

Derby City Council

S24 Financial Controls

Final Audit Report



Our Vision

To bring about improvements in the control, governance and risk management arrangements of our Partners by providing cost effective, high quality internal audit services.

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Table of Contents

1	Executive Summary	5
1.1	Scope of Audit	5
1.2	Summary of Audit Findings	5
1.3	Summary of Control Assurance Provided	7
1.4	Distribution & Communication.....	7
2	Positive Assurance	8
2.2	Asset Management Systems Reconciliations	8
2.3	Cash and Bank Reconciliations.....	8
2.4	Income systems and General ledger Reconciliations	9
2.5	Statutory Financial Accounts Project Plan.....	10
2.6	Write-Offs	10
2.7	Provisions	11
3	Control Weaknesses & Recommendations.....	12
3.1	Asset Management Systems Reconciliations	12
	Recommendation 1	12
	Recommendation 2	13
	Recommendation 3	13
	Recommendation 4	14
3.2	Cash and Bank Reconciliations.....	15
	Recommendation 5	15
	Recommendation 6	16
3.3	Income Systems & General ledger Reconciliations	16
	Recommendation 7	17
	Recommendation 8	19
3.4	Statutory Financial Accounts Closedown Timetable	19
	Recommendation 9	20
	Recommendation 10	21
	Recommendation 11	22
	Recommendation 12	23
	Recommendation 13	24
3.5	Write-Offs	24
	Recommendation 14	24
	Recommendation 15	25
4	Appendices.....	26
4.1	Appendix A.....	26

1 Executive Summary

1.1 Scope of Audit

- 1.1.1 This audit focused on the commitments made by the Council in response to External Audit's Section 24 letter and tested for confirmation that the actions identified were embedded, to avoid the same issues occurring in future.
- 1.1.2 It should be noted that the work undertaken by Internal Audit has focussed solely on the Section 24 action plan (please see Appendix A) and the work undertaken as part of that commitment to deliver and embed the actions stipulated in the plan. This internal audit review covered action points relating to Reconciliations, Write-offs and Provisions and Year-end procedures. The results of the outcome of the work on Capital Asset Valuations action points have been reported in a separate audit report.

1.2 Summary of Audit Findings

Control Objectives Examined	No of Controls Evaluated	No of Adequate Controls	No of Partial Controls	No of Weak Controls
The SAM (Estates) and RAM (Finance) Systems are reconciled according to a programmed schedule, are independently reviewed and reconciling items are promptly cleared.	6	2	4	0
Cash and bank account reconciliations are carried out on a regular basis, reconciling items are cleared and the reconciliation is subject to independent review.	8	6	2	0
Reconciliations of the Council Tax, NDR, Tenant's Rental and sub-ledger feeder systems to the General Ledger are carried out on a regular basis, reconciling items are cleared and reconciliations are subject to independent review.	11	6	3	2
There is a documented closedown timetable in place to ensure that the production of high quality statutory financial statements in a timely fashion.	6	2	4	0
There should be procedures in place to ensure that write-offs are identified, approved and actioned on a timely basis.	3	1	2	0
Provisions for receivables balances should be based on a documented and reviewed approach taking into account all relevant data and assumptions.	3	3	0	0
TOTALS	37	20	15	2

1.2.1 The following issues were considered to be the key control weaknesses:

Rec Number	Risk Rating	Summary of Weakness	Agreed Action Date
1	Moderate Risk	The SAM and RAM systems reconciliation of numbers of assets had not been undertaken on a quarterly basis as agreed in the Action plan	Implemented
2	Moderate Risk	The SAM/RAM reconciliation did not include the facility to record the names and signatures of the officers who completed and authorised the reconciliation or the date that it was finalised.	Implemented
3	Moderate Risk	The commitment to implement an automated interface between the SAM and RAM systems in 2017/18 was still unrealised.	01/10/2018
4	Low Risk	The Legal team had not been included in the reconciliation process to ensure that titles are matched to property assets.	12/02/2019
5	Low Risk	At the time of the audit, the petty cash and bank imprest account policy & procedure had not been updated to reflect changes in the process.	01/01/2019
6	Moderate Risk	Cash and bank reconciling items were not always identified or cleared in a timely manner.	Implemented
7	Moderate Risk	Income systems' (Ctax, NDR, Rents) reconciling items were not always identified or cleared in a timely manner.	Implemented
8	Moderate Risk	The reconciliation figures on the G/L did not always agree to the evidence in the trial balance held on file and information relating to reconciling items was not available in every case.	Implemented
9	Low Risk	The draft 2017/18 Closedown Timetable was not comprehensive. Some expected tasks had been omitted from the plan.	Risk Accepted
10	Moderate Risk	Consideration of impairment indicators, asset lives and the reconciliation of capitalised salaries were not included as tasks in the closedown timetable.	Implemented
11	Low Risk	There was no single document to manage the completion of the closedown process and, although the CIPFA Checklist was considered a key control document by Finance, it was only used after the statements had been produced.	Risk Accepted
12	Moderate Risk	There was no evidence of a scheduled "lessons learnt" review of the year end timetable/process, to identify scope for improvement, after production of the financial statements.	Implemented
13	Low Risk	There was no evidence that the Departments/Sections that were expected to provide information to the year end process had been consulted before the process began.	Implemented
14	Low Risk	There were two versions of the Financial Regulations available on iDerby.	Implemented
15	Low Risk	There was no evidence that Staff had been formally reminded to adhere to the Council's Financial Regulations regarding the procedure for writing off Council debt.	Implemented

1.2.2 This report focuses on the weaknesses in the Council's systems of control that were highlighted by this audit and recommends what Audit considers to be appropriate control improvements. This report contains 15 recommendations, 7 are considered a low risk and 8 a moderate risk. There are no significant or critical risks.

Thirteen of the issues were accepted and two were not accepted, therefore accepting the risk associated with these two recommendations. Ten recommendations have already been implemented with one due on the 12th February 2019. Two recommendations have passed their action date and are currently overdue.

1.3 Summary of Control Assurance Provided

- 1.3.1 **Reasonable** - We are able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks were well managed, but some systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

Management and the Audit Committee should note that the following issue will be referred to the Responsible Financial Officer for consideration for inclusion in the organisation's Annual Governance Statement:

- We were unable to obtain evidence that the Council had taken action to address all of the issues raised in the External Audit S24 letter and that any action that had been taken was sufficiently embedded to avoid the issues occurring in future.

1.4 Distribution & Communication

- 1.4.1 This draft report was issued to Toni Nash, Head of Finance, Corporate Resources for comment.

This final version will be issued to Don McLure, Interim Strategic Director of Corporate Resources with copies to:

- Toni Nash, Head of Finance, Corporate Resources
- Mandy Fletcher, Head of Finance, Communities and Place.
- Alison Parkin, Head of Finance, People Services.

This report was produced by Gary Radford, Principal Auditor and reviewed by Lynne Parkin, Interim Assistant Audit Manager and Jacinta Fru, Audit Manager. Any enquiry concerning the content of this report or associated issues may be made to Gary Radford, Principal Auditor on ext. 3259.

2 Positive Assurance

- 2.1.1 We attempted to establish whether the Council's system of control for the following areas contained all the key controls expected of a sound and robust process. Through a combination of control evaluation and testing we confirmed that the following adequate controls were in operation:

2.2 Asset Management Systems Reconciliations

S24 Action plan identified that there were no reconciliations performed between the SAM system (used by Estates team) and the RAM system (used by finance team). (Action point A1)

In response, the Council had performed a reconciliation for 2016/17 and agreed that a formal process of review and reconciliation will continue on a quarterly basis and will be signed off by both system owners and evidence of review by senior management documented.

- We found that a Corporate Finance Accountancy Officer was responsible for reconciling the asset numbers held in the Finance Real Asset Management system (RAM) and the Estates Strategic Asset Management System (SAM). The reconciliation was authorised by the Principal Accountant (Capital).
- The Finance team held weekly meetings with the Interim Section 151 Officer and the Estates team to ensure no surprises occurred and that the information held in the RAM system was as accurate as possible. There were also periodic meetings with the Finance Team, the Estates team and the external valuers.
- The availability of staff cover had been considered by the Head of Finance Corporate Resources and they were confident that there was sufficient qualified and experienced staff cover in place to ensure that reconciliations would be delivered in a timely manner.
- The spreadsheet used to reconcile SAM/RAM assets included supporting evidence for all differences (including the Unique Property Reference Number). Reconciliation differences had been clearly identified and confirmation sought before any rectifying actions had been taken.

2.3 Cash and Bank Reconciliations

S24 Action plan noted that "the Council has insufficient oversight of the cash management function". Concerns were raised with respect to the record keeping and financial controls in place around the management and recording of cash balances (Action point B).

In response, the Council agreed to review and redesign the control framework around cash and bank balances, to ensure effective and timely reconciliation processes are in place. A monthly control review of reconciliations and challenge of unreconciled items will be performed by the relevant Head of Finance.

- The Consolidated Reconciliation Control Framework recorded the names of the officers responsible for reconciliation and review of the accounts and the period in which the reconciliation took place. The Period 8 (November 2017) Consolidated Reconciliation Control Framework had been accurately completed with the officers names and the period number. Testing identified that those officers listed as completing and signing off the reconciliations had done so.
- The trial balance report extract from the financial systems included all reconcilable balances. It was observed that in period 8 the reconciliation was undertaken on both large and small cash and bank balances.
- We confirmed that schools' balances were reconciled at year end. The Council maintained a spreadsheet that listed all of the Derby schools together with the balances reconciled and the date of the bank statement used. The exception to this was the four cheque book schools where the accounts were reconciled quarterly.
- We found that Accountancy maintained a spreadsheet that listed all schools imprests and the date of the bank statement that they were reconciled to. Of the 68 schools managed, 63 schools were reconciled as close to year end as possible after taking

account of the March school holidays and 5 were reconciled to February bank statements.

- As part of the year-end preparations process, relevant petty cash floats/imprest holders were issued an email reminder during March, for all cash balances to be reconciled by year-end and required that a petty cash certificate be completed and submitted to Accountancy by 31st March.
- All main control reconciliations reviewed had supporting evidence attached to the reconciliation in the manual file for both periods 8 and 10 including general ledger balances and reconciling items.
- From the testing undertaken, it was observed that the Period 8 main control reconciliations were printed and held on a manual file. The reconciliation process was undertaken promptly after month end with the reconciliation documents being signed by both the officer completing the review and the reviewing officer. It was also signed off by a senior officer and the file was then reviewed and signed by the Head of Finance - Corporate Resources. The Section 151 Officer undertook a final review of the completed file.
- The Head of Finance - Corporate Resources noted any reasons for late completion or requirements for extra evidence on the copy of the reconciliation and on the control sheet at the front of the file.

2.4 Income systems and General ledger Reconciliations

S24 action plan noted that no reconciliations had been performed between the Council tax /NDR system, tenants rent system and the General ledger throughout the year. It required the Council to reconcile these feeder systems to the General ledger on a monthly basis, clearly setting out the reason/source of reconciling differences by way of working papers to support the reconciliations. (Action point C1&C2)

In response the council agreed that the effective reconciliation between the General ledger and these income streams will be prepared on a monthly basis and form part of the monthly control review process, and reconciliations prepared will be reviewed and challenged to ensure the correct information is reflected in the accounting records.

- We found that there was a timetable used by all Accountants to manage the reconciliations process. This covered the financial year and listed the dates of:
 - Period End
 - When emails should be sent to officers providing information
 - When information is expected to be returned
 - When reconciliations should be produced
- There was a Reconciliation Control Framework in use that included all reconciliations, including Council Tax, NDR, and Tenants Rental Income. Sub-ledgers were included on the consolidated reconciliation control framework and were split by monthly and quarterly completion periods. The reconciliation framework included the names of the officers undertaking reconciliation and review.
- It was observed that the 2017 period 8 (November) Consolidated Reconciliation Control Framework included the name of the officer nominated for completing and reviewing Council Tax, NDR and Tenants Rental income to General Ledger reconciliations and the period number of the last review. All information had been appropriately completed on the period 8 documents. The file and spreadsheet for period 9 (December) was viewed and this had also been completed appropriately.
- Main control reconciliations were printed and retained on a manual file. A list of reconciliations undertaken was included at the front of the manual reconciliation file and included comments relating to the reconciliations undertaken; this evidenced their completion and review.

- The list of main controls held on the monthly reconciliation file identified all reconciliations undertaken and included comments relating to updates and actions required by the Head of Finance - Corporate Resources.
- In the event of their absence, the relevant Accountant was expected to arrange cover to ensure that the timetabled dates for submitting reconciliations were achieved.
- Supporting evidence was available in the period 10 main control reconciliation file to support the Tenants Rental income GL balance and reconciling items.
- Obsolete and non-movement sub-ledgers were recorded separately on the Consolidated Reconciliation Control Framework and were reviewed as part of the reconciliation process. Where unexpected movement or account balances remained, relevant officers were emailed and requested to provide further explanation.

2.5 Statutory Financial Accounts Project Plan

S24 action plan noted that timelines were not appropriately set, adhered to and monitored to ensure that adequate review time was set for working papers across departments. The council needs to ensure that a detailed project plan is in place for preparation of the statutory financial statements and an individual is given responsibility for ensuring all departments adhere to the quality and timing requirements. (Action point A12)

In response, the Council agreed that the year- end planning process will be refined to ensure that a clear timetable, resource and responsibility plan is prepared in advance of year end and will include guidance regarding the required standard and quality of working papers.

- We found that the responsibility for ensuring that the 2017/18 closedown process was achieved had been delegated to the Head of Finance - Corporate Resources. Monitoring of progress of the Closure Plan was undertaken by the Group Accountant – Corporate, who maintained oversight of the Year-End timetable and logged the progress of activity to produce the Statement of Accounts.
- The Head of Finance – Corporate Resources held weekly meetings with the Group Accountant – Corporate and the Group Accountant - Capital to monitor the progress of the Closure Timetable and to discuss and resolve any issues that had been identified.
- We found that a presentation had been made to Group Accountants in March 2018 to communicate the External Audit working papers and evidence requirements, with regard to estimates, debtors, creditors, provisions and grant income. There was an expectation that Group Accountants would disseminate the information to their teams in Team meetings.
- Where a task had been listed on the 2017/18 Closure Timetable, responsibility had been assigned to a team and an individual officer had been identified to provide the information. The Head of Service with ultimate responsibility for ensuring that the task was completed was defined together with the deadline for completion of the task

2.6 Write-Offs

S24 Action plan noted failure to determine NDR & Tenant write offs and required the Council to put in place procedures to ensure that write offs are identified, approved and actioned on a timely basis. (Action point C3)

In response, the council agreed that guidance as to how debt write offs should be managed, reported and authorised as provided in the Financial Procedure Regulations will be reinforced and a monthly review of these debts will be established between the Head of Revenues, Benefits & Exchequer Services and the S151 Officer.

- We confirmed that the Council's Financial Regulations clearly defined the responsibility of Chief Officers and the Director of Finance with regard to identifying bad debt and the financial approval limits for write offs.
- We confirmed that both NDR and Tenants Rent debt were monitored on a regular basis by Exchequer Services and Derby Homes respectively. Monitoring included:
 - The Head of Revenues receiving a monthly monitoring report that included details of NDR collection statistics

- NDR write offs were reported to Cabinet
- Tenants rent debt was reported to Derby Homes Senior Management Team
- Tenants rent debt was considered by the Council/Derby Homes Strategic Board
- Rent arrears were included in the Derby Homes scorecard

2.7 Provisions

S24 Action plan noted a lack of understanding/challenge of provisions made against tenants rents receivable and required that where provisions are made with respect to receivable balances, this should be done based on a documented and reviewed approach, taking into account all relevant data and assumptions. (Action point C3)

In response, the Council agreed to undertake a review of the provisioning policy.

- We confirmed that the Finance Team had a Bad Debt Provision Policy in place that was supported by procedure notes for Housing Rents, Housing Benefit Overpayments, Collection Fund and General Bad Debt Provisions. This had been established in February 2018 and was set for review on an annual basis.
- We confirmed that evidence was available to support the provisions for receivables included in the 2016/17 Accounts.
- We confirmed that the 2017/18 closedown timetable made specific reference to collecting information for the Bad Debt Provision and submitting the journal to the ledger. This was supported by Bad Debt Provision Procedure notes created in February 2018.

3 Control Weaknesses & Recommendations

3.1 Asset Management Systems Reconciliations

- 3.1.1 We expected that the SAM and RAM systems would be reconciled on a regular basis (quarterly according to the then Interim Director of Finance's Action Plan).

S24 Action plan identified that there were no reconciliations performed between the SAM system (used by Estates team) and the RAM system (used by finance team). (Action Point A1)

In response, the Council had performed a reconciliation for the financial year 2016/17 and agreed that going forward, a formal process of review and reconciliation will continue on a quarterly basis and will be signed off by both system owners and evidence of review by senior management documented.

We found that the SAM/RAM asset numbers reconciliation for 2016/17 had been completed and the December 2017 reconciliation was being carried out at the time of the audit. We were informed that the Estates Team were planning to produce a quarterly report of acquisitions, disposals, impairments/enhancements and other changes to the hereditament that had been reflected in SAM. This would be used by Finance to update the RAM system. However, there was no evidence that regular reconciliations were being undertaken.

If reconciliations are not produced promptly and on a regular basis, there is a risk that errors within the Councils financial statements may go unnoticed for a significant period of time. This could cause errors in or delays to the production of the Councils financial statements.

Recommendation 1	Summary Response
<p>Risk Rating: Moderate Risk</p> <p>Summary of Weakness: The SAM and RAM systems reconciliation of numbers of assets had not been undertaken on a quarterly basis as agreed in the Action plan.</p> <p>Suggested Actions: We recommend that once the 2017/18 year end reconciliation has been completed and verified as accurate, a quarterly reconciliation process should be introduced in 2018/19.</p>	<p>Responsible Officer: Nicola Goodacre</p> <p>Issue Accepted</p> <p>Original Response: "The Sam/Ram rec is now being completed quarterly 18/19."</p> <p>Post Audit Response: N/A</p> <p>Implementation Date: Implemented</p>

- 3.1.2 We expected that reconciliations would be signed and dated by both the officer completing the reconciliation and the officers responsible for the review. (Action point A1)

The reconciliation of the number of assets in the SAM and RAM systems was a work in progress at the time of the audit and it was not possible to comment on signing of the

reconciliation by the relevant officers. However, the spreadsheet used for the reconciliation did not include the facility to record the name and signature of the officers who completed and authorised the reconciliation or the date that it was completed.

If the SAM/RAM reconciliation is not signed and dated there is no evidence that issues have been identified and satisfactorily investigated, which could impact on the accuracy of the reconciliation.

Recommendation 2	Summary Response
<p>Risk Rating: Moderate Risk</p> <p>Summary of Weakness: The SAM/RAM reconciliation did not include the facility to record the names and signatures of the officers who completed and authorised the reconciliation or the date that it was finalised.</p> <p>Suggested Actions: We recommend that the officers who complete and authorise the SAM/RAM reconciliation should sign the statement and record the date that they complete their work.</p>	<p>Responsible Officer: Nicola Goodacre</p> <p>Issue Accepted</p> <p>Original Response: "Now implemented".</p> <p>Post Audit Response: N/A</p> <p>Implementation Date: Implemented</p>

- 3.1.3 We expected that there would be a plan, timetable and resources in place to ensure that an automated interface between the SAM and RAM systems would be introduced by September 2017 in line with the Action Plan. (Action Point A1)

At the time of the audit, the automated interface between the SAM and RAM systems was on hold due to other priorities.

Without an automated interface efficiencies may not be realised and manual input errors may occur leading to possible inaccuracies in the financial statements.

Recommendation 3	Summary Response
<p>Risk Rating: Moderate Risk</p> <p>Summary of Weakness: The commitment to implement an automated interface between the SAM and RAM systems in 2017/18 was still unrealised.</p> <p>Suggested Actions: We recommend that further consideration is given to the SAM and RAM automated interface being developed in 2018/19.</p>	<p>Responsible Officer: Nicola Goodacre</p> <p>Issue Accepted</p> <p>Original Response: "The reconciliations did still take place and therefore the information in RAM and therefore the statement would be checked - An interface would be the ideal solution but due to the processes in SAM it is not possible to implement at this time. Processes in SAM need to be addressed as a priority. E.g. the way acquisitions and disposals are put in to SAM.</p> <p>Estates Comments:</p> <p>The development work regarding the integration of the SAM/RAM interface was put on hold (as part of the implementations carried out by the former S151 Officer) in the Autumn of 2017. Despite this, I would suggest that due to the mitigations that have been put in place this risk is now a low risk, not a moderate risk.</p> <p>There is a process in place whereby a manual check is undertaken between both the SAM & RAM system. This action has been incorporated into the Delivery Plan for the delivery of 2018/2019</p> <p>In order to provide full assurance, we suggest that we continue in the short term with the manual checks</p>

between SAM and RAM but we look to re activate the development for the automated system for Elf to be involved with the necessary development.

In addition, some significant work has been undertaken regarding the disposals and acquisition processes – these are currently going through a consultation phase with a view of implementation end of September 2018 – this will provide further assurance that all asset changes are documented on SAM giving further assurance when the SAM/RAM checks are undertaken."

Post Audit Response: N/A

Implementation Date: 01/10/2018

- 3.1.4 We expected that Legal team would have been included in the reconciliation process to ensure that titles are matched to property assets. (Action Point A1)

There was a commitment by Finance to involve the Legal Team in the reconciliation of asset details. This was identified as a requirement to ensure all titles were matched to property assets. At the time of the audit this work was still outstanding.

The Council may not have legal documentation to support the entries on the fixed asset register which may lead to mis-statement in the final accounts.

Recommendation 4	Summary Response
<p>Risk Rating: Low Risk</p> <p>Summary of Weakness: The Legal team had not been included in the reconciliation process to ensure that titles are matched to property assets.</p> <p>Suggested Actions: We recommend that consideration is given to the Legal Team being involved in the SAM and RAM reconciliation processes at year end to ensure all recorded assets on the RAM system are accurate and supported by appropriate land registry forms.</p>	<p>Responsible Officer: Jayne Sowerby-Warrington</p> <p>Issue Accepted</p> <p>Original Response: Issue accepted by Estates and mitigating action proposed.</p> <p>Post Audit Response: NOT ACCEPTED AS AN ISSUE WITH THE STATEMENT - This is a SAM issue in terms of validating data, not a SAM/RAM reco issue.</p> <p>ACCEPTED as low risk by Estates</p> <p>Estates Comments:</p> <p>I can confirm that the issue set out was documented by the former s.151 officer Mark Taylor and from an Estates point of view although we recognise there is a risk around documenting assets to Registered Titles we do not believe that the issue/recommendations are fully relevant and I have documented how we will utilise existing systems to mitigate the risk:-</p> <p>As part of the Council's validation data exercise, the Estates team will ensure that the Council hold all of the assets as set out in the asset valuation programme (the "selected sample").</p> <p>We will achieve this by utilising existing systems (Terrier/mapping systems) which documents all of the Council's Registered Land within the freehold ownership of DCC (and any subsequent changes).</p> <p>This information will be cross referenced with the Balance sheet review (Q4) to show changes.</p>

Implementation Date: 12/02/2019

3.2 Cash and Bank Reconciliations

- 3.2.1 We expected that the system of controls over cash and bank balances would have been subject to review to satisfy concerns raised by External Audit.

S24 Action plan noted that "the Council has insufficient oversight of the cash management function". Concerns were raised with respect to the record keeping and financial controls in place around the management and recording of cash balances (Action point B).

In response, the Council agreed to review and redesign the control framework around cash and bank balances, to ensure effective and timely reconciliation processes are in place. A monthly control review of reconciliations and challenge of unreconciled items will be performed by the relevant Head of Finance

At the time of the audit, a review of the control framework around cash and bank balances had not been completed. We found that the Petty Cash and Bank Imprest Account Policy & Procedure was last reviewed in April 2012 and had not been updated with changes agreed in January 2017 relating to depositing petty cash statements in a folder on the shared drive.

Without the most up to date guidance, there is a risk of actions that circumvent procedures and deadlines may be missed impacting on the accuracy and timeliness of the Council's financial statements.

Recommendation 5	Summary Response
<p>Risk Rating: Low Risk</p> <p>Summary of Weakness: At the time of the audit, the petty cash and bank imprest account policy & procedure had not been updated to reflect changes in the process.</p> <p>Suggested Actions: We would recommend that the April 2012 petty cash policy is reviewed and updated to include the latest working practices.</p>	<p>Responsible Officer: Gill Robinson</p> <p>Issue Accepted</p> <p>Original Response: To be worked on.</p> <p>Post Audit Response: N/A</p> <p>Implementation Date: 01/01/2019</p>

- 3.2.2 We expected that all reconciling differences would be cleared promptly and the necessary adjustments would be made in the accounts. (Action point B)

In response to S24 action point, the Council agreed that a monthly control review of reconciliations and challenge of unreconciled items will be performed by the relevant Head of finance.

We undertook examination of the period 8 cash and bank reconciliations (including schools and imprest for Children's Care Homes) and reviewed a sample of reconciling items. It was identified that the reconciliations contained balances or variances requiring further investigation and journals that had not been processed in a timely manner.

For example, there were 174 unpresented cheques over 6 months old. These were dated from October 2016 to May 2017 and had not been cleared from the ledgers. These items were due to be cleared in period 9. Kiosk cash bank differences were also under investigation.

An additional observation was made during the review. It was identified that the supporting evidence held on file relating to the Accounts Receivable unapplied and unresolved receipts register (a 130 page report – balance of £220,362.83) included unmatched items on the accounts receivable ledgers, some of which were immaterial and/or old.

For example:

- 20p balance outstanding from 06/03/15
- £180.00 balance outstanding from 01/05/15
- £106.00 balance outstanding from 09/06/16
- £525 balance outstanding from 04/04/13

If reconciling items are not investigated and cleared there is a risk that fraud, system or other errors may not be identified. Failure to fully identify and clear reconciling items promptly risks issues not becoming apparent until year-end and could lead to errors in or delays in productions of the financial statements.

Recommendation 6	Summary Response
<p>Risk Rating: Moderate Risk</p> <p>Summary of Weakness: Cash and bank reconciling items were not always identified or cleared in a timely manner.</p> <p>Suggested Actions: We recommend that all journal entries are posted within the appropriate period and that all items in query or under investigation should be resolved promptly.</p> <p>We also recommend that a review is undertaken on the Accounts Receivable unapplied and unresolved receipt balances to ascertain whether the receipts are valid (on the correct account) or had been posted in error. Where possible, unallocated receipts should be matched against invoices and cleared from the ledgers. Consideration should then be given to old unapplied receipts being returned to the debtor or written off.</p>	<p>Responsible Officer: Gill Robinson</p> <p>Issue Accepted</p> <p>Original Response: "We now have monthly reconciliation processes in place that identify issues in a timely manner. However, adjustments cannot be posted in the period as, by their very nature, reconciliations are performed after the period has closed.</p> <p>This recommendation has already been actioned - The Accounts Receivable reconciliation identified an issue with house- keeping where receipts in AR were applied to debtor accounts instead of the customers invoice or actioned correctly following write up. Work was carried out during 2017/18 to reduce the unapplied receipts balance which included the write up of any receipts that were six months or older as at 31st March 2017. AR has allocated resource in response to the issue to keep up to date with housekeeping."</p> <p>Post Audit Response: N/A</p> <p>Implementation Date: Implemented</p>

3.3 Income Systems & General ledger Reconciliations

3.3.1 We expected that all reconciling items would be cleared promptly and the necessary adjustments would be made in the accounts.

S24 Action point required that sub ledgers are reconciled to the general ledger on a monthly basis and ensure that reconciling items are appropriately dealt with in a timely manner. (Action point C3)

We undertook examination of the period 8 Council Tax and NDR reconciliations and reviewed a sample of reconciling items.

We identified that the reconciliations contained balances or variances requiring further investigation and journals that had not been processed in a timely manner.

We found that the NDR write backs and Council Tax returned BACs had been processed on one system but not processed on related systems at month end, requiring a reconciling entry.

Council Tax write back from April to August 2016 had been processed in the 2016/17 general ledger but had not been processed on ICON Income system or the Accounts Payable system until 2017/18.

As at period 10 – January 2018, it was identified that a number of the items included within the Tenant Rental Income to General Ledger reconciliation were in query or under investigation and that journals were also not being processed in a timely manner.

We undertook examination of reconciliations of sub-ledgers to the general ledger and reviewed a sample of reconciling items.

- B100706 Accounts Payable Cash Account - 7108
- Y020102 Customs & Excise Control
- B071521 Debtors Control A/C

- B071512 Debtors Control Unapplied Items
- B081504 Creditors Control A/C
- B081512 Internal Creditors
- Y010248 Student Loans Deductions
- Y010235 Statutory Maternity Pay
- Y010233 PAYE
- Y010234 National Insurance

We identified that a number of the reconciliations reviewed contained balances or variances requiring further investigation and that some journals had not been processed in a timely manner.

In some instances the reconciling items under investigation had not been individually itemised but included as part of a larger figure which included timing and / or identified differences, the differences had been noted in the narrative.

If reconciling items are not investigated and cleared there is a risk that fraud, system or other errors may not be identified. Failure to fully identify and clear reconciling items promptly risks issues not becoming apparent until year-end and could lead to errors in or delays in productions of the financial statements.

Recommendation 7	Summary Response
<p>Risk Rating: Moderate Risk</p> <p>Summary of Weakness: Income systems' (Ctax, NDR, Rents) reconciling items were not always identified or cleared in a timely manner.</p> <p>Suggested Actions: We would recommend that all journal entries should be promptly posted and that all items in query or under investigation should be resolved promptly.</p>	<p>Responsible Officer: Peter Shillcock</p> <p>Issue Accepted</p> <p>Original Response: "We have monthly reconciliation processes in place that identify issues in a timely manner. Adjustments cannot be posted in the period as, by their very nature, reconciliations are performed after the period has closed."</p> <p>Post Audit Response: Internal Audit reviewed the Council Tax reconciliation for September 2018 and was satisfied that differences were properly documented and cleared in a timely manner.</p> <p>Implementation Date: Implemented</p>

- 3.3.2 We expected that appropriate supporting evidence would be attached to the reconciliation, including ledger reports, other system reports (where relevant) and details of reconciling items to provide sufficient audit trail.

S24 Action plan required that the council should reconcile feeder systems to the general ledger on a monthly basis, clearly setting out the reasons/source of reconciling differences by way of working papers to support the reconciliation. (Action point C1)

We undertook examination of the period 8 Council Tax and NNDR system reconciliations and reviewed a sample of the supporting evidence.

It was identified that Council Tax and NNDR reconciliations included opening balance information which could not be agreed to the oracle report extract (trial balance) held as supporting evidence on the manual file or the Consolidated Reconciliation Control Framework trial balance figure.

The differences were attributed to 2016/17 brought forward figures included within the YTD figures as at the April 2017.

NNDR

General Ledger reconciliation balance	-£60,658,801.75
Trial balance supporting evidence on file/reconciliation framework	-£57,726,327.51
Difference	-£2,932,474.24

Council Tax

General Ledger reconciliation balance	-£76,712,829.91
Supporting evidence on file reconciliation framework	-£64,891,087.25
Difference	-£11,821,742.66

We chose a range of accounts extracted from the Consolidated Reconciliation Control Framework and tested them to confirm that there was adequate evidence on file to support the reconciliations.

It was identified that on the creditor control a/c reconciliation there were unexplained differences between the reconciliation cumulative year to date balance and the balance on the Consolidated Reconciliation Control Framework. The supporting evidence on file correctly agreed with the reconciliation figure (this difference related to year end items from the previous financial year, 2016-17).

Creditors

Creditors Control Reconciliation (B081504)	-£28,043,669.69
Consolidated Reconciliation Control Framework balance	-£28,468,877.85
Difference	-£425,208.14

Supporting evidence was available in the period 8 main control reconciliation file to support the general ledger balance and reconciling items.

Differences were identified relating to PAYE, NI and SMP. The differences were recorded and explained on the cost centre as requiring correcting journals, which were all completed by period 10 and were now included in the main control manual reconciliation file

If reconciliations are not supported by documented evidence explaining all differences it could lead to errors in or delays in production of the financial statements.

Recommendation 8	Summary Response
<p>Risk Rating: Moderate Risk</p> <p>Summary of Weakness: The reconciliation figures on the G/L did not always agree to the evidence in the trial balance held on file and information relating to reconciling items was not available in every case.</p> <p>Suggested Actions: To ensure the initial figures on the reconciliation agree to the trial balance evidence held on file we recommend that a standing note is added to the reconciliation template clearly identifying the reason for the recurring differences each month.</p>	<p>Responsible Officer: Peter Shillcock</p> <p>Issue Accepted</p> <p>Original Response: "The Main Controls deadline is 1 week following the general ledger closure; however the Control Framework is not prepared until 2 weeks following the general ledger closure. Due to 2016/17 year-end adjustments the ledger had moved during the week between each deadline. For completeness should any year-end adjustments be required then a note is added to the reconciliation to explain."</p> <p>Post Audit Response: Accountancy provided information from the General Ledger to support the 2016/17 closing balance figures for the Council Tax and NNDR reconciliations.</p> <p>Implementation Date: Implemented</p>

3.4 Statutory Financial Accounts Closedown Timetable

- 3.4.1 We expected that there would be a comprehensive, formal year end closedown timetable in place to manage the preparation of the statutory Financial Statements.

The Section 24 Action plan identified that timelines were not appropriately set, adhered to and monitored to ensure that adequate review time was set for working papers across departments. The Council was guided to ensure that a detailed project plan was in place for preparation of the statutory financial statements and an individual was given responsibility for ensuring that all departments adhere to the quality and timing requirements contained therein. (Action point A12)

In response, the Council agreed that the year-end planning process would be refined to ensure that a clear timetable, resource and responsibility plan was prepared well in advance of year end. The revised process would include guidance on working paper standards and quality assurance and evidenced review of information supporting key account balances.

We found that there was a Closure Timetable in place for the 2016/17 financial year end and we were provided with a draft timetable for the 2017/18 year end process. The 2017/18 draft timetable demonstrated that the Accountancy Team had considered the comments of the External Auditors and a number of new tasks had been included in the plan (mainly around capital accounting and fixed assets).

However, review of the timetable identified that some expected tasks/items had not been included. We identified that:

- The Timetable did not include discrete steps that would demonstrate to External Audit that all of the issues identified in the S24 letter had been considered or addressed (for example consideration of the use of indexation to approximate asset valuations and early consultation with External Audit, review of the use of Eureka Fees and the reconciliation of the Eureka Fees spreadsheet to the ledger).
- The Timetable did not include all tasks relating to information required from other Departments (for example employee benefits from the HR Department).
- It did not have a field to record when a task had been completed (ideally with the date completed) to provide Senior Management with a single document that demonstrated progress against the plan.

- There was no list or link to working papers/documents required by External Audit.

There is a risk that the draft 2017/18 Closedown Timetable is not a complete record of all tasks that require completion to produce the statement of accounts. If a comprehensive timetable process is not maintained, there is a risk that key tasks could be omitted or overlooked. This in turn could impact on the successful production of the Council's statement of accounts.

Recommendation 9	Summary Response
<p>Risk Rating: Low Risk</p> <p>Summary of Weakness: The draft 2017/18 Closedown Timetable was not comprehensive. Some expected tasks had been omitted from the plan.</p> <p>Suggested Actions: We recommend that the Closedown Timetable should be reviewed to ensure that it includes all tasks that need to be completed to produce the Statement of Accounts (particularly where the Accountancy Team rely on other Sections/Departments to provide information). We also recommend that the information recorded on the Timetable be increased to make it more appropriate for the management of the closedown process (for example by including a record that tasks have been completed or a note of information required by the External Auditors).</p>	<p>Responsible Officer: Peter Shillcock</p> <p>Issue Not Accepted</p> <p>Original Response: "The Closedown timetable contains the key milestones that need to be achieved in order to produce the financial statements over the closedown period. It is not practical to have every task on the timetable. In addition the 17/18 timetable has enabled us to deliver a set of draft accounts in accordance with the statutory deadline of 31 May, a month earlier than in previous years."</p> <p>Post Audit Response: Internal Audit held further discussions with Accountancy and new information was provided that demonstrates that there are various documents in place to manage the Closedown process. Although Accountancy maintain that the current process is sufficient to manage the Closedown, Internal Audit consider that it would be appropriate to include additional tasks in the Closedown Timetable to demonstrate that all of the issues raised by External Audit in the S24 had been considered and addressed.</p> <p>Implementation Date: Risk Accepted</p>

- 3.4.2 We expected that there would be documented evidence that all of the issues identified by External Audit had been built into the year end planning process.

Finance had responded to a number of issues in the External Audit S24 letter with a commitment to include a specific task in the year end planning process (including the closedown timetable) to cover:

- The documented review of asset lives
We were unable to identify a step in the closedown plan for the 2017/2018 financial statements that covered the review of asset lives. Finance officers confirmed that this aspect had not been included in the closedown plan because it was viewed as a responsibility of the Estates Team to agree a completion date with the Valuer that would facilitate delivery of the year end closedown. Finance officers also expected the Estates officers to monitor delivery through their management of the contract with the professional valuation provider.
- In addition to building this process into the year end planning processes, the Council agreed to use the CIPFA Checklist. We were advised that it would only be used once the closedown had been completed and the draft financial statements had been

produced. It would be used to check that all expected tasks had been completed during the closedown process.

- The close-down process should include provision for the documented review of indicators of impairment.

The Council had agreed that significant events leading to impairment or other significant change in valuation would be reinforced. The CIPFA Checklist would be used to provide an "effective control to ensure all aspects of the "code" are considered in the preparation of the accounts"

Although there was evidence that the closedown timetable had been expanded for the 2017/18 process, the tasks above were still not included in the timetable.

If impairment/changes in valuation and review of asset lives are not included as specific tasks in the closedown timetable they may not be considered in a timely manner. This could lead to potential inaccuracies in the financial statements.

Recommendation 10	Summary Response
<p>Risk Rating: Moderate Risk</p> <p>Summary of Weakness: Consideration of impairment indicators, asset lives and the reconciliation of capitalised salaries were not included as tasks in the closedown timetable.</p> <p>Suggested Actions: We recommend that consideration of impairment indicators, asset lives and the reconciliation of capitalised salaries should be included as discrete tasks in the closedown timetable.</p>	<p>Responsible Officer: Peter Shillcock</p> <p>Issue Accepted</p> <p>Original Response: "They are not required to be included in the timetable as discrete tasks as they are reconciled during the year, either monthly or quarterly. In addition, the post balance sheet report that is in the closedown timetable does encapsulate these items."</p> <p>Post Audit Response: Review of the draft 2018/19 Closedown Timetable identified that there are now two tasks relating to impairment and seven relating to assets. Audit still recommend that a task should be added to the Timetable to require a reconciliation of capitalised salaries. This does not need to be identified as a separate weakness but can be included in recommendation 9.</p> <p>Implementation Date: Implemented</p>

- 3.4.3 We were not provided with any evidence that the CIPFA Checklist had been developed to record that tasks had been completed, by which officer and when. There were also no links to working papers or evidence to support completed tasks. The assertion by Finance that the CIPFA Checklist would only be used after closedown had been completed raised concerns regarding the timeliness of such an exercise. We were also advised by departments including the Estates department that they had not been furnished with such a document.

If the CIPFA Checklist is only used after the closedown process has ended and the Year End Timetable is not a complete list of all tasks that need to be completed to deliver a fully supported set of Accounts, there is a risk that tasks and activities will not be done.

Recommendation 11	Summary Response
<p>Risk Rating: Low Risk</p> <p>Summary of Weakness: There was no single document to manage the completion of the closedown process and, although the CIPFA Checklist was considered a key control document by Finance, it was only used after the statements had been produced.</p> <p>Suggested Actions: We recommend that Finance develop one document to manage the closedown process that identifies all key tasks including those from the CIPFA Checklist (if only as headlines), the officer responsible and the required completion date.</p>	<p>Responsible Officer: Peter Shillcock</p> <p>Issue Not Accepted</p> <p>Original Response: "Such a document would be unwieldy and may be poorly understood by users. We do have a closedown timetable to identify and manage the key milestones. We have to sign-off packs that capture key information for the financial statements that are signed off by the relevant Group Accountant.</p> <p>The CIPFA checklist is used during the preparation of the accounts but we don't complete it until the final version of the statement is completed as it needs to reference page numbers that may change as the statement is produced. We see no value issuing to other officers as they are not directly involved in compiling the financial statements."</p> <p>Post Audit Response: Accountancy provided evidence of additional documents that were used during the management of the Closedown process (Accounts Information Sign Off packs, Capital Closedown Instructions, a spreadsheet used to define responsibility for and manage the production of statements). They maintain that it would be unwieldy and unnecessary to have one single document to manage the process.</p> <p>Internal Audit accept that there is a system in place to manage the Closedown process but we are still unable to take assurance that it is a joined up procedure that can deliver a clear position statement at any particular time.</p> <p>Implementation Date: Risk Accepted</p>

- 3.4.4 We expected that the project plan for preparation of the financial statements would be subject to a scheduled review by suitably qualified staff, from all relevant disciplines.

We anticipated that there would be a scheduled review of the Closure Timetable for the year-end process that had just been completed, to identify and document good practice or areas that required improvement for future years. We expected that the draft Closure Timetable would be reviewed by all Sections/Departments that were to provide an input to the process in order to identify potential bottlenecks, staff absences at critical points etc and to ensure "buy in" by all parties involved.

Although there had clearly been changes between the 2016/17 and 2017/18 Closure Timetables (36 additional tasks had been added to the 2017/18 Timetable) these were all as a response to the S24 issues. The Timetable did not include a requirement for an annual review of the closedown process.

If the current year's closedown process is not reviewed, it is possible that appropriate adjustments are not made to improve future year's production of the Council's financial statements.

Recommendation 12	Summary Response
<p>Risk Rating: Moderate Risk</p> <p>Summary of Weakness: There was no evidence of a scheduled "lessons learnt" review of the year end timetable/process, to identify scope for improvement, after completion of the financial statements.</p> <p>Suggested Actions: We recommend that a review of the year end process to identify areas of good practice and poor performance would enhance the process and would provide early notification of areas for further improvement in the 2018/19 closedown.</p>	<p>Responsible Officer: Peter Shillcock</p> <p>Issue Accepted</p> <p>Original Response: "We do have lessons learnt sessions with the service teams and we have a session booked in September to address issues that have arisen during the 17/18 audit."</p> <p>Post Audit Response: Accountancy have provided evidence of scheduled meetings to discuss the outcome of the 2017/18 Closedown together with copies of the slides used at these meetings. In addition, the Closedown Timetable for 2018/19 includes a Closure Review in the list of tasks.</p> <p>Implementation Date: Implemented</p>

- 3.4.5 We expected that officers responsible for providing information would be recorded in the Closedown Timetable. We also expected that detailed guidance would have been provided to officers to define the format of the information required to ensure an efficient and timely close down process.

The 2017/18 Closure Timetable had been circulated to all Heads of Service on the 17th of January 2018. However, the first task on the Timetable had a deadline of the 15th January.

We were informed by Head of Strategic Asset Management & Estates that the officer responsible for delivery of several tasks allocated to the Estates Section had not been consulted on the deliverability of the timescales noted in the timetable and no guidance had been issued to the Estates Section in these respects.

We were informed by Head of Strategic Asset Management & Estates that officers within the Estates and Finance Teams met each week to discuss issues arising. Initially, meetings were not minuted, but, more recently, notes had been taken and circulated. We were further informed by Finance Officers that closedown requirements had been discussed in the weekly liaison meetings between the two teams. Written procedural guidance and specimen documentation were not thought to be required.

Review of the meeting notes from these meetings did not highlight any evidence that the closedown plan had been presented to the Estates team for comment or input to affirm that deadlines were achievable or of any agreement of the overall closedown process by the Estates team. From 3067

We could not locate any procedural notes that would give guidance on how the timetable elements should be achieved or how information and values should be presented. Examples of standardised working papers and other documents had not been published.

If Accountancy do not consult with the Departments/Sections that are required to provide information for the year end process it is possible that the Closure Timetable includes unachievable deadlines that cause issues with producing the Statement of Accounts. Formal guidance notes and early consultation with Departments/Sections before the process begins would ensure that all officers are aware of information requirements (format and timeliness), who is responsible for providing information and could identify potential bottlenecks.

Recommendation 13	Summary Response
<p>Risk Rating: Low Risk</p> <p>Summary of Weakness: There was no evidence that the Departments/Sections that were expected to provide information for the year end process were consulted before the process began.</p> <p>Suggested Actions: We recommend that Accountancy should consult all Departments/Sections that are expected to contribute to the year end process before the Closure Timetable is finalised. Early consultation before issuing the timetable would lead to the active engagement of all parties and would provide a definition of the requirements against which contributors could be held accountable.</p>	<p>Responsible Officer: Peter Shillcock</p> <p>Issue Accepted</p> <p>Original Response: "In 15/16 we had a closure launch which involved key officers. In 16/17 key officers were contacted either by email or weekly meetings. For 17/18 we had a closure launch with the accountants and contacted key officers via email or meetings. We will be having a closure launch for 18/19, including issuing guidance, early in 2019."</p> <p>Post Audit Response: Accountancy provided email evidence that the Accounts Payable and the Information Systems Teams had been consulted regarding the dates included in the 2017/18 Closedown Timetable prior to the start of the process.</p> <p>Implementation Date: Implemented</p>

3.5 Write-Offs

- 3.5.1 We expected that the procedure for identifying, approving and actioning write-offs would be properly documented and available to all officers involved in the process.

We found that there were Write-Off procedure notes in place for Council Tax, Housing Benefits, Non-Domestic Rates and Account Receivables. However, we also found that as at May 2018 there were two versions of the Council's Financial Regulations available on iDerby (the Council's intranet site). One version was under the Finance, Procurement, Legal and Tax signpost and was dated November 2015. The second version was within the Council's Constitution and was dated March 2016.

If there are two versions of the Council's Financial Regulations available for staff to refer to, there is a risk that this could lead to confusion and the application of out of date and incorrect procedures.

Recommendation 14	Summary Response
<p>Risk Rating: Low Risk</p> <p>Summary of Weakness: There were two differently dated versions of the Council's Financial Regulations available on the Council's intranet site, iDerby.</p> <p>Suggested Actions: We recommend that there should be consistency with the Financial Regulations held on iDerby and only the most recent version should be available. If it is necessary to hold more than one copy of the Regulations on the intranet all links should point</p>	<p>Responsible Officer: Peter Shillcock</p> <p>Issue Accepted</p> <p>Original Response: "Agreed and corrected. This was only in place in 18/19 for a small window as there was time-lag between updated version being put on the system and sorting out the appropriate IT links."</p> <p>Post Audit Response: We found that Accountancy had</p>

to the same document so that it is only necessary to update it once.

taken steps to update the Financial Procedure Rules and ensure they were consistent across the intranet.

Implementation Date: Implemented

- 3.5.2 We expected that the requirement to adhere to Financial Regulations, in particular in respect of write-offs, would have been regularly communicated to all staff involved in the process.

We discussed with the Head of Revenues, Benefits and Exchequer Services and with the Head of Finance, Corporate Resources, how the requirement of adhering to the Council's Financial Regulations had been communicated with staff responsible for administering the write-off of money owing to the Council. Both officers provided assurance that action had been taken in this regard but this had been informal and there were no minutes or meeting notes available as evidence of this or to support the assurance provided.

If staff involved in the administration of Council debt write offs are not regularly reminded of the requirements of adherence to the Council's Financial Regulations, there is a risk that staff could fail to comply with the Regulations. This could lead to a risk of a breach of internal controls designed to prevent fraudulent activity and protect public funds.

Recommendation 15	Summary Response
<p>Risk Rating: Low Risk</p> <p>Summary of Weakness: There was no evidence that Staff had been formally reminded to adhere to the Council's Financial Regulations regarding the procedure for writing off Council debt.</p> <p>Suggested Actions: We recommend that the Head of Revenues, Benefits and Exchequer Services and the Head of Finance, Corporate Resources take action to reinforce Financial Regulations with regard to debt write-offs with all staff involved in the process. There should be clear evidence that action has been taken (eg copies of emails, meeting notes). We also recommend that separate action should be taken to remind all staff of the importance of being aware of Financial Regulations and their responsibility to ensure that they all comply with them. This could be through iDerby or In Touch and should be repeated on at least an annual basis.</p>	<p>Responsible Officer: Toni Nash</p> <p>Issue Accepted</p> <p>Original Response: " Head of Revs & Bens response: A scheme of delegation, signed by the Director of Finance and section 151 Officer at the time, delegated write-offs with a value below £10,000 to different officers, depending upon the value of the write-off. Relevant staff were made aware of this by email. As such I believe relevant staff have been made aware of the Financial Procedure Rules (FPR) and comply with them. I have also written & circulated a write-off protocols document to relevant staff which sets out more detail and re-iterates the need to comply with FPR when undertaking write-off action."</p> <p>Post Audit Response: We are satisfied that write off procedures have been reinforced with staff involved in write-offs. We understand that the Financial Procedure Rules are currently under review and we suggest that, once this is completed, all staff are prompted to familiarise themselves with the new document.</p> <p>Implementation Date: Implemented</p>

4 Appendices

4.1 Appendix A

4.1.1 Derby City Council S24 Action Plan in response to the statutory recommendation.



S24 Action Plan.pdf

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The central midlands audit partnership was formed to provide shared internal audit services to local authorities in the region. CMAP currently provides audit services to three District Councils, a Unitary Council, a Housing ALMO and a Fire Authority and welcomes further public sector partners or clients from within the region.



Providing Excellent Audit Services in the Public Sector