changes affecting all who are of working age and in receipt of key benefits such as JSA, DLA and housing benefits. Credit Unions are acknowledged as having the experience and services necessary to assist benefit claimants directly, through our core services of loans and savings, and of assisting those who deliver services such as District and County Council, Housing Associations, private landlords and community organisations. Our services and support will ensure continued financial inclusion and increase our member numbers. As the full ramifications of Welfare Reform are still unclear, we will continue to work with those organisations whose clients will be affected and will flex services and products as appropriate.

The increase in Family Loan Scheme uptake has seen a significant demand in payments, making the system of handwritten cheques an increasingly inefficient delivery approach Bank Transfers and E-cards are and will be promoted as an alternative access model. Increased demand for on-line payments and access to savings accounts is rising, as well as demand from new customer groups with their own particular needs, such as younger people.

These needs will guide our Aims and Objectives listed in section 5 and shape our service focus for 2017-19

## 5. Our Aims & Objectives

In order to achieve our vision and continue to be a viable and sustainable business our Aims and Objectives are set below, which, when achieved, form the backbone of CNEDCU's public identity as a well-known, respected, vibrant, and trusted Credit Union. Our Aims identify *what* we wish to accomplish, with our Objectives of *how* we intend to do this listed below. Where possible we have established SMART targets to enable us to measure the progress being made throughout the year and share the results of our efforts in our September Annual Report.

Aims, Objectives and Measures	Position Sept 2016	Target by Sept 2017	Target by Sept 2018	Target by Sept 2019
<b>Aim 1: Have strong strategic leadership that manages operations, costs and risks to ensure business sustainability and economical, efficient and effective services</b>				
Be financially sustainable, funded through operational income rather than grant funding (by % of operational income)	100%	100%	100%	100%
Average interest rate earned > 2.5% per month	2.5%	> 2.5%	> 2.5%	> 2.5%
Develop a package of variable interest rates to encourage savers and borrowers top our business	Loyalty Loans at 2%/Month	TBA	TBA	TBA
Reduce the level of bad debt (by % of overall debt)	8%	6%	6%	6%
Identify which operating and decision making processes can be streamlined to ensure ordered, structured governance	-	Targeted Reviews	Targeted Reviews	Targeted Reviews
Develop the skills of our volunteers, staff and board members to enable them to provide a first class, professional, efficient, timely and friendly service to members and delivery partners	Skills audit undertaken	Skills audit reviewed & training delivered	Skills audit reviewed & training delivered	Skills audit reviewed & training delivered
Engage with local, regional and national organisations and partnerships as appropriate to harness opportunities and enable us to better support financial inclusion in our area	Review of meetings attended	All suitable networks engaged	All suitable networks engaged	All suitable networks engaged
<b>Aim 2: Be client focused, developing a range of accessible products and services which meet members needs and enables a significant, sustained growth in membership</b>				
Ensure a significant, sustained growth of our profile to the general public through targeted publicity, marketing, engagement and consultation	Ongoing	Ongoing	Ongoing	Ongoing
Increase the number of members using the pre-paid card (by % of members)	??	10%	20%	25%
Increase the number of loan applications completed on-line (as a % of all applications)	??	5%	10%	15%
Increase the number of new member applications completed on-line (as a % of all applications)	??	10%	10%	10%
Increase the number of members utilising the payroll deduction facility (members)	??	50	75	100
<b>Aim 3: Provide a secure and attractive home for member's savings</b>				
Increase the number of active members (membership numbers)	2,700	2,800	2,850	2,900
Increase the value of shares (as cash value)	500,000	£520,000	£540,000	£560,000
Pay an annual dividend on savings (at % interest)	0.5 - 1%	0.5 - 1%	0.5 - 1%	0.5 - 1%
<b>Aim 4: Provide a range of timely, affordable loans at competitive rates</b>				
Increase the value of loans (as cash value)	615,000	£625,000	£630,000	£635,000
Ensure that eligible loan applications are processed as quickly as possible (days)	7	7	7	7
<b>Aim 5: Promote the training and education of members in the wise use of money and in the management of their household financial affairs</b>				
Promote thrift by encouraging members to save including the continued development of the Junior Savers Scheme (number of schools engaged)	??	16	18	20

## 6. Delivering the Business Plan

### a) Products & Services

Our current list of products and services is listed below along with those which are currently in development and due to commence shortly.

- **Savings (currently paying a 1% dividend on the average of the annual balance held)**
  - **Standard:** Our accounts for savers aged 16+
  - **Junior Savers Scheme (JSS):** A regular savings account operated in infant, junior and secondary schools for those 16 and under, which also helps to instil good financial and budgeting habits in the next generation. Following evaluation of our pilot JSS we recognise the need to develop the service further within local primary and secondary schools and will initially seek external funding to help to achieve this, at least until September 2016.
  - **Corporate and Charitable Savings:** Accounts for ethical investors seeking to help local community by allowing their secured deposits be loaned to credit union members
  - **Christmas Club:** A saving account that only allows members to make 2 withdrawals per year – in the summer months and at Christmas.
  
- **Loans (interest rates are dependent upon the product)**
  - **Standard Loans:** Loans to members which have established a regular savings pattern and made within 5 working days of an eligible application being received (usually 2/3 days in practice). Variable interest between 2-3% per month, dependent upon member payment history and savings over £1,000.
  - **Family Loan Scheme:** A very popular instant loan of up to £500 charging 3% interest per month, paid to families or individuals in receipt of Child Benefit (which is paid directly to CNEDCU). The whole child benefit can be used to make the repayments, but a lesser amount is usually agreed with the member following a robust budgeting interview. The 'surplus' amount can then either be left in as savings, withdrawn weekly/monthly or split between savings and withdrawal.
  - **Corporate and Charitable Loans:** Loans to businesses and voluntary and community groups who are members of the credit union. Variable interest between 2-3% per month, dependent upon member payment history and savings over £1,000.
  - **Rent Direct Scheme:** Landlords will no longer be able to receive rent payments direct to them. The Universal Credit will see households receiving all benefits in one payment including housing benefit.
  - Variable interest between 2-3% per month, dependent upon member payment history and savings over £1,000.
  - **Council Community Loans:** Managed in a similar way to the FLS, these funds have been dedicated by Parish Councils who advise whether the loan is either for residents from their Parish or from the local District. The loans are for a maximum of £100 or £200 depending upon Parish.
  - **Chesterfield & North East Derbyshire Repossession Prevention Funds:** Administered on through referral from one of the respective Housing Options, an instant loan to specifically cover rent in advance or a bond.
  
- **Ease of Accessibility to Funds and Services**
  - **Budget accounts (Jam Jar Accounts):** To help members manage funds and budget for bills/expenses more effectively. Currently investigating developing a pilot with Rykneld Homes??.
  - **CredEcard:** a prepaid visa card for benefits/salaries to be loaded onto to assist with budgeting.
  - **Payroll Deduction Scheme:** Available to all members working through participating employers to direct savings to CNEDCU at time of wage/salary payment.
  - **On-line member applications ??.**
  - **On-line loan applications: ??.**
  
- **Service Development: Partnership Working and Customer Engagement**

We will seek to expand our product portfolio where appropriate and to the benefit of the business, for example the development of differential loan products, by working with others and our customers, e.g.:

  - Working with 2 other Derbyshire Credit Unions to develop a mutually agreed interest rate in order to provide consistency in incentivising payroll deduction across the County
  - Working directly with the DWP to benefit from expert marketing support, advice and funding, initially around increasing and attracting Tier 1 and 2 members
  - Maximising the opportunities from the recent Church of England campaign against payday lenders
  - Working with potential partners in promoting credit union services through their own networks (such as the NEDDC reception screen or dedicated DCC credit union signposting web-page)
  - Learning from other CU's through the CUEP project, trade association and regional forums



- Fostering mutually beneficial relations with the existing banking sector
- Adopting best practice from the 2015 Derbyshire County Council Scrutiny Review of Credit Unions.

## Resources

In order to meet the business Aims and Objectives and deliver these products and services CNEDCU will seek to maximise the outcomes it can deliver from its available resources, which are its Human Resources, Physical Resources & Assets and Financial Resources. In parallel with this the Board and Manager will maintain a constant overview for additional resources, which primarily may be in the form of external grant funding or partnership working opportunities.

### b) Human Resources

There are three core elements to CNEDCU's workforce: the Volunteers, Paid Staff and the Board; Appendix 1 shows the current organisation structure of the business. We also recognise the added value which many of our members and partners bring, whether it is helping to publicise and promote our services through word of mouth, giving customer feedback which helps us to improve our delivery and efficiency to meet their needs and expectations, or identifying other opportunities which we can harness.

#### • Board

The CNEDCU Board meets monthly and focuses on the strategic planning of businesses. It consists of ten members who bring a wealth of experience from the private, public and voluntary and community sector from a range of backgrounds including: finance, funding, organisation and project management, housing, working with vulnerable people, training and partnership working. Some Board Members have also undertaken training on issues specific to credit unions (e.g. money laundering) to ensure that CNEDCU fulfils its duties in accordance with statutory expectations. Most Board Members have a responsibility for at least one of the following areas:

- Chair
- Vice Chair
- Treasurer
- Secretary
- Compliance
- Complaints
- Data Protection
- Money Laundering

Having "portfolio" responsibilities enables workload to be more appropriately managed and specific focus to be directed to ensure that the following duties and approaches to working are undertaken:

• Executive skills	• Implementation of Board strategy	• Training
• Strategic focus skills	• Customer issues, including complaints and satisfaction	• Financial management
• Entrepreneurship	• Logistics and management issues	• Management of Consortia and Partnership arrangements
• Community based representation	• Service points	• Establishing policies and procedures
• Customer representative – preferably somebody who has experience of taking out the kind of loans that the Credit Union offers	• Product development and implementation	

Should the current Board identify weaknesses in any of these issues, training will be sought, or if appropriate new Board Members sought who possess the appropriate skills and experience.

To enable the Board to maintain focus on both strategic planning as well as more operational issues related to product implementation and customer satisfaction, it will investigate the development of a separate operational group free to focus more time on such issues and enable the Board to work more efficiently and effectively rather than spreading its focus and time commitments too thinly. A clearer definition of the two groups work, and the make-up of each group needs to be discussed further but in order to maximise the experience gained by those working at the front-line of delivery, the operational group should include members of staff and key volunteers. This will help us to better realise the potential of partnership working with delivery partners such as housing associations etc.

- **Paid Staff & Volunteers**

Besides the Manager, the majority of Paid Staff and Volunteers are part time; there are currently 25 volunteers and 7 paid staff, who between them have a wealth of experience in either volunteering with or being employed with all having over two years' experience. Staff are motivated with a good professional attitude and understanding of the credit union business and are keen to see the success of the business as a whole; harnessing this experience is therefore important to the future shaping of services, as alluded to in the previous section. The relationship with management is open, honest and staff feel that they can have a say in the way they carry out their day to day duties and that they can have influence over the success or failure in aspects of the business.

Many of the paid staff and volunteers work on areas of specialism, for example cashiers, debt recovery, the Junior Saver's Scheme and the Supervisory Committee and collectively have developed skills in social marketing, demand management and working at high volume with a range of different products. This has enabled CNEDCU to learn much more about the levels of support needed by families in our area.

The financial forecasts attached to this plan, show that with the increase in membership, staff resources will need to increase and this will alleviate any new pressures that these initiatives and changes will bring to and show the value management places on them. To re-emphasise this value, greater effort will be made to establish and review individual development plans so that individuals can better understand their longer term prospects within the business and learning and development opportunities can be identified. This will go some way to mitigating the risk that by not undertaking the reviews people may become unmotivated or decide to leave and help with the internal succession planning of the business.

### **c) Physical Resources & Assets**

In recent years we have significantly invested in our physical resources and assets. Although mindful of cost, we have implemented the following to ensure that we are a progressive and responsive organisation:

- **ICT Infrastructure:** In 2015 we upgraded to a fully networked office ICT system and continue to develop provision from our website. We work closely with our software provider (Kesho, using the Curtains Too SQL programme running on Lenovo servers) to ensure that our services are efficient for internal operations to enable us to provide an effective service to our members. We are now in a position to be able to offer on-line applications for membership and loans as well as forecast loan repayment levels.
- **Office Infrastructure:** We moved into our new office on Soresby Street, Chesterfield in May 2014 to increase our high street presence and accessibility. In mid-2015 we agreed to extend our back-room facility to improve office efficiency by enabling as many volunteers willing to support delivery to attend, therefore helping to develop and expand new services such as the Junior Savers Scheme. In addition to our main office, there is a facility for members to make deposits at Clay Cross Housing Office and North Wingfield Community Resource Centre.
- **Communication & Marketing:** In addition to our website we produce leaflets, posters and written information on our services tailored to the audience, whether it is members of the public, service providers, delivery partners or our funders. To raise and maintain the profile of CNEDCU we attend and engage with a number of meetings and events, whether it is formal presentations to Councillors, having a stall at community events or networking with other agencies in networks to address financial exclusion. Our Secretary attends the East Midland's Credit Union Forum, Board Members engage with Financial action and Advice Derbyshire (FAAD) and the Derbyshire Anti-Poverty Group, whilst the Manager, staff and volunteers engage with other more localised networks; it is to the credit of those involved that good working relationships have been established, enabling us to identify and harness new opportunities.

### **d) Financial Resources**

The Three Year Financial Plan for the business is detailed in Appendix 2 and identifies the positive financial trajectory which the business is following. Grant support is falling away and the Board will review the JSS during 2017 to assess if it can still be supported without outside support.

In recent time we have done much to build the financial foundations which have enabled us to pay a dividend to savers, move to and expand high street premises and upgrade our ICT infrastructure, including:

- We have secured or are close to securing much of the necessary short-term funding
- Government support and financial backing for the credit union movement
- Needed and supported by local authorities, and others to address issues of welfare reform and financial exclusion, recognised in their Corporate Plans and major strategies (such as the Derbyshire Anti-Poverty Strategy and Health & Well-Being Strategy for Derbyshire).

We recognise that we have limited resources in order to easily achieve our aspirations, whilst external expectations from partners and funders can place significant demands on our time which may result in pressure on staff and finances.

Profitability will be improved by increasing our critical mass through growth but other areas we intend to pursue to improve our financial position include:

- reviewing and extending level of fees e.g. joining fee other fees
- being more proactive in investing unused capital
- recovering costs of services e.g. credit checks
- reducing cost of bad debts including introducing payments by debit card, reviewing debt collection methods and organisations, working written off debt harder.
- continuing to review all areas of cost including staff, accommodation, IT, telephony and printing etc.
- Seeking external funds to support projects and equipment purchase

## **7. Risks, Mitigation & Contingency Plans**

Within the past year we have made significant improvements in seven key areas:

1. Increase in critical mass
2. Make the most of our near to high street presence
3. Response to Welfare Reform
4. Improve profitability
5. Interest rates
6. Governance
7. Product development and accessibility through CUEP

We are therefore confident that if we achieve our targets we can become financially sustainable and be able to provide a range of competitive and quality products and services which are tailored to meeting the needs of our customer base. We accept that the targets are challenging but with the support of partners (including the Local Authorities, statutory service providers, the government and local communities) and the commitment of the Board, staff and volunteers we are confident that they can be met.

Appendix 3 details our SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis undertaken at the CNEDCU Away Day Board held on 20<sup>th</sup> April 2015. Our Strengths and how we will harness opportunities have been addressed within the appropriate sections of this Business Plan.

By considering the Threats from the SWOT analysis we have identified the key risks to the business, which are identified in Appendix 4. We do not believe that any risk is both highly likely to occur with a highly detrimental impact and have considered approaches to mitigate all risks no matter their likelihood or impact. We feel that we have the appropriate infrastructure in place in order to mitigate against these risks and ensure the successful development of CNEDCU through the delivery of this Business Plan.

We will continually monitor and evaluate our performance but if we reach a point where we don't believe we can be successful with our current business model our next steps would be as follows:

1. Review the services provided to establish whether refocus is required, cutting non-core or loss-making services as appropriate
2. Explore whether we can revert to a volunteer based business
3. Inform & discuss with the Regulators
4. Talk to other Credit Unions about possible merger
5. Talk to interested parties who may be prepared to take over the credit union responsibilities
6. Start administration proceedings for the business to cease to trade

With the management infrastructure in place we believe that we would only have to go as far as stage 1 on this list in order to ensure that the business would remain solvent and delivering core services.

The CNEDCU Business Plan will be reviewed in mid-2017 to inform the focus and priorities for the October 2017 to September 2018 Business Plan.



**Three Year Financial Plan – Appendix 2**

## SWOT Analysis – Strengths, Weaknesses, Opportunities, Threats – Appendix 3

Our SWOT analysis undertaken at the CNEDCU Away Day Board held earlier in 2016 identified the following:

### a) STRENGTHS

- we are known for our strong ethical approach, founded in community and social purpose.
- we are established in Chesterfield and North East Derbyshire (nice, clear footprint) and have the ability to operate across Derbyshire
- we have the basis for strong partnerships with County, Borough and District Councils, Housing Associations – potential clients who deliver community based objectives
- there is an overall need for the products we can offer
- we have people with passion and energy throughout the organisation
- our balance sheet is cash rich (though resource poor)

### b) WEAKNESSES

- we have limited resources
- we lack the finance to promote ourselves
- we don't offer enough competitive products (interest rates too high)
- we have not yet realised the full potential of partnership working with the housing associations etc.
- we are being pulled in too many directions for our resources
- our offering to "payroll" deduction members are poor
- no clear marketing strategy
- social media presence
- lack of volunteers from colleges and universities
- board membership does not reflect the sex and ethnicity of our members

### c) OPPORTUNITIES

- potential support from Housing Associations, Local Government and Utilities for products and services that will help their customers better manage their money and protect their own income stream
- high level of demand for borrowing as demonstrated by the success of pay day, door to door, illegal lenders etc.
- potential demand and synergies from the introduction of universal credit, particularly relating to the needs of Housing Associations and other landlords
- we can extend our member base to include public and private sector including small businesses
- partnerships with banks and other institutions particularly those tasked with helping the financially excluded

### d) THREATS

- competition from other Credit Unions
- lack of awareness of CNEDCU from potential members
- competition from housing associations and large employers setting up their own Credit Union/ schemes
- competition from organisations such as Wonga, Provident etc.
- due diligence issues – governance and constitutional issues need to be reviewed
- human resources and staff/volunteer training
- Curtains software no longer supported

## Risk Analysis – Appendix 4

What is the Risk?	Likelihood	Impact	Mitigation
Business Plan targets are not met	Medium	High	Continual monitoring of all targets, identifying where there may be a shortfall and addressing in a timely manner
We run out of funds	Medium	High	Continually reviewing financial performance and liaising with potential supporters. Reserves continue to increase
Due diligence issues: governance & constitutional issues	Medium	Medium	Will be reviewed by the Board and Supervisory Committee on an ongoing basis to ensure that all policies and procedures are fit for purpose
Competition from other Credit Unions/ Community Banks	Medium	Medium	Ongoing publicity to raise awareness and development of accessible attractive products delivered efficiently
Lack of awareness of CNEDCU from potential members	Medium	Medium	Publicity and promotion will be undertaken through press releases, website, leaflets and attendance at events as well as through harnessing the communications facilities of partner agencies
Key staff/volunteers leave	Medium	Medium	Succession plan and training to be identified for internal recruitment. Advertise posts as appropriate if external recruitment necessary
Board members leave	Medium	Medium	Succession plan and training to be identified; appropriate individuals sought through external advertising/networking if necessary to fill skills gaps
Internal resources not able to meet the challenges	Low	High	Good communication, ongoing support and commitment from Board, management and members. Recognition & acceptance that this is the only way for us to achieve sustainability
Loan Interest Rates are unattractive and Loan Book reduces	Low	High	Communicate the alternative rates being charged to unsecured borrowers of less than £1,000
CURTAINS Software no Longer supported	Low	High	Research other software providers. Impact would be short term
Competition from housing associations and large employers setting up their own Credit Union/schemes	Low	Medium	The efforts needed to establish credit unions and community banks, as well as flexible capital make this unlikely; CNEDCU will work in partnership with these organisations to provide the service on their behalf
Lack of support from Local Authorities etc.	Low	Low	Good communication, involvement and engaging their client base. Becoming integral to their Welfare Reform response and tackling financial exclusion
Competition from organisations such as Wonga, Provident etc.	Low	Low	National negative publicity of payday lenders is often now accompanied by signposting to credit unions, helping to raise awareness and enquiries



Chesterfield & North East Derbyshire Credit Union

Income and expenditure account

Projection January - September 2017

	Budget	Actual	Projection	Last Year
	£	£	£	£
<b>INCOME</b>				
Interest earned but not collected	0	(1,973)	-1,973	-3,702
Loyalty Loan Interest	40133	14,118	54,251	66,827
Ordinary Loan Interest	14716	3,386	18,102	0
Family Loan Interest	85,530	34,122	119,652	119,537
Bank interest received	225	150	375	279
Entrance fees	1,125	450	1,575	1,805
Service Fee	0	0	0	0
Bad debts recovered	2,250	1,010	3,260	7,124
<b>Sub Total</b>	<b>143,979</b>	<b>51,263</b>	<b>195,242</b>	<b>191,870</b>
Other income	0	1,272	1,272	2,963
Grants	9,950	4,321	14,271	49,364
Donations/Other	0	150	150	357
<b>Total Income</b>	<b>153,929</b>	<b>57,006</b>	<b>210,935</b>	<b>244,554</b>
<b>EXPENDITURE</b>				
Audit and accountancy	3,074	825	3,899	3,661
Directors and staff costs	78,390	26,407	104,797	95,750
ABCUL dues	1,651	486	2,137	2,108
CUNA MUTUAL LP & LS insurance	4,874	1,505	6,379	5,382
Occupancy costs	26,778	9,878	36,656	30,611
Printing, postage, stationery and advertising	4,575	2,295	6,870	6,279
Bank charges and interest	37	258	295	25
Legal and professional fees	2,600	198	2,798	6,927
Provision made for doubtful debts	15,005	20,189	35,194	40,494
CUEP ALD	1,350	0	1,350	0
Depreciation	1,870	832	2,702	2,786
Other Expenses	710	648	1,358	1,137
<b>Total expenditure</b>	<b>140,914</b>	<b>63,521</b>	<b>204,435</b>	<b>195,160</b>
Net profit before taxation	13,015	(6,515)	6,500	49,394
Taxation	(100)	0	(100)	(77)
Dividends	0	0	0	0
<b>Net Profit after tax and Dividend</b>	<b>12,915</b>	<b>(6,515)</b>	<b>6,400</b>	<b>49,471</b>

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## For publication

### **INTERNAL AUDIT CONSORTIUM PROGRESS REPORT 2016/17 AND DRAFT BUSINESS PLAN 2017/18**

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Meeting:	Joint Board
Date:	13th March 2017
Cabinet portfolio:	Governance
Report by:	Internal Audit Consortium Manager

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#### **For publication**

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#### **1.0 Purpose of report**

- 1.1 To update the Joint Board on the progress made by the Internal Audit Consortium during the financial year 2016/17.
- 1.2 To provide an update on the business plan (budget) for the Consortium for 2016/17 and to seek approval for the revised 2016/17 business plan and draft business plan for 2017/18.

#### **2.0 Recommendations**

- 2.1 That the progress made by the Internal Audit Consortium be noted.
- 2.2 That the revised business plan (budget) for 2016/17 and the draft Internal Audit Consortium Business Plan (and associated charges) for 2017/18, based on Appendix A, be approved.
- 2.3 That any accumulated surplus of the Internal Audit Consortium at the 31<sup>st</sup> March 2017 (less £20,000 to be held as a working balance) be distributed to the partner authorities.
- 2.4 That an annual report on the outcome of the operation of the Internal Audit Consortium for 2016/17 be submitted to the Joint Board following the year-end.

## 3.0 REPORT DETAILS

### External Review

3.1 The Public Sector Internal Audit Standards (PSIAS) requires that internal audit be subject to an external review at least once every 5 years. The first review needed to be completed by 31<sup>st</sup> March 2018. In October 2016 an external review took place and a separate report has been submitted to this Joint Board meeting detailing the results and a corresponding action plan.

### Staffing Issues

3.2 The revised staffing structure that was implemented from the 1<sup>st</sup> December 2015 has now become embedded and appears to be working well.

3.3 One Auditor is currently on secondment to Accountancy and that post is being covered by a temporary appointment.

3.4 The additional 0.5 Auditor post created by the restructure remains vacant.

3.5 The Senior Auditor based at NEDDC is retiring on the 23<sup>rd</sup> April 2017.

3.6 The options in respect of the Senior Auditor post that will become vacant have been discussed with the Director of Operations (NEDDC and BDC) and the Director of Resources (CBC). It is being proposed to the vacancy control panel that a Senior Auditor is recruited but that a supplement will be considered for a CCAB qualified person. The Public Sector Internal Audit Standards require that the Head of Internal Audit is CCAB qualified or equivalent. Currently only the Internal Audit Consortium Manager has this qualification so although not essential if it is possible to recruit another qualified person this would add resilience to the service.

### Training

3.7 One Auditor is working towards their Institute of Internal Auditor examinations.

3.8 One permanent Auditor and the Temporary Auditor are studying for their Association of Accounting Technician examinations.

3.9 Other staff keep up to date via ad hoc courses and reading appropriate professional magazines etc.

## **Working Procedures**

- 3.10 An external review of Internal Audit has taken place. The review concluded that the internal audit consortium was compliant with the PSIAS. Working papers and audit reviews were noted to be of a high standard. A detailed action plan has been developed to address the areas for improvement raised by the review (this is the subject of a separate report).
- 3.11 The testing schedules for all the Council's main financial systems have all been rigorously reviewed to ensure their continued relevance and focus on risk.
- 3.12 The Internal Audit Charter has been reviewed to reflect some minor amendments to the PSIAS.
- 3.13 Minor updates to the audit manual have been made during the year and a full review of this is scheduled during the summer of 2017.
- 3.14 A fraud risk register for each Council has been developed.

## **Internal Audit Plans**

- 3.15 Internal audit plans for 2016/17 were agreed with each client officer in March 2016. These were reported to and agreed by each Council's Audit Committee.
- 3.16 Regular progress reports showing a summary of internal audit reports issued have been submitted to each Council's Audit Committee.
- 3.17 A formal six monthly meeting has been held with each client officer to review progress and consider budget issues, as required under the Consortium Legal Agreement.
- 3.18 An annual report was submitted to each Audit Committee at the end of 2015/16 summarising the audit work undertaken and giving an opinion on the control environment.

## **Derbyshire Dales District Council**

- 3.19 The Internal Audit Consortium Manager continues to offer a management service to Derbyshire Dales District Council. The 2017/18 charge for this to DDDC will be £9,900.

## **Business Plan 2016/17 and Draft 2017/18**

- 3.20 The original business plan for 2016/17 was reported to and approved by the Joint Board on the 14<sup>th</sup> March 2016. The original business plan projected a break even position for the year (Appendix A).
- 3.21 The revised business plan based on the latest budget estimates now predicts a surplus of £40,730 will be achieved in 2016/17. The main reasons for this are the salary savings from not filling the 0.5 vacant post and the external review of internal audit costing less than expected.
- 3.22 The estimated accumulated surplus at the end of 2016/17 is therefore £60,730 (£40,730 plus £20,000 working balance). It is proposed that £20,000 of this be retained by the Internal Audit Consortium as a working balance with the remainder of the accumulated surplus being distributed to the partner authorities. The saving made as a result of the external review costing less than expected is to be distributed in equal parts (£4,100 each) and the rest in proportion to the amount paid in.
- 3.23 This would result in the following distribution based on the current estimates:

	£
Estimated Surplus at 31 <sup>st</sup> March 2017	60,730
Less Working Balance carried forward	20,000
	<u><b>40,730</b></u>
Proposed Distribution:	
Chesterfield	14,510
North East Derbyshire DC	13,140
Bolsover DC	13,080
	<u><b>40,730</b></u>

### **Business Plan 2017/18 (Draft)**

- 3.24 A draft business plan for the Consortium has been prepared for 2017/18 and the following two years (see Appendix A). This business plan is based on the FTE of 9.1 posts. The draft budget also reflects provision for pay awards.
- 3.25 For information, a summary of the charges made by the Consortium covering the period 2012/13 – 2017/18 (estimate) is shown in

Appendix B.

## **Risk Register**

3.26 The Internal Audit Consortium risk register has been updated and is shown as Appendix C.

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

4.1 Not Applicable.

## **5 Financial implications**

5.1 The approval of the 2017/18 business plan will mean that the Consortium can continue to deliver a quality service.

## **6 Legal and data protection implications**

6.1 None.

## **7 Consultation**

7.1 Not Applicable.

## **8 Risk management**

8.1 The provision of an effective Internal Audit service helps to ensure that the organisations internal controls and governance arrangements are appropriately assessed in terms of their adequacy and effectiveness.

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

9.1 Not Applicable.

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

10.1 Not Applicable.

## **11 Recommendations**

11.1 That the progress made by the Internal Audit Consortium be noted.

- 11.2 That the revised business plan (budget) for 2016/17 and the draft Internal Audit Consortium Business Plan (and associated charges) for 2017/18, based on Appendix A, be approved.
- 11.3 That any accumulated surplus of the Internal Audit Consortium at the 31<sup>st</sup> March 2017 (less £20,000 to be held as a working balance) be distributed to the partner authorities.
- 11.4 That an annual report on the outcome of the operation of the Internal Audit Consortium for 2016/17 be submitted to the Joint Board following the year-end.

## **12 Reasons for recommendations**

- 12.1 To enable the Joint Board to consider and approve the revised business plan for 2016/17 and the draft business plan for 2017/18.

### **Decision information**

<b>Key decision number</b>	<b>n/a</b>
<b>Wards affected</b>	All
<b>Links to Council Plan priorities</b>	An effective internal audit service helps towards the Council's priority of providing VFM

### **Document information**

<b>Report author</b>	<b>Contact number/email</b>
Jenny Williams – Internal Audit Consortium Manager	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	Internal Audit Consortium Business Plan 2016/17 – 2019/20



Appendix B	Internal Audit Consortium Charges 2012/13 – 2017/18
Appendix C	Internal Audit Consortium Risk Register

## Appendix A

<b>INTERNAL AUDIT CONSORTIUM BUSINESS PLAN 2016/17 TO 2019/20</b>					
	<b>2016/17</b>		<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>Original £</b>	<b>Revised £</b>	<b>Estimate £</b>	<b>Estimate £</b>	<b>Estimate £</b>
<b><u>Expenditure:</u></b>					
Employees	355,760	338,820	365,690	374,930	379,280
Transport	3,150	3,150	3,150	3,150	3,150
Supplies	26,540	10,130	6,540	6,540	6,540
Support Services	52,420	51,740	52,470	52,650	52,670
<b>Total Expenditure</b>	<b>437,870</b>	<b>403,840</b>	<b>427,850</b>	<b>437,270</b>	<b>441,640</b>
<b><u>Income:</u></b>					
Transfers from reserves	0	10,800	0	0	0
Charges to CBC	154,180	154,180	152,800	156,210	157,770
Charges to NEDDC	134,600	134,600	132,740	135,700	137,060
Charges to BDC	133,790	133,790	131,910	134,860	136,210
Charges to Derbyshire Dales DC	14,800	10,700	9,900	10,000	10,100
Charges – other	500	500	500	500	500
<b>Total Income</b>	<b>437,870</b>	<b>444,570</b>	<b>427,850</b>	<b>437,270</b>	<b>441,640</b>
<b>Net surplus/(deficit) in year</b>	<b>0</b>	<b>40,730</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net surplus/(deficit) b/fwd	20,000	20,000	20,000	20,000	20,000
<b>Net surplus/(deficit) c/fwd</b>	<b>20,000</b>	<b>60,730</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>
Less distribution of surplus	0	40,730	0	0	0
Surplus balance carried forward	20,000	20,000	20,000	20,000	20,000

## Appendix B

### Internal Audit Consortium Charges 2012/13 – 2017/18

Charges to:	2012/13	2013/14	2014/15	2015/16	2016/17 (Rev)	2017/18 (Est)
	£	£	£	£	£	
Chesterfield BC	158,286	158,286	146,910	152,210	154,180	152,800
North East Derbyshire DC	137,213	137,213	127,630	132,230	134,600	132,740
Bolsover DC	136,221	136,221	126,830	131,410	133,790	131,910
Derbyshire Dales DC			9,600	9,700	10,700	9,900
Charges – Other			350	450	500	500
Transfer from reserves					10,800	
<b>Total</b>	<b>431,720</b>	<b>431,720</b>	<b>411,320</b>	<b>426,000</b>	<b>444,570</b>	<b>427,850</b>
<b>Refund of Accumulated Surplus:</b>						
Chesterfield BC	0	0	44,160	34,053	14,510	0
North East Derbyshire DC	0	0	38,369	29,587	13,140	0
Bolsover DC	0	0	38,127	29,401	13,080	0
Total Refund	0	0	120,656	93,401	40,730	0
<b>Total Cost</b>	<b>431,720</b>	<b>431,720</b>	<b>290,664</b>	<b>332,599</b>	<b>403,840</b>	<b>427,850</b>

Internal Audit Consortium Risk Register

Total Risk Score: Likelihood x Impact. Rating Key:

0-4 Green	5-14 Amber	15+ Red
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CAUSE	EFFECT	ACTIONS UNDERTAKEN TO MITIGATE THE RISK	CURRENT RISK RATING LIKELIHOOD /RISK IMPACT	FURTHER ACTION REQUIRED/DATE	TARGET RISK RATING LIKELIHOOD /RISK IMPACT/DATE	RISK LEAD
Failure to substantially complete the agreed audit plans	Head of audit can't give an opinion on the controls in place which may lead to external audit undertaking more work or qualified accounts	Quarterly monitoring and reporting of progress to client officers and Audit Committees. £20,000 working balance retained which could be used to fund additional resource if required.	<b>Unlikely/High</b> $2 \times 4 = 8$ <b>Amber</b>	None	<b>Unlikely/High</b> $2 \times 4 = 8$ <b>Amber</b>	Internal Audit Consortium Manager

IA -Failure to undertake work to a satisfactory standard	External audit and section 151 officers can't place reliance on work	All work subject to quality reviews by senior staff. Regular review of compliance with PSIAS. External review of internal audit undertaken October 2016 concludes that the Consortium is compliant with the PSIAS	<b>Highly Unlikely/Medium</b> <b>1 x 3 = 3</b> <b>Green</b>	Implementation of the action plan arising out of the external review of Internal audit will further enhance the service provided.	<b>Highly Unlikely/Medium</b> <b>1 x 3 = 3</b> <b>Green</b>	Internal Audit Consortium Manager
IA - Insufficient financial resources to fund consortium	Cannot achieve plans	Joint Board approved the Consortiums budget March 16 for 2016.17	<b>Unlikely/High</b> <b>2 x 4 = 8</b> <b>Amber</b>	None	<b>Unlikely/High</b> <b>2 x 4 = 8</b> <b>Amber</b>	Internal Audit Consortium Manager
Loss of data through IT failure	Loss of work	Data stored on each Councils network and subject to their back up and security procedures.	<b>Unlikely/Medium</b> <b>2 x 3 = 6</b> <b>Amber</b>	None	<b>Unlikely/Medium</b> <b>2 x 3 = 6</b> <b>Amber</b>	Internal Audit Consortium Manager

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## For publication

### EXTERNAL REVIEW OF INTERNAL AUDIT

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Meeting:	Joint Board
Date:	13th March 2017
Cabinet portfolio:	Governance
Report by:	Internal Audit Consortium Manager

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## **For publication**

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### **1.0 Purpose of report**

1.1 To inform members of the results of the external review of internal audit that took place at the beginning of October 2016.

### **2.0 Recommendations**

2.1 That the results of the external review of internal audit be noted.

2.2 That the action plan that has been put in place to address the recommendations arising out of the review be approved.

### **3.0 Report details**

#### **Background**

3.1 The Public Sector Internal Audit Standards (PSIAS) were introduced from the 1<sup>st</sup> April 2013 and Internal Audit has been working to those standards since that date. The PSIAS require that internal and external assessments of internal audit must take place.

3.2 An internal self-assessment against the PSIAS utilising the recommended CIPFA checklist has been undertaken on an annual basis

by the Internal Audit Consortium Manager and the resultant improvement plans have been reported to and monitored by each Audit Committee.

- 3.3 The PSIAS require that an external assessment of internal audit should be carried out at least once every 5 years by a qualified, independent assessor or team. The first external assessment needed to be completed by April 2018.
- 3.4 A tender exercise was carried out by the NHS procurement unit. The tender was assessed on the basis of 60% quality and 40% cost. Six parties submitted a tender which were analysed by a panel. The tender was awarded to Gateway Assure and the external assessment of internal audit was undertaken by Robin Pritchard from this company.
- 3.5 The assessor (Robin Pritchard) is CIPFA qualified and has 38 years internal audit experience including being Chief Internal Auditor at Staffordshire County Council and a national partner responsible for internal audit at a number of professional service firms. Robin joined Gateway Assure in September 2013 after spending 6 years as Head of Centre for Birmingham City University the leading academic provider of training and research to the internal audit and risk management professions. Robin is an experienced External Quality Assessor and has experience of assessing other Council's internal audit teams against the PSIAS.

### **Format of the assessment**

- 3.6 The assessment took place at the beginning of October 2016 and involved a review of the Consortium's documentation, working practices, committee reports and discussions with the Internal Audit Consortium Manager and Client Officers at each Council. As part of this process the assessor visited each site and reviewed a number of audit working papers.
- 3.7 This approach enabled the assessor to measure the Internal Audit Consortium's conformance with the PSIAS against the recommended checklist and associated standards.

### **Results of the Review - Headlines**



- 3.8 The report concludes that the Internal Audit Consortium complies with and in places exceeds the requirements of the Public Sector Internal Audit Standards. This means that Members can have confidence in the service provided by the audit team. It is acknowledged that the audit team has significant experience and a range of qualifications allowing a robust internal audit standard to be maintained and delivered.
- 3.9 The outcome of the review has been benchmarked against other provision in both the sector and the wider industry and this shows that the team compares favourably in comparison with its peers (end of Appendix 1)
- 3.10 As would be expected, the report has made a number of recommendations that are aimed at highlighting where further development can be made to enhance the value of the service being provided.
- 3.11 The assessor's full report can be seen at Appendix 1.
- 3.12 Appendix 2 is an action plan that has been completed by the Internal Audit Consortium Manager in Liaison with each Council's client Officer.
- 3.13 Each of the assessor's recommendations has been graded to reflect the relative importance to the relevant standard within the PSIAS.

Recommendation grading	Explanation
Enhance	The internal audit Consortium must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control.
Review	The Internal audit Consortium should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit Consortium should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

### **Key Points Arising out of the Review**

3.13 The key theme throughout the report and associated recommendations is in relation to enhancing and developing the use of risk based auditing in order to be able to provide increased levels of assurance. The responses in the action plan at Appendix 2 detail how this will be achieved but actions include:-

- Annual audit plans to more clearly demonstrate the links to the strategic and operational risk registers
- Identification of other sources of assurance that are available in addition to internal audit upon which the Council can place reliance
- Greater discussion with managers at the commencement of an audit in terms of identifying the key risks to a service
- Consideration of further risk management training for the audit team
- Reviewing the terminology used for the opinion given at the end of an audit to reflect assurance and risk levels
- Developing the annual audit opinion to incorporate all significant risks with a greater link to the significant risks as identified in the Annual Governance statement, strategic risk register and from other sources of assurance.

3.14 Two recommendations received a red grading. The first red recommendation was:-

“There is a need for the Consortium to be able to provide assurance relating to the IT risks given the increased complexity of technology and associated controls. It is therefore essential that appropriate professional training is supported for a member of the team or that the service is acquired externally in order to deliver on the assurance needs of the consortium members”

3.15 Although the Consortium staff do not possess any formal IT qualifications, a number of IT audits are successfully carried out and pertinent recommendations made. Team members keep abreast of new IT threats and challenges through articles in professional journals and ad hoc training sessions. This is also a prime example of where assurance can be gained from other sources e.g. an external assessment has to take place for the Council to gain PSN accreditation.

3.16 A dedicated IT Auditor would be expensive and difficult to recruit. Training an existing member of staff would be a lengthy process and there is no guarantee that they would remain with the Consortium. The Internal Audit Consortium has a budget of £5,000 a year for professional services that is currently not committed. Consideration will be given to using this budget for external specialist support if required. Derby City and Derbyshire County Council have dedicated IT auditors that may be able to provide this service.

3.17 The second red recommendation was:-

“In alignment with recommendations made earlier the internal audit plan should be constructed so that the IACM is able to provide a wider assurance to each Authority in support of the governance statement. Best practice is that the annual report should also contain reference to all significant risks and therefore co-ordination with and an understanding of issues being raised the range of assurances available is essential in order to meet this broader scope. In this way the annual report can be used to support the Council’s governance statement”

3.18 The audit plan is already risk based however this process will continue to be refined with the audit plan being more demonstrably linked to the strategic and operational risk registers. The format of the annual audit opinion will be reviewed to ensure that it covers all significant risks as identified by the audit work undertaken, the

annual governance statement, the strategic risk register and any other significant risks identified by other sources.

3.19 Other recommendations have been graded amber and green. Each recommendation has been responded to at Appendix 2.

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

4.1 There are no Human Resources Implications. The action plan will be implemented with the resources already available.

#### 5.0 **Financial implications**

5.1 There are no financial implications the action plan will be implemented with the resources already available in the Consortium.

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

6.1 There are no legal or data protection implications.

#### 7.0 **Consultation**

7.1 Not Applicable

#### 8.0 **Risk management**

8.1 The implementation of the action plan will ensure that the Council continues to receive an effective internal audit service that is compliant with the PSIAS and that continually strives to improve.

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

9.1 Not applicable.

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

10.1 There are no alternatives.

#### 11.0 **Recommendations**

11.1 That the results of the external review of internal audit be noted.

11.2 That the action plan that has been put in place to address the recommendations arising out of the review be approved.

## 12.0 **Reasons for recommendations**

12.1 To ensure that Members are aware of the results of the external review of internal audit that is required by the PSIAS.

### **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  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 1	External Review of Internal Audit
Appendix 2	External Review of Internal Audit Action Plan

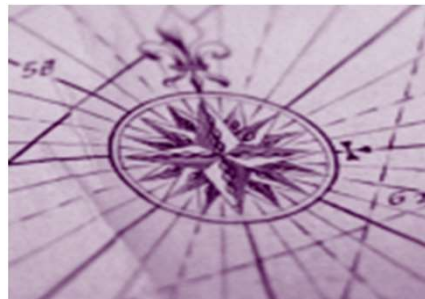




## Internal Audit Consortium

# Internal Audit – External Quality Assessment

October 2016



## Purpose of assignment

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The Internal Audit service for the Local Authorities of Chesterfield Borough Council (CBC), NE Derbyshire District Council (NEDC) and Bolsover District Council (BDC) is provide by a consortium arrangements which extends to provide an internal audit management support service to Derbyshire Dales District Council (DDDC). Under the leadership of Jenny Williams, Internal Audit Consortium Manager (IACM) the team have responded to the Public Sector Internal Audit Standards and have increasingly worked to a common methodology for delivery of internal audit services. Performance against the standard has been self assessed on an annual basis and appropriate reports provided to member authority committee meetings.

The purpose of this review in to provide an external and independent quality review in accordance with standard 1312. We see this as not merely a compliance exercise and have also highlighted aspects of the service that we regard as best practice as well as summarised our thoughts as to where further development can be made to enhance the value of the service being provided.

The teams have significant experience, with a range of relevant qualifications and it has been recognised that there is a need to ensure a consistent approach to delivering assurance, as this is beneficial regarding communication with clients, working practices, reporting and therefore associated supervision and training needs. At a corporate level this is established through the presence of an Internal Audit Charter and an Internal Audit Manual which effectively define the standards to which the Consortium will carry out its work.

The report reflects our opinion regarding the services currently provided measured against the Public Sector Internal Audit Standards (PSIAS), which we trust will be of benefit to individual staff, the team and the local authorities serviced by the Consortium. Our observations and recommendations have been summarised within categories relating to the Resources, Competency, and Delivery and the team graded as being at one of three stages within each category, grades are related to our opinion as to whether the service is developing, established or excelling.

The outcome has been benchmarked against other provision in both the sector and the wider industry which shows that the team compares favourably in comparison to its peers.



The Consortium has responded to significant restructuring/merger of the team in recent years and through gradually moving towards a common approach that is consistent with the PSIAS.

The significant change within the PSIAS reflects the focus on a requirement to implement a risk based internal audit approach to all aspects of internal audit work – significantly in relation to planning at a strategic and assignment level as well as in reporting. The Consortium does adopt a risk based approach through the development of its own risk assessment at a strategic planning level and at an assignment level through testing schedules which the team feel reflect the key risks to which each authority and each system are exposed.

Nevertheless, all four authorities with which the Consortium is involved have developed risk management strategies and associated frameworks; two of which in accordance with best practice clearly define impact measures for risk and risk appetite.

Whilst those at NEDDC and BDC contain definitions it is felt that greater clarity could be included (for example – values of financial risk) with refinement of what represents a “high priority” (a red graded risk) to reflect risk appetite and what may represent a catastrophic or major risk to each Council.

As a consequence, it would be beneficial for internal audit to increasingly align its processes with those of the host authority as this would promote effective communication, structure audit work on ‘what really matters’ and use risk as the basis for reporting. In this respect we have recommended that future opinions and recommendations relate directly to established risk definitions within each authority, with the current priority rating being used solely in terms of when recommendations are agreed to be acted upon.

As a result of the current processes, whilst risks in relation to reputational risk and sensitivity are considered, materiality tends to be the focus for assignments and reporting, with work having a tendency to focus on financial control issues rather than be fully risk based and directly aligned with the Council’s view of risk. This may lead to a failure to address the most significant issues that are being faced and/or addressed by the Council, where an accepted likelihood score assumes that effective controls are in place without gaining appropriate assurance. We do in this respect, recognise that resource reduction is a critical issue for local government services, however by focusing on risk this may change the emphasis of an assignment from one of financial controls to attainment of best value?

Increasing transparency within the Council risk management systems regarding the inherent risks being faced and upon those assurances available would allow internal audit to clearly define risks and key mitigating controls and therefore provide a robust basis for communication with managers and with other assurance providers, although different perceptions of risk appetite exist within the Councils involved.

Such development would further enable the IACM to develop assurance based opinions at an assignment and annual reporting level through consideration of the wider assurances available to each Council.

The Consortium has benefitted from a period of stability during which staff have remained consistent, and therefore a robust internal audit standard has been maintained and delivered using an experienced team. This has allowed the Consortium to demonstrate compliance with the PSIAS.

Nevertheless with increasing pressures on Council budgets, significant change to service delivery and as a result increasing risk; there is a need for the Consortium to enhance its delivery through greater awareness of the relevance of risk to both the Council and its own approach, in order to ensure that it focuses on the most appropriate areas and as a result demonstrates that it provides a service that effectively contributes towards the achievement of each Council's objectives.

### Compliance with PSIAS

- **Resources**

Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

- **Competency**

Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

- **Delivery**

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

## Grading of recommendations

- The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).


Recommendation grading	Explanation
Enhance	The internal audit Consortium must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control.
Review	The Internal audit Consortium should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit Consortium should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services





- In grading our recommendations, we have considered the wider environment within the Council in terms of both the degree of transformation that is currently taking place as well as our assessment of the level of risk maturity that currently exists as these will have a consequence for the conduct of internal audit planning as well as subsequent communication.



# Summary of good practice identified within EQA

Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with each Authority	The Charter is comprehensive and establishes an appropriate framework against which internal audit services can be delivered.
1100	The Consortium team members submit an annual declaration of interests which is reviewed by the IACM	Demonstrates a commitment to the delivery of an independent and objective service
1312	The Consortium has conducted annual self assessment exercises resulting in an annual development plan which is agreed by the host authorities.	Demonstrates a process and commitment to continuous improvement.
2020	Active engagement at officer and member level	Represents the establishment of a good understanding of key issues through interaction
2030	The NEDIAC routinely assesses its training needs and discusses requirements with the Consortium Joint Board	This represents a firm basis for the consideration of training and recruitment needs
2040	A detailed internal audit manual is in place	Provides for a consistent methodology
2060	Reports are produced using a standard template which is consistently applied. Customer feedback is routinely obtained following conduct of an audit.	Demonstration of a consistent approach for communication which is well received by management and the Audit Committee
2300	Audits are performed using an approach which is consistently applied	This supports a view that the internal audit team understand the standard processes and are trained in its use
2400	Reports are clear and express opinions in a manner that is understood by stakeholders. Reports containing more significant recommendations are presented to operational management meetings where felt appropriate	Reports are produced on a timely basis, with summaries being produced for Audit Committee attention


Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.




	Issue identified	Recommended action
1	<p><b>Supervision</b> Supervision of an internal audit assignment is not always evidenced within internal audit files. A formal file review document is completed by a supervisor following exit meetings or production of a draft report, with supervision during an audit being conducted through discussion and monthly 121 meetings.</p>	<p>The nominated supervisor should ensure and evidence that active supervision is maintained and documented throughout the assignment process through recording involvement and instructions on the review form.</p> <p>A suggested format for diarising supervision which is used within peer providers is attached as Appendix 1.</p> <p>File review forms should be introduced at DDDC as part of a standard approach.</p> 




	Issue identified	Recommended action
1	<p><b>Governance and standards</b></p> <p>The Internal Audit Manual is a comprehensive document which refers to the PSIAS but does not sufficiently reference the processes that audit staff should follow in conducting assignments to the various standards. We feel that this would help to elevate the understanding and status of internal audit if the key standards within the PSIAS were fully documented within the document.</p>	<p>The Internal Audit Manual could be beneficially improved by referring directly to those PSIAS standards that <b>must</b> be followed and providing detailed advice regarding expectations, particularly in respect of each area.</p> 
2	<p><b>Internal Audit Planning</b></p> <p>Whilst planning is based upon a risk model as required by the PSIAS, the process largely depends on an assessment devised by internal audit; this shows a financial bias and the use of different definitions of risk impact to those approved within the Council risk management strategy; rather than reflecting the wider and accepted risk issues being recognised by the Council.</p> <p>There should be a direct and identified link between the internal audit plan content discussed with Audit Committees which aligns with the Councils risk management systems; beneficially reflecting both identified controls and assurances available. The risk based reasoning for inclusion of the assignment in the audit plan should be evident (why is there a need for independent assurance?), and in turn this should drive the preparation of the terms of reference for each assignment as recorded within the Audit Brief.</p>	<ul style="list-style-type: none"> <li>a. Audit Plans should be constructed to achieve the objectives of the department as set out in the Internal Audit Charter and the audit planning process designed to reflect the same through transparent alignment with the Council wide approach to risk management. </li> <li>b. The internal audit planning process should further identify other sources of assurance that are available and upon which Councils can place reliance. </li> <li>c. The starting point for the development of the Audit Brief should be a preliminary discussion with management regarding the inherent and residual risks relevant to the audit area under review. It may aid assignment planning if the management objectives for the area under review were also identified. This should result in the formation of a direct link with the Authority's risk register and the key mitigating controls highlighted, thereby aiding the understanding and ability of members of the Audit Committee to contribute to the assurance agenda. </li> </ul>



	Issue identified	Recommended action
3	<p><b>Training</b></p> <p>The department has an experienced team of internal audit staff whose training needs are assessed through regular 121 meetings and appraisal and development meetings. Most staff have a relevant qualification, although only the IACM and one other member of staff have a recognised CCAB or IIA certification.</p> <p>The team attend routine meetings of various groups locally and regionally and use is made of dedicated cost effective training that is available.</p> <p>The IACM ensures that available budgets are used to best effect.</p> <p>Whilst the IA team have identified technology related issues given the nature of cyber risk it is felt that this is a weakness that should be addressed.</p>	<p>a) Consideration should be given to those areas within the training matrix which reflect greatest need for routine mandatory training of a professional or technical nature. These may relate to areas such as Data Protection or Health and Safety, where it is important for all staff to have a firm understanding or specific training relating to internal audit such as risk based internal audit or reporting. </p> <p>b) There is a need for the Consortium to be able to provide assurance relating to IT risks given the increasing complexity of technology and associated controls. It is therefore essential that appropriate professional training is supported for a member of the team or that the service is acquired externally in order to deliver on the assurance needs of the consortium members. </p>








	Issue identified	Recommended action												
4	<p><b>Control evaluation</b></p> <p>The Consortium uses the following gradings for the assessment of controls included within the testing schedule.</p> <table border="1" data-bbox="394 660 1133 986"> <thead> <tr> <th>Control Level</th> <th>Definition</th> </tr> </thead> <tbody> <tr> <td>Good</td> <td>A few minor recommendations (if any).</td> </tr> <tr> <td>Satisfactory</td> <td>Minimal risk; a few areas identified where changes would be beneficial.</td> </tr> <tr> <td>Marginal</td> <td>A number of areas have been identified for improvement.</td> </tr> <tr> <td>Unsatisfactory</td> <td>Unacceptable risks identified, changes should be made.</td> </tr> <tr> <td>Unsound</td> <td>Major risks identified; fundamental improvements are required.</td> </tr> </tbody> </table> <p>Our view would be that this represents an overly complex structure for expression of an opinion on the control environment and the nature of the issue identified against which a recommendation will be made.</p> <p>Standard practice is for each control to be assessed in terms of its adequacy and effectiveness, with the subsequent recommendation being graded as risk based (see Delivery 3b/c)</p>	Control Level	Definition	Good	A few minor recommendations (if any).	Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.	Marginal	A number of areas have been identified for improvement.	Unsatisfactory	Unacceptable risks identified, changes should be made.	Unsound	Major risks identified; fundamental improvements are required.	<p>The Consortium should consider the merits of moving to expression of the control in environment in the form of:-</p> <ol style="list-style-type: none"> <li>The appropriateness of the control environment having regard to the significance of the risks involved – adequate/inadequate, and</li> <li>Whether the control is being consistently applied – effective/ineffective</li> </ol> 
Control Level	Definition													
Good	A few minor recommendations (if any).													
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.													
Marginal	A number of areas have been identified for improvement.													
Unsatisfactory	Unacceptable risks identified, changes should be made.													
Unsound	Major risks identified; fundamental improvements are required.													

	Issue identified	Recommended action
1.	<p><b>Focus on pre-identified controls</b></p> <p>Assignments are dominated by previously identified controls emanating from the CIPFA control matrices which are then tested to specified testing levels rather than provide focus on significant risk and associated key controls identified and evaluated as part of the documentation process. Benefits would be achieved through increased focus on agreed 'local' key controls relating to business critical risks and then tested according to the materiality of their contribution to the Council's risk management framework.</p> <p>Whilst the current testing is robust, documented and well evidenced it may not provide assurance relating to the most significant risks to which the service is exposed.</p>	<p>Internal audit working papers should focus on major risks to the Council that have been identified and discussed with the auditee.</p> <p>Assignment briefs should therefore reflect assessment of risks as defined within the Councils risk impact definitions and then consider the controls that are required to mitigate that risk within the risk appetite of the Council.</p> <p>An example risk based Assignment Brief is included as Appendix 2.</p> 
2	<p><b>Methodology and use of walk-through tests</b></p> <p>For core financial systems, systems documentation exists and is we understand supported by flowcharts, in accordance with para 8.1.1 of the Internal Audit Manual. For other audits whilst it is accepted the system notes exist mostly in the form of notes within the evidence collected, files do not contain an outline of the system as specified in the internal audit manual as stage 4 of the above and there is therefore a reliance on previously constructed testing schedules to define the scope of the audit.</p> <p>As the risk environment, service provision, staff in post and therefore systems change it is considered important that each audit commences with providing a documented oversight of the component parts of the system in which key controls that are to be relied upon for the purposes of providing an opinion are documented and tested using a walk through test.</p>	<p>a. Auditors should complete at least a system note at the start of each audit in order to outline an overview of the processes being reviewed in order to aid understanding and the structure of the audit and provide an understanding of the system to aid supervision and the efficient conduct of future audits.</p>  <p>b. The internal audit manual should specify the minimum standards requirements for file structure and content for electronic files in order to aid supervision. These may be planning and communication, systems documentation and identified procedures, fieldwork (control summaries supported by testing and evidence) and reporting. (Refers to section 9.3.3 of the internal audit manual)</p> 

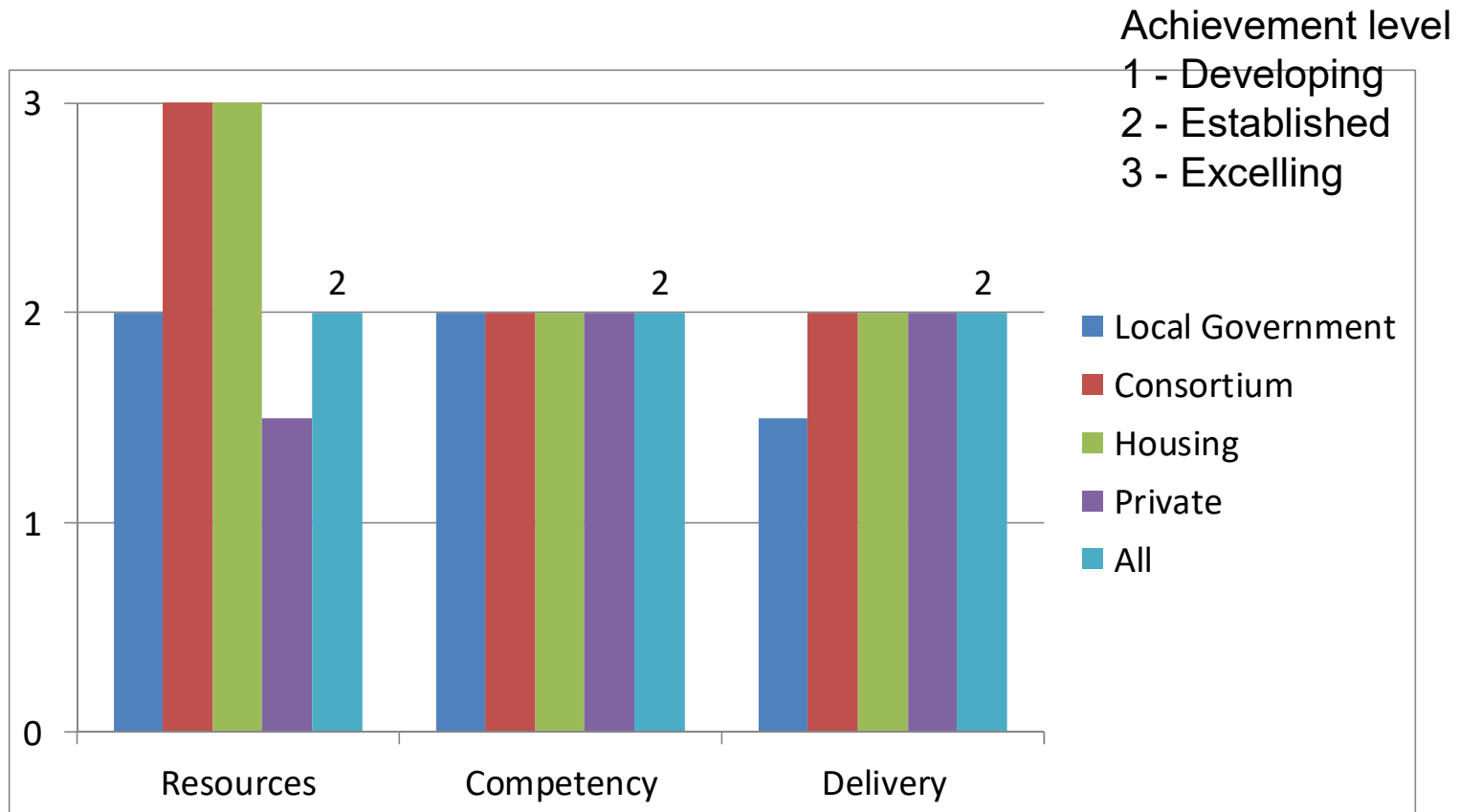
	Issue identified	Recommended action
3	<p><b>Audit Opinions - Recommendations</b></p> <p>These are currently developed and assessed by each internal auditor, and reviewed by the Audit Manager prior to release of the draft report (sometimes subsequent to discussion of findings at an 'exit meeting' at which the grading of recommendations may have been discussed). This system relies on personal judgement related to 'Priority' for which no definition exists to articulate the meaning of High, Medium or Low.</p> <p>The definitions used by internal audit to support opinions therefore lack clarity and should be more closely linked with each Authority's risk appetite and the definitions of impact risk being used to embed risk management thinking within the organisation.</p> <p>The basis for grading of recommendations should as a result influence the overall opinion for each audit directly, for example if a risk falling into a definition of the highest category is identified (potential for death, loss greater than £500k) then the assurance level given is reduced. Any risk of this nature should automatically trigger a negative audit opinion of 'limited assurance'.</p>	<p>a) Audit supervisors should formally evidence agreement of the grading of recommendations through supervision prior to the conduct of exit meetings. </p> <p>b) Risk definitions used by internal audit should be developed to reflect the risk appetite within each organisation, and the definitions of impact and likelihood used by the Council. These should be used by each internal auditor to grade the recommendation and discuss the level of risk to which the organisation is exposed with each auditee at the exit meeting. </p> <p>c) Consideration should be given to removing the need to include 'low' rated recommendations in formal audit reports; alternatively reflecting on these in a side letter to the manager. This would aid the profile of internal audit through concentrating on things that really matter in relation to significant risk as defined within risk management policies. </p>

	Issue identified	Recommended action
4	<p><b>Audit Opinions - Overall opinions</b></p> <p>These are currently based upon the personal judgement of each auditor, within the definitions specified as relating and subject to review by the supervisor and IACM of the draft report prior to release.</p> <p>The overall opinion also appears to be loosely based on the aggregate number of recommendations made and not the level of risk identified. The current is for the opinion to reflect the reliability of the internal controls operating in the system / area reviewed was assessed as good* / satisfactory* / marginal* / unsatisfactory* / unsound*.</p> <p>Wider best practice provides for three levels of opinion being substantial, adequate or limited as this provides a clearer indication to stakeholders of the level of assurance that can be gained. This opinion can then be aligned directly with the nature of the risks being identified and the grading of those recommendations being made.</p>	<p>a) The grading of recommendations should be based upon the level of risk exposure identified within the review and reflect the highest ranked recommendation being reported upon.</p> <p>Best practice would reflect:</p> <ul style="list-style-type: none"> <li>- Where a fundamental risk (red) is identified that no/limited assurance is given.</li> <li>- Where significant risks (amber) are identified then adequate assurance is given, and</li> <li>- Where 'merits attention' (green) risks are identified these are not referred to in the report and substantial assurance is given.</li> </ul> <p style="text-align: right;"></p> <p>b) Reducing the levels of opinion to three would provide a clearer indication of the assurance being provided and represent a more straight-forward approach for internal audit staff to administer.</p> <p style="text-align: right;"></p>

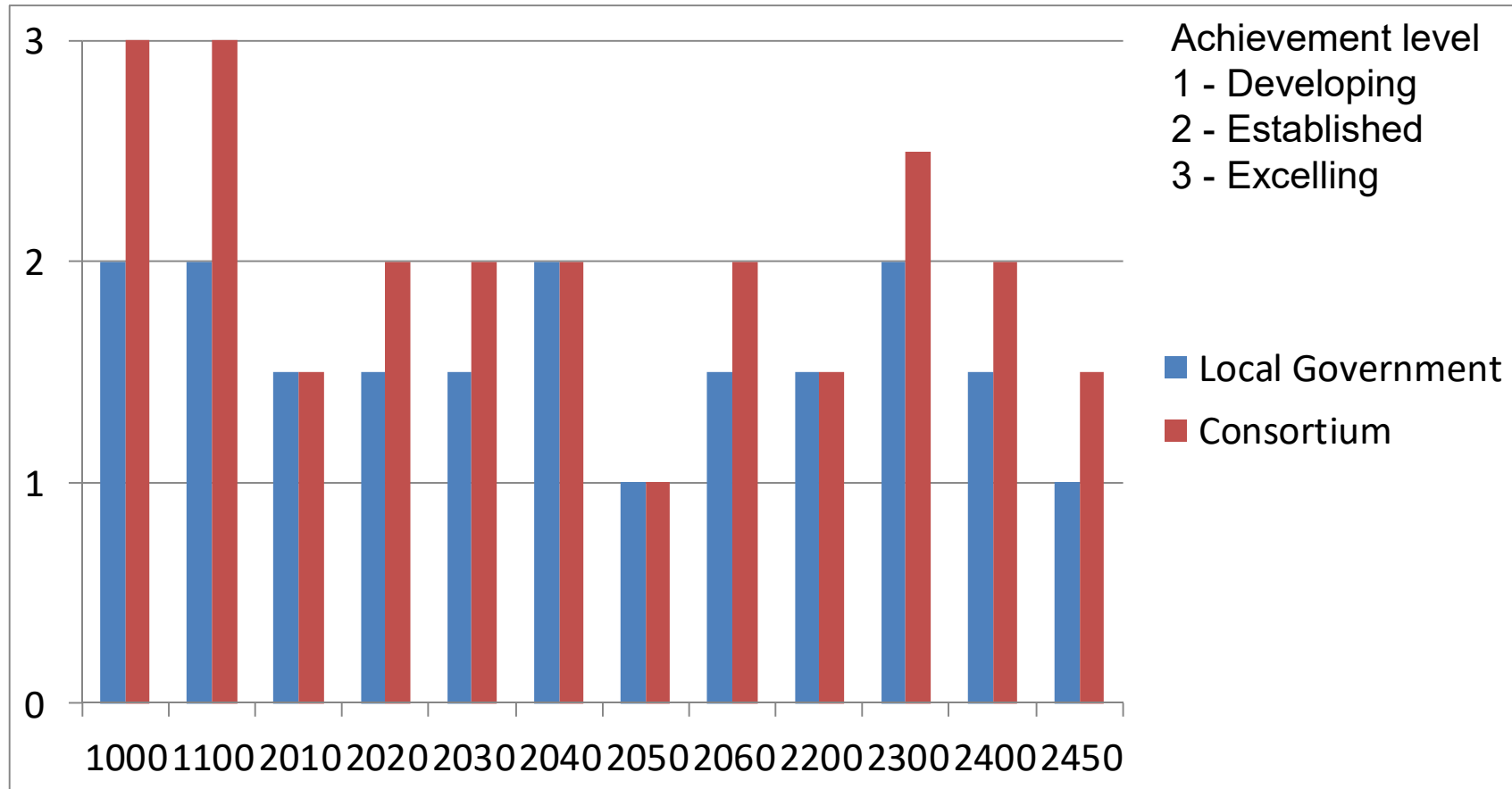
	Issue identified	Recommended action
5	<p><b>Report format</b></p> <p>The Consortium currently provides a detailed report which is then summarised appropriately to inform other meetings within the Council at Officer and Member levels.</p> <p>It would not be appropriate to comment negatively on this approach particularly as positive feedback regarding internal audit performance can be seen in the return of satisfaction surveys during 2016/17 and was gained in meetings with officers as part of the EQA.</p> <p>However, internal audit reports are 'lengthy' and in developing an increasingly risk based approach consideration could be given to moving to an exceptions based executive summary highlighting significant risks.</p>	<p>The Consortium should consider whether focusing on risk as a basis for reporting would allow movement towards an 'executive summary' approach which highlights only significant risks.</p> <p>This may help further build the profile of internal audit and allow greater efficiency within the team through reducing the time consumed in report production and clearance.</p> 
6	<p><b>Auditee feedback</b></p> <p>At the time of the review feedback questionnaires had been received in respect of 24 audits undertaken during 2016/17, all received scores in excess of 80% with the only areas showing as requiring improvement relating to:-</p> <ul style="list-style-type: none"> <li>- Were recommendations practical and useful, and</li> <li>- Sufficient to remedy weaknesses identified in the report</li> </ul>	<p>The IACM should continue to monitor feedback as it moves towards an increasingly risk focused so that as changes are made to internal audit practices; these can be aligned with improvements in the way internal audit value is perceived.</p> 

	Issue identified	Recommended action
7	<p><b>Annual Report</b></p> <p>The IACM produces an Annual Audit report which summarises the years work and includes analysis of performance. The opinion reflects <i>'In respect of the main financial systems, Appendix 1 shows that internal controls were found to be operating satisfactorily or well, giving an overall confidence in the internal control system operating in relation to these systems'</i>.</p> <p>The form required by the PSIAS requires a wider statement based upon the fullness of the assurances and knowledge available to the IACM which <i>'must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board'</i>.</p>	<p>In alignment with recommendations made earlier the internal audit plan should be constructed so that the IACM is able to provide a wider assurance to each Authority in support of the governance statement.</p> <p>Best practice is that the Annual Report should also contain reference to all significant risks and therefore co-ordination with and an understanding of issues being raised by the range of assurances available is essential in order to meet this broader scope.</p> <p>In this way the Annual Report can be used to support the Councils Governance Statement.</p> 
8	<p><b>Reports produced by the IACM</b></p> <p>It is considered good practice that the IACM is involved in conducting assignments particularly in relation to high risk areas but in such circumstances appropriate arrangements should be made for 'supervision' and clearance of reports.</p>	<p>In circumstances where the IACM undertakes a review personally arrangements should be made for a second person review of the file.</p> 
9	<p><b>Derbyshire Dales DC</b></p> <p>Whilst it is recognised that arrangements for this Council are outside of the core Consortium arrangements. It would be beneficial for the established internal audit processes contained within the Internal Audit Manual to be applied as this will aid consistency of approach, training and supervision.</p>	<p>Standardised procedures should be implemented regarding:</p> <ul style="list-style-type: none"> <li>- The use of Audit Briefs,</li> <li>- Working paper review, and</li> <li>- The approach to IT audit</li> </ul> 

1	<b>RESOURCES</b>		<b>Excelling</b> – Processes in this area are fully embedded within every day practices and reflect best practice that is at least consistent with PSIAS expectations.
2	<b>COMPETENCY</b>		<b>Established</b> – Processes in this area are embedded within every day practices, the EQA has identified a number of areas in which further development is desirable.
3	<b>DELIVERY</b>		<b>Established</b> – Processes in this area are embedded within every day practices, the EQA has identified a number of areas in which further development is desirable.







# Key PSIAS Standards assessed

(for benchmarking purposes)

Standard		Focus
1000	Purpose, Authority and Responsibility	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> . The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100	Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.
2010	Planning	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
2020	Communication and approval	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.
2030	Resource Management	The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
2040	Policies	The chief audit executive must establish policies and procedures to guide the internal audit activity.
2050	Co-ordination	The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
2060	Reporting	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
2200	Engagement planning	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
2300	Work programme	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.
2400	Communicating results	Internal auditors must communicate the results of engagements
2450	Overall opinions	When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

- The internal audit provision within the Councils of Chesterfield Borough Council, NE Derbyshire District Council, Bolsover District Council and Derbyshire Dales District Council (DDDC). complies with the expectations of the Public Sector Internal Audit Standards.
- There are a number of areas in which the service can be further improved in relation to the use of risk based auditing which will provide increased levels of assurance to the Councils and assist in improving its profile and the subsequent feedback that is received from clients:
  - the service should move to an approach that reflects full recognition of the risk factors recognised by the Councils both at a strategic planning level and when conducting assignments.
  - the use of opinions should be reviewed to better reflect the risk appetite of the Council and not be linked to a timescale (current priority rating); the emphasis should reflect identification and escalation of recommendations graded as significant that match risk definitions graded as 'red' or 'amber' within the various risk management systems.
  - the IACM should consider the need for a member of the team to gain a relevant IT audit qualification.
  - the further development of risk management systems to reflect a Board (Controls) Assurance Framework within each Council would enable greater recognition of key mitigating controls and the other sources of assurance with which internal audit effort should be co-ordinated in order to support the Governance Statements process.

# Appendix 1

## Example File Index, Audit Progress and Supervision Record

**External Quality Assessment**  
Example File Index, Audit Progress and Supervision record

Audit ref: xx.xx      Audit:      Audit Year: 2016/17

File location (hyperlinks to be used where practical)	Date	Initials	Progress check (PSIAS 2340)
<b>A Planning (PSIAS 2010/2200)</b>			
<b>A1 Audit Planning Brief (APB) prepared</b>			
A1 APB approved by Chief Internal Auditor (CIA)**			
A2 APB issued to: - - - <b>All APB's to go to s151 officer</b>			
A3 APB – management comments received and addressed (re-issue APB if required)			
<b>A4 Draft Control Evaluation Matrix (CEM) (PSIAS 2210/2220)</b> approved Supervisor/CIA			
<b>B Fieldwork (PSIAS 2300)</b>			
<b>B1 CEM (and audit testing) completed</b>			
B1.1 Control Matrix review points from Supervisor/CIA received and addressed			
B1.2 Review points regarding CEM from Supervisor/CIA received and addressed			
<b>B2 Audit evidence (PSIAS 2330)</b>			
B2.1 Audit evidence: (enter detail)			
B2.2 Audit evidence: (enter detail)			
B2.3 Audit evidence: (enter detail)			
All necessary audit evidence scanned to e-file and referenced			
<b>C Reporting (PSIAS 2440)</b>			
<b>C1 Formal closing meeting with auditees held</b> (within 5 working days of fieldwork completion)			
<b>C2 Draft report prepared</b>			
C2.1 Review points from Supervisor/CIA received and addressed (re-submit for review as required)			
C2.2 Draft report approved for issue by CIA			
C2.3 Draft report issued to all named respondents (within 10 working days of closing meeting)			
<b>C3 Management responses/comments to draft report</b> (received within 10 working days and addressed)			
<b>C4 Final report (PSIAS 2450) prepared</b>			
C4.1 Final comments from Supervisor/CIA received and addressed			
C4.2 Final report approved for issue by CIA			
C4.3 Final report issued in PDF format to:			

**External Quality Assessment**  
Example File Index, Audit Progress and Supervision record

-	-	-	-
<b>All reports to go to s151 officer</b> (Issue within 5 working days of management responses)			
<b>D File completion</b>			
<b>D1 Recommendations included on the Recommendation Tracker</b>			
<b>D2 Customer satisfaction questionnaire (PSIAS 2500/2600)</b> issued			
D2.1 Responses received and addressed			
D2.2 Previous audit files destroyed in line with the Document Retention Policy.			
<b>E File clearance (PSIAS 2340)</b>			
E1 e-file sign off by Supervisor confirming sufficient, appropriate audit evidence on file and proper completion of this checklist			
E2 Useful corporate documents for planning – risk register, service plans etc placed in e planning file			
E3 Useful, sector-specific reference materials – included on KnowledgeSpace – such as www.gov.uk, professional bodies etc.			
E4 Other thoughts regarding this assignment:			

# Example Audit Brief and Control Summary



## Assignment Brief

Client			
Assignment			
Audit Year:		Audit Ref:	

<b>Management Objective for the System</b>			
<b>Key Risks</b> <small>Identified from the Risk Register, discussions with management &amp; Knowledge Base</small>	<b>Key Controls (to mitigate risk)</b> <small>To include expected controls, those identified through discussion with client and documentation of processes</small>	<b>Conclusion</b> <small>In terms of adequate and effective mitigation of the risk identified</small>	<b>Report Reference</b>
1			
2			
3			
4			
<b>Audit Approach</b>			

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<b>Report Title:</b>	<b>External Review of Internal Audit (October 2016)</b>		

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<b>RESOURCES</b>  <b>Supervision</b> Supervision of an internal audit assignment is not always evidenced within internal audit files. A formal file review document is completed by a supervisor following exit meetings or production of a draft report, with supervision during an audit being conducted through discussion and monthly 121 meetings.	The nominated supervisor should ensure and evidence that active supervision is maintained and documented throughout the assignment process through recording involvement and instructions on the review form.  A suggested format for diarising supervision which is used within peer providers is attached as Appendix 1  File review forms should be introduced at DDDC as part of a standard approach.	Part	IAC Manager/ Senior Auditors	Ongoing	There is already a formal review process in place. A standard file review form is completed at the end of an audit that records any queries/issues/further work required that are outstanding. Once these issues have been satisfactorily resolved the review form is signed off and the close out meeting can be held with the relevant manager.  Teams are small and there is regular dialogue amongst team members as an audit progresses. It is felt that recording these conversations would be time consuming and wouldn't add anything to the process. However, if any significant issues arise during audits then these will be documented as part of the file review.
		Y	IAC Manager	Immediate	Internal Audit Consortium Manager to introduce file review forms at DDDC

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p><b>COMPETENCY</b></p> <p><b>Governance and standards</b> The Internal Audit Manual is a comprehensive document which refers to the PSIAS but does not sufficiently reference the processes that audit staff should follow in conducting assignments to the various standards. We feel that this would help to elevate the understanding and status of internal audit if the key standards within the PSIAS were fully documented within the document.</p>	The Internal Audit Manual could be beneficially improved by referring directly to those PSIAS standards that <b>must</b> be followed and providing detailed advice regarding expectations, particularly in respect of each area.	Y	IAC Manager	August 2017	IAC Manager to review and update audit manual to include more detail in respect of specific PSIAS standards. Internal audit staff all have a copy of the standards however a copy of the PSIAS Standards will be appended in the audit manual
<p><b>COMPETENCY</b></p> <p><b>Internal Audit Planning</b> Whilst planning is based upon a risk model as required by the PSIAS, the process largely depends on an assessment devised by internal audit; this shows a financial bias and the use of different definitions of risk impact to those approved within the Council risk management strategy; rather than reflecting the wider and accepted risk issues being recognised by the</p>	a) Audit Plans should be constructed to achieve the objectives of the department as set out in the Internal Audit Charter and the audit planning process designed to reflect the same through transparent alignment with the Council wide approach to risk management.	Y	IAC Manager	For 17/18 IA Plan	The Council's strategic and operational risk registers are already used to inform the audit plan. The IAC Manager sits on risk management groups. Directors, Service Managers and the Risk management Group are consulted in respect of the content of the plan. Areas in the plan are already identified as High, Medium or Low risk however the 2017/18 Internal Audit plan will be presented to more clearly demonstrate the links with the Council's risk registers. Non- financial areas are already



Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>Council. There should be a direct and identified link between the internal audit plan content discussed with Audit Committees which aligns with the Council's risk management systems; beneficially reflecting both identified controls and assurances available. The risk based reasoning for inclusion of the assignment in the audit plan should be evident (why is there a need for independent assurance?) and in turn this should drive the preparation of the terms of reference for each assignment as recorded within the Audit Brief.</p>					<p>identified for review e.g. health and safety, safeguarding, gas servicing. A number of other Council's audit plans have been obtained and this has not identified any significant gaps in the Consortium's audit plans. There are a range of other assurances in place including the Performance Management Framework and the Annual Governance Statement which provide assurance and identify potential weakness. The process will continue to be refined.</p>
	b)The internal audit planning process should further identify other sources of assurance that are available and upon which Councils can place reliance.	Y	IAC Manager	August 2017	<p>IAC Manager to meet with Directors/Heads of Service/ raise at CMT/quarterly Directorate meetings to identify and document other sources of assurance that are available upon which the Council can place reliance. The results of this exercise can then be used to further inform the basis for the internal audit plan.</p>
	c) The starting point for the development of the Audit Brief should be a preliminary discussion with management regarding the inherent and residual risks relevant to the audit area under review. It may aid assignment planning if the management objectives for	Y	IAC Manager/ Senior Auditors	April 2017	<p>In the majority of cases a start- up meeting is already held with managers and the audit coverage discussed. The current audit brief and start up meeting can be developed to focus more upon the risks associated with the areas being tested/key controls and any links to operational risk registers and service plans.</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
	the area under review were also identified. This should result in the formation of a direct link with the Authority's risk register and the key mitigating controls highlighted, thereby aiding the understanding and ability of members of the Audit Committee to contribute to the assurance agenda.				
<p><b>COMPETENCY</b></p> <p><b>Training</b> The department has an experienced team of internal audit staff whose training needs are assessed through regular 121 meetings and appraisal and development meetings. Most staff have a relevant qualification, although only the IACM and one other member of staff have a recognised CCAB or IIA certification. The team attend routine meetings of various groups locally and regionally and use is</p>	a) Consideration should be given to those areas within the training matrix which reflect greatest need for routine mandatory training of a professional or technical nature. These may relate to areas such as Data Protection or health and Safety where it is important for all staff to have a firm understanding or specific training relating to internal audit such as risk based internal audit or reporting.	Y	IAC Manager	Ongoing	Audit staff have regular data protection and safeguarding training and undertake corporate training as available/required. The Consortium will continue to take advantage of the Corporate training provided. Consideration will continue to be given to the provision of other training in relation to technical and professional areas within the confines of the budget available. Consideration will be given to further risk training for the audit team. One member of the team is studying for their IIA qualification.

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>made of dedicated cost effective training that is available. The IACM ensures that available budgets are used to best effect.</p> <p>Whilst the IA team have identified technology related issues given the nature of cyber risk it is felt that this is a weakness that should be addressed.</p>	<p>b) There is a need for the Consortium to be able to provide assurance relating to IT risks given the increasing complexity of technology and associated controls. It is therefore essential that appropriate professional training is supported for a member of the team or that the service is acquired externally in order to deliver on the assurance needs of the consortium members.</p>	Y	IAC Manager	As required	<p>Consideration will be given to the identification and utilisation of external specialist support e.g. DCC or Derby City internal auditors where it is felt this is required.</p> <p>All four Councils are currently subject to independent PSN compliance on an annual basis which provides robust independent assurance concerning those aspects of the network covered by this testing.</p>
<p><b>COMPETENCY</b></p> <p><b>Control evaluation</b> The IAC uses the following gradings for the assessment of controls included within the testing schedule.</p> <p><b>Good</b> – A few minor recommendations (if any) <b>Satisfactory</b> – minimal risk; a few changes identified where changes would be beneficial <b>Marginal</b> – a number of areas have been identified for improvement <b>Unsatisfactory</b> – Unacceptable</p>	<p>The Consortium should consider the merits of moving to expression of the control in environment in the form of:-</p> <p>a) The appropriateness of the control environment having regard to the significance of the risks involved – adequate/inadequate, and</p> <p>b) Whether the control is being consistently applied – effective/ineffective</p>	Y	IAC Manager	April 17	<p>The IAC Manager to investigate alternative assessment wording based on levels of assurance. Consideration to be given to introducing revised assessment terminology from April 2017. Any proposals will be subject to discussions with the Audit Committees of the four Councils concerned to ensure a standard grading approach is retained.</p> <p>Client officers are however of the view that the existing grading arrangements do serve to give them a clear view of the position in respect of each service and that the use of 5 categories does</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>risks identified, changes should be made</p> <p><b>Unsound</b> – Major risks identified; fundamental improvements are required</p> <p>Our view would be that this represents an overly complex structure for expression of an opinion on the control environment and the nature of the issue identified against which a recommendation will be made. Standard practice is for each control to be assessed in terms of its adequacy and effectiveness, with the subsequent recommendation being graded as risk based (see Delivery 3b/c)</p>					<p>allow an accurate summary. They are able to focus on the three weaker assessments as those areas which have significant issues/ risks which need to be addressed. In this sense the current 5 level grading system provides a clear picture of where action is necessary.</p> <p>However, current thinking is to grade reviews based on levels of assurance.</p>
<p><b>DELIVERY</b></p> <p><b>Focus on pre-identified controls</b></p> <p>Assignments are dominated by previously identified controls emanating from CIPFA control matrices which are then tested to specified testing levels rather than provide focus on significant risk and associated key controls</p>	<p>Internal audit working papers should focus on major risks to the Council that have been identified and discussed with the auditee.</p> <p>Assignment briefs should therefore reflect assessment of risks as defined within the Councils risk impact definitions and then</p>	Part	IAC Manager/ Senior Auditors	Ongoing	<p>The basis of most test schedules have been derived from CIPFA control matrices and therefore cover the most significant risks as well as a range of other controls. The audit testing to be undertaken is discussed with the relevant manager at the start of the audit and updated following these discussions to include any concerns/ areas of risk identified by the manager. The test schedules also cover areas</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>identified and evaluated as part of the documentation process. Benefits would be achieved through increased focus on agreed “local” key controls relating to the business critical risks and then tested according to the materiality of their contribution to the Council’s risk management framework. Whilst the current testing is robust, documented and well evidenced it may not provide assurance relating to the most significant risks to which the service is exposed.</p>	<p>consider the controls that are required to mitigate that risk within the risk appetite of the Council.</p> <p>An example risk based Assignment Brief is included as Appendix 2.</p>				<p>that may not be “major” risks but are non the less still important.</p> <p>Audit briefs and opening meetings with managers can be developed to focus more on risk areas and more specific links to operational risk registers and service plans. Audit test schedules to continue to be adapted to reflect these risks.</p> <p>Consideration will be given to further risk training for the audit team.</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p><b>DELIVERY</b></p> <p><b>Methodology and use of walk-through tests</b> For core financial systems, systems documentation exists and is well understood supported by flowcharts, in accordance with para 8.1.1 of the Internal Audit Manual. For other audits whilst it is accepted the system notes exist mostly in the form of notes within the evidence collected, files do not contain an outline of the system as specified in the internal audit manual as stage 4 of the above and there is therefore a reliance on previously constructed testing schedules to define the scope of the audit. As the risk environment, service provision, staff in post and therefore systems change it is considered important that each audit commences with providing a documented oversight of the component parts of the system in which key controls that are to be relied upon for the purposes of providing an opinion are documented and tested using a walk through test.</p>	<p>a. Auditors should complete at least a system note at the start of each audit in order to outline an overview of the processes being reviewed in order to aid understanding and the structure of the audit and provide an understanding of the system to aid supervision and the efficient conduct of future audits.</p>	Part	All audit staff	April 17	<p>A permanent file will be set up for each area of review in to which system notes, flow charts, staffing structures etc. will be saved.</p> <p>Sample documentation and system, notes are already routinely placed on file to evidence the processes in place whilst undertaking sample testing.</p>
	<p>b. The internal audit manual should specify the minimum standards requirements for file structure and content for electronic files in order to aid supervision. These may be planning and communication, systems documentation and identified procedures, fieldwork (control summaries supported by testing and evidence) and reporting. (Refers to section 9.3.3 of the internal audit</p>	Y	IAC Manager	August 17	<p>The structure of the electronic files for each audit review will be developed to ensure a consistency of approach amongst the Consortium members.</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
	manual)				
<b>DELIVERY</b>  <b>Audit Opinions - Recommendations</b> These are currently developed and assessed by each internal auditor, and reviewed by the Audit Manager prior to release of the draft report (sometimes subsequent to discussion of findings at an 'exit meeting' at which the grading of recommendations may have been discussed). This system relies on personal judgement	a)Audit supervisors should formally agree the grading of recommendations prior to the conduct of exit meetings.	Y	IAC Manager/ Senior Auditors	Ongoing	This is already completed as part of the file review process.

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>related to ‘Priority’ for which no definition exists to articulate the meaning of High, Medium or Low.</p> <p>The definitions used by internal audit to support opinions therefore lack clarity and should be more closely linked with each Authority’s risk appetite and the definitions of impact risk being used to embed risk management thinking within the organisation. The basis for grading of recommendations should as a result influence the overall opinion for each audit directly, for example if a risk falling into a definition of the highest category is identified (potential for death, loss greater than £500k) then the assurance level given is reduced. Any risk of this nature should automatically trigger a negative audit opinion of ‘limited assurance’.</p>	<p>b) Risk definitions used by internal audit should be developed to reflect the risk appetite within each organisation, and the definitions of impact and likelihood used by the Council. These should be used by each internal auditor to grade the recommendation and discuss the level of risk to which the organisation is exposed with each auditee at the exit meeting</p>	Y	IAC Manager	April 17	<p>Definitions will be developed for High, Medium and Low internal audit recommendations linked to risk. This will aid in reducing subjectivity and increase consistency.</p> <p>It is also important that the audit reports identify and report all significant risk. Management can then take an informed view as to whether to accept or reject such risk, and to ask the question as to whether the risk appetite should be reviewed.</p>
	<p>c) Consideration should be given to removing the need to include ‘low’ rated recommendations in formal audit reports; alternatively reflecting on these in a side letter to the manager. This would aid the profile of internal audit through concentrating on things that really matter in relation to significant risk as defined within risk management policies.</p>	N			<p>This approach would lead to the risk that low priority recommendations are not even considered by managers. Managers can already disagree recommendations if they feel the risk is too low given the resource available etc.</p> <p>It is up to managers to set the risk appetite of the Council.</p>



Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p><b>DELIVERY</b></p> <p><b><i>Audit Opinions - Overall opinions</i></b>            These are currently based upon the personal judgement of each auditor, within the definitions specified as relating and subject to review by the supervisor and IACM of the draft report prior to release.            The overall opinion also appears to be loosely based on the aggregate number of recommendations made and not the level of risk identified. The current is for the opinion to reflect the reliability of the internal controls operating in the system / area reviewed was assessed as good* / satisfactory* / marginal* / unsatisfactory* / unsound*.</p>	<p>a) The grading of recommendations should be based upon the level of risk exposure identified within the review and reflect the highest ranked recommendation being reported upon.            Best practice would reflect:            - Where a fundamental risk (red) is identified that no/limited assurance is given.            - Where significant risks (amber) are identified then adequate assurance is given, and            - Where 'merits attention' (green) risks are identified these are not referred to in the report and substantial assurance is given</p>	Part	IAC Manager	April 17	Definitions will be developed for the use of High, Medium and Low when grading recommendations. This will help to ensure consistency based on levels of risk.

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
Wider best practice provides for three levels of opinion being substantial, adequate or limited as this provides a clearer indication to stakeholders of the level of assurance that can be gained. This opinion can then be aligned directly with the nature of the risks being identified and the grading of those recommendations being made.	b) Reducing the levels of opinion to three would provide a clearer indication of the assurance being provided and represent a more straight-forward approach for internal audit staff to administer.	Part	IAC Manager	April 17	Consideration will be given to alternative wording for audit opinions based on assurance and risk levels. The Midlands Audit Group has been surveyed to establish the levels of audit opinion utilised by other audit sections. After consultation with client officers and consortium staff it is felt that four levels of opinion is more appropriate.  A report will be taken to the January 17 Audit Committees in respect of a proposed revised levels of opinion based on assurance levels.
<b>DELIVERY</b> <b>Report format</b> The Consortium currently provides a detailed report which is then summarised appropriately to inform other meetings within the Council at Officer and Member levels. It would not be appropriate to comment negatively on this approach particularly as positive feedback regarding internal audit performance can be seen in the return of satisfaction surveys during 2016/17 and was gained	The Consortium should consider whether focusing on risk as a basis for reporting would allow movement towards an 'executive summary' approach which highlights only significant risks. This may help further build the profile of internal audit and allow greater efficiency within the team through reducing the time consumed in report production and clearance.	N			Managers have not liked this approach in the past as reports were seen as focusing purely on the negative.  Current feedback from customer satisfaction surveys on the current reporting style is positive.  Where a marginal or worse conclusion is reached the main issues / risks will be summarised in a paragraph under the conclusion. The majority of reports are already short.

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
in meetings with officers as part of the EQA. However, internal audit reports are 'lengthy' and in developing an increasingly risk based approach consideration could be given to moving to an exceptions based executive summary highlighting significant risks.					
<b>DELIVERY</b> <b>Auditee feedback</b> At the time of the review feedback questionnaires had been received in respect of 24 audits undertaken during 2016/17, all received scores in excess of 80% with the only areas showing as requiring improvement relating to:- <ul style="list-style-type: none"> <li>- Were recommendations practical and useful, and</li> <li>- Sufficient to remedy weaknesses identified in the report</li> </ul>	The IACM should continue to monitor feedback as it moves towards an increasingly risk focused so that as changes are made to internal audit practices; these can be aligned with improvements in the way internal audit value is perceived.	Y	IAC Manager	March 18	All customer satisfaction surveys are reviewed with a view to taking on board any learning points.  Surveys are also used as a discussion point with Auditors at EPD's and 1:1's  As the Consortium further develops risk based auditing the customer satisfaction survey will be reviewed to ensure that it is still collecting relevant feedback.
<b>DELIVERY</b> <b>Annual Report</b> The IACM produces an Annual Audit report which summarises	In alignment with recommendations made earlier the internal audit plan should be constructed so that the IACM is able to	Y	IAC Manager	2016/17 audit opinion	The internal audit work during the year is used as the basis upon which to formulate the annual audit opinion. The audit plan is risk based and devised to cover a broad range of the

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>the years' work and includes analysis of performance. The opinion reflects <i>'In respect of the main financial systems, Appendix 1 shows that internal controls were found to be operating satisfactorily or well, giving an overall confidence in the internal control system operating in relation to these systems'</i>. The form required by the PSIAS requires a wider statement which <i>'must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board'</i>.</p>	<p>provide a wider assurance to each Authority in support of the governance statement.</p> <p>Best practice is that the Annual Report should also contain reference to all significant risks and therefore co-ordination with and an understanding of issues being raised the range of assurances available is essential in order to meet this broader scope.</p> <p>In this way the Annual report can be used to support the Council's Governance Statement.</p>				<p>Council's activities and functions. This enables the IAC Manager to produce an opinion on the control environment as a whole.</p> <p>However, the annual internal audit opinion will be developed to take in to account other significant risks that may not have been covered by the audit plan in a particular year. The Annual Governance Statement and strategic risk register will be utilised to do this.</p>
<p><b>DELIVERY</b></p> <p><b>Reports produced by the IACM</b> It is considered good practice that the IACM is involved in conducting assignments particularly in relation to high risk areas but in such circumstances appropriate arrangements should be made for 'supervision' and clearance of reports.</p>	<p>In circumstances where the IACM undertakes a review personally arrangements should be made for a second person review of the file.</p>	Y	Senior Auditors	Immediate	Where the IAC Manager undertakes an audit, a quality review will be undertaken by a senior Auditor

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<b>DELIVERY</b>  <b>Derbyshire Dales DC</b> Whilst it is recognised that arrangements for this Council are outside of the core Consortium arrangements. It would be beneficial for the established internal audit processes contained within the Internal Audit Manual to be applied as this will aid consistency of approach, training and supervision.	Standardised procedures should be implemented regarding: <ul style="list-style-type: none"> <li>- The use of Audit Briefs,</li> <li>- Working paper review, and</li> <li>- The approach to IT audit</li> </ul>	Y	IAC Manager and Senior Auditor	Immediate	

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**RECORD OF EXECUTIVE DECISIONS – JOINT WORKING**

CBC:LEADER		Date of Decision 13.03.2017	
BDC: LEADER			
NEDDC:LEADER			
Title Reference: Minutes			
Key Decision References (if applicable): CBC: N/A BDC: N/A NEDDC: N/A		Delegation Reference:	CBC: R080L BDC: NEDDC:
Report and background papers	Yes	Public <input checked="" type="checkbox"/>	Exempt <input type="checkbox"/> Confidential <input type="checkbox"/>
Decision Status	Notice of Key or Private Decision		Authorised By: N/A
	General Urgency	N/A	
	Special Urgency	N/A	
	Exempt Urgency	N/A	
Record of Decision:			
That the notes and the Record of Decisions of the Joint Board meeting held on 12 September, 2016 be noted.			
Reasons for Decision:			
To note progress on joint working.			
Alternative options considered and rejected (if any): N/A			
Declarations of interests: None			
Decision subject to call-in: No Date of implementation if not called in: N/A			
Date Record Issued 13.03.2017 Contact Officer: Rachel Lenthall, Chesterfield Borough Council rachel.lenthall@chesterfield.gov.uk			

CBC:LEADER		Date of Decision 13.03.2017		
BDC: LEADER				
NEDDC:LEADER				
Title Reference: Chesterfield and North East Derbyshire Credit Union – Business Plan 2016 – 2019				
Key Decision References (if applicable): CBC: N/A BDC: N/A NEDDC: N/A		Delegation Reference: CBC: R080L BDC: NEDDC:		
Report and background papers	Yes	Public <input checked="" type="checkbox"/>	Exempt <input type="checkbox"/> Confidential <input type="checkbox"/>	
Decision Status	Notice of Key or Private Decision		Authorised By: N/A	
	General Urgency			N/A
	Special Urgency			N/A
	Exempt Urgency			N/A
Record of Decision:  That the report be noted				
Reasons for Decision:  To note the progress on the Chesterfield and North East Derbyshire Credit Union.				
Alternative options considered and rejected (if any): N/A				
Declarations of interests: None				
Decision subject to call-in: Yes Date of implementation if not called in: 20 March 2017				
Date Record Issued 13.03.2017 Contact Officer: Rachel Lenthall, Chesterfield Borough Council rachel.lenthall@chesterfield.gov.uk				



CBC:LEADER		Date of Decision 13.03.2017	
BDC: LEADER			
NEDDC:LEADER			
Title Reference: Internal Audit Consortium Progress Report 2016/17 and Draft Business Plan 2017/18			
Key Decision References (if applicable): CBC: N/A BDC: N/A NEDDC: N/A		Delegation Reference: CBC: R080L BDC: NEDDC:	
Report and background papers	Yes	Public <input checked="" type="checkbox"/>	Exempt <input type="checkbox"/> Confidential <input type="checkbox"/>
Decision Status	Notice of Key or Private Decision		Authorised By: N/A
	General Urgency	N/A	
	Special Urgency	N/A	
	Exempt Urgency	N/A	
Record of Decision:			
<ol style="list-style-type: none"> <li>1. That the progress made by the Internal Audit Consortium be noted.</li> <li>2. That the revised Business Plan (budget) for 2016/17 and the draft Internal Audit Consortium Business Plan (and associated charges) for 2017/18 be approved.</li> <li>3. That the accumulated surplus of the Internal Audit Consortium at the 31 March, 2017 (less £20,000 to be held as a working balance) be distributed to the partner authorities.</li> <li>4. That an annual report on the outcome of the operation of the Internal Audit Consortium for 2016/17 be submitted to the Joint Board following the year-end.</li> </ol>			
Reasons for Decision:			
<ol style="list-style-type: none"> <li>1. To enable members to be aware of the progress made by the Internal Audit Consortium.</li> <li>2. To enable the Consortium resource availability to be kept under review.</li> <li>3. To enable the partner authorities to budget for the Consortium charges for 2017/18.</li> </ol>			
Alternative options considered and rejected (if any): N/A			
Declarations of interests: None			

Decision subject to call-in: Yes

Date of implementation if not called in: 20 March 2017

Date Record Issued 13.03.2017

Contact Officer: Rachel Lenthall, Chesterfield Borough Council

[rachel.lenthall@chesterfield.gov.uk](mailto:rachel.lenthall@chesterfield.gov.uk)

CBC:LEADER		Date of Decision 13.03.2017		
BDC: LEADER				
NEDDC:LEADER				
Title Reference: External Review of Internal Audit				
Key Decision References (if applicable): CBC: N/A BDC: N/A NEDDC: N/A		Delegation Reference: CBC: R080L BDC: NEDDC:		
Report and background papers	Yes	Public <input checked="" type="checkbox"/>	Exempt <input type="checkbox"/> Confidential <input type="checkbox"/>	
Decision Status	Notice of Key or Private Decision		Authorised By: N/A	
	General Urgency			N/A
	Special Urgency			N/A
	Exempt Urgency			N/A
Record of Decision:				
<ol style="list-style-type: none"> <li>1. That the results of the external review of internal audit be noted.</li> <li>2. That the action plan that had been put in place to address the recommendations arising out of the review be approved.</li> </ol>				
Reasons for Decision:				
To ensure that Members are aware of the results of the external review of internal audit that is required by the Public Sector Internal Audit Standards.				
Alternative options considered and rejected (if any): N/A				
Declarations of interests: None				
Decision subject to call-in: Yes Date of implementation if not called in: 20 March 2017				
Date Record Issued 13.03.2017 Contact Officer: Rachel Lenthall, Chesterfield Borough Council rachel.lenthall@chesterfield.gov.uk				

## **Notes to Record of Decisions (Joint Working):**

### **CBC - CALL-IN REQUESTS**

*The implementation of certain decisions is suspended until the call-in period has expired without a call-in being validly invoked. Any Member of the Council shall be entitled to call for a decision to be suspended by giving notice to the Monitoring Officer either by telephone, fax, email or in writing **not later than 5.00 pm on the day following the date of the Joint Board meeting.** Any decisions so suspended shall not be capable of implementation for a period of **five calendar days** from the date of the Joint Board meeting. During the call-in period a request may be made in respect of any decision so suspended by not less than one quarter of the total membership of the Overview and Performance Scrutiny Committee. To do this you will need to notify the Monitoring Officer in writing, by fax or by email by 5.00 pm on the date being five days following the day of the Joint Board meeting.*

### **BDC - CALL-IN REQUESTS**

*All Key Decisions come into effect **five working days** after the meeting unless three members give notice in writing to the Governance Manager requesting to call in the decision. The call-in request should be on a **completed 'call-in' request form and include the names and signatures of the three signatories**, the decision making principles it is believed have been breached and also the reasons for this. Non Key Decisions may not be called in.*

### **NEDDC - CALL-IN REQUESTS**

*The implementation of key decisions is suspended until the call-in period has expired without a call-in being validly invoked. The call-in period is **five working days** after the publication of this decision. During the call-in period the **Chair or Vice Chair together with three other members of any Overview and Scrutiny committee** may object to a key decision and call it in. Non-Key decisions cannot be called in at North East Derbyshire District Council.*