F B McArdle
Chief Executive
South Derbyshire District Council,
Civic Offices, Civic Way,
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Our Ref
Your Ref

Date: 3rd July 2020

Dear Councillor,

Audit-Sub Committee

A Meeting of the **Audit-Sub Committee** will be a **Virtual Committee**, via Microsoft Teams on **Monday, 13 July 2020** at **16:00**. You are requested to attend.

Yours faithfully,

Chief Executive

Conservative Group

Councillor Atkin (Chairman), Councillor Churchill Vice-Chairman) and Councillor Mrs. Wheelton

Labour Group

Councillors Dunn and Shepherd

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AGENDA

Open to Public and Press

1	Apologies and to note any Substitutes appointed for the Meeting.	
2	To note any declarations of interest arising from any items on the Agenda	
3	To receive any questions by members of the public pursuant to Council Procedure Rule No.10.	
4	To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11.	
5	EXTERNAL AUDIT PLANNING REPORT FOR YEAR ENDING 31ST MARCH 2020	**4 - 44**
6	PROPSED INTERNAL AUDIT PLAN 2020-21	**45 - 60**
7	INTERNAL AUDIT PROGRESS REPORT	**61 - 105**
8	LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING QUARTER 1 MARCH 2020	**106 - 119**
9	THE ROLE AND RESPONSIBILITIES OF THE CHIEF FINANCE OFFICER IN LOCAL GOVERNMENT	**120 - 126**
10	THE CIPFA FINANCIAL MANAGEMENT CODE	**127 - 141**
11	ANNUAL REPORT OF AGREED UPON PROCEDURES 2018-19	**142 - 155**
12	PROPOSED EXTERNAL AUDIT FEE 2019-20	**156 - 164**
13	COMMITTEE WORK PROGRAMME	**165 - 168**

Exclusion of the Public and Press:

14 The Chairman may therefore move:-

That in accordance with Section 100 (A)(4) of the Local Government Act 1972 (as amended) the press and public be excluded from the remainder of the Meeting as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that there would be disclosed exempt information as defined in the paragraph of Part I of the Schedule 12A of the Act indicated in the header to each report on the Agenda.

15 To receive any Exempt questions by Members of the Council pursuant to Council procedure Rule No. 11.

Details

REPORT TO:	**AUDIT SUB COMMITTEE**	**AGENDA ITEM:5**
DATE OF MEETING:	**13th JULY 2020**	**CATEGORY: DELEGATED**
		OPEN
REPORT FROM:	**EXTERNAL AUDITOR**	
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE (01283 595811)** kevin.stackhouse@south-derbys.gov.uk	**DOC:** u/ks/audit/EY/audit plan cover
SUBJECT:	**AUDIT PLANNING REPORT FOR THE YEAR ENDING 31 MARCH 2020**	**REF:**
WARD(S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: AS 01**

1.0 Recommendations

1.1 That the proposed Audit Plan for the year ending 31 March 2020 is considered and approved.

2.0 Purpose of Report

2.1 For Ernst and Young LLP (EY) as the Council's appointed auditors, to present their Audit Plan for the year ending 31 March 2020.

3.0 Detail

3.1 The Audit Plan sets out how EY intend to carry out their responsibilities as Auditor. This will determine:

- Their opinion on whether the financial statements of South Derbyshire District Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and

- Their conclusion on the Council's arrangements to secure economy, efficiency and effectiveness. to provide an opinion on whether the Council's Accounts present a true and fair view

3.2 The Plan summarises the Auditor's initial assessment of the key risks driving the development of an effective audit for the Council and outlines the planned work to assess those risks.

4.0 Financial Implications

4.1 The Audit Plan provides an estimate of the fees that will be charged to the Council and how they are calculated. The fee for 2019/20 is still to be determined and this is subject to a separate report elsewhere on the Agenda.

5.0 Corporate Implications

5.1 None directly.

6.0 Community Implications

6.1 None directly.

7.0 Background Papers

None

Audit planning report 2019/20

South Derbyshire District Council

Year ended 31 March 2020

16 March 2020

Building a better working world

Private and Confidential

16 March 2020

Audit-Sub Committee
South Derbyshire District Council
Civic Way
Swadlincote
DE11 0AH

Dear Committee Members

External Audit planning report 2019/20

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit-sub Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned to your expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit-sub Committee and senior management of the Council, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 25 March 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Henshaw
Associate Partner
For and on behalf of Ernst & Young LLP

Enc

Contents

01 Overview of our 2019/20 audit strategy

02 Audit risks

03 Value for Money Risks

04 Audit materiality

05 Scope of our audit

06 Audit team

07 Audit timeline

08 Independence

09 Appendices

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit-Sub Committee and management of South Derbyshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of South Derbyshire District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit-Sub Committee and management of South Derbyshire District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2019/20 audit strategy

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit-sub Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk/ Significant risk	No change in risk or focus from the prior year	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. See page 9 for details.
Misstatements due to fraud or error	Fraud risk	No change in risk or focus from the prior year	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. Further details are outlined at page 10.
Valuation of property, plant and equipment (PPE) – land and buildings	Higher inherent risk and area of audit focus	No change in risk or focus from the prior year	PPE accounts for a significant proportion of the Council's assets (£143m at 31 March 2019). The valuation of land and buildings is subject to a number of assumptions and judgements by management's expert. There is a risk that the use of inappropriate assumptions or methodologies may have a material impact on the financial statements. Further details are on page 11.
Local Government Pension scheme (LGPS)	Higher inherent risk and area of audit focus	No change in risk or focus from the prior year	Funding of the Council's participation in the LGPS will continue to have an impact on both its cash flows and the liability in the balance sheet. The Council is a members of the LGPS, administered by Derbyshire Pension Fund. The net pension liability was £41.7 million as at 31 March 2019. The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations requires advice from an external specialists, to provide these actuarial assumptions. A small movement in these assumptions could have a material impact on the value in the balance sheet. Further details are provided at page 12.
IFRS 16 – accounting for leases	Area of audit focus	New area of focus	Although the new standard will not be included in the CIPFA Code of Practice until 2020/21, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020. As you will be required to include the estimated impact of IFRS16 within your 2019/20 financial statements, you will need to provide evidence to demonstrate that an impact assessment has been undertaken, it is complete, and that any disclosures are free from material misstatement. Further details are provided at page 13.

Overview of our 2019/20 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of South Derbyshire District Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and

- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Audit team changes

Key changes to our team.

Helen Henshaw (CPFA, ACA) – Associate Partner
Helen will be taking on the engagement lead role for 2019/20. Helen has over 20 year's audit experience across the public and private sector. She now specialises in public sector audit, serving a portfolio of Health and Local Government clients.

Overview of our 2019/20 audit strategy

Materiality

Planning materiality
£970k

Planning materiality has been set at £970k, which represents 2% of the prior years gross expenditure on provision of services. This is consistent with the prior year.

Performance materiality
£730k

Performance materiality has been set at £730k, which represents 75% of materiality. Last year performance materiality was set at 50% of materiality.

Audit differences
£48k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement) greater than £48k. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Standards Committee.

Audit Timetable

Janet Dawson, the UK Government and Public-Sector Assurance Leader for Ernst & Young LLP wrote to all Chief Financial Officers and Audit Committee Chairs for PSAA audited bodies in February 2020 setting out our views on the sustainability of UK local public audit.

At the end of January 2020, 85 organisations had not yet received their audit opinion on the 2018-2019 financial statements. The factors that have led to this unprecedented position are extensive, impact all audit suppliers in the PSAA contract and need to be considered by public sector finance professionals and Audit Committees. In summary, the types of issues and challenges we have seen include:

- Financial reporting and decision making in local government has become increasingly complex.
- Some local authorities have a shortage of financial reporting skills, capabilities and weaknesses in audit readiness (including keeping pace with technological advancement in data management and processing for audit).
- There has been a significant increase in the specialised skills, time and cost required by auditors to address regulatory expectations.
- Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff.

To ensure we deliver the best quality audits, the PSAA, NAO and Local Public Audit Stakeholder forum have been informed that we will be scheduling a number of 2019/20 external audits for completion after the 31st July 2020. One of these is South Derbyshire District Council. The main driver of this decision was our desire to retain audit team continuity as far as possible to assist the delivery of an efficient, high quality audit. It does not reflect on the audit readiness of the Council.

The requirements of the Accounts and Audit Regulations 2015 are to publish a statement of accounts, annual governance statement and narrative statement by the 31st July with or without an audit opinion. If you are not able to publish an audit opinion at that time, you should explain why. This means the 31st July is not a statutory audit deadline. We will work with management to ensure that the publication requirements are met. Further details on the timetable can be found in section 7 of this report.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by *) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition*

Financial statement impact

We consider the risk applies to:

- Inappropriate capitalisation of revenue expenditure and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement; and
- Inappropriate cut-off of revenue expenditure and non-grant income at the year-end date resulting in transactions being recorded in the wrong financial period.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Our audit approach

In order to address this risk we will carry out a range of procedures including:

- Reviewing the appropriateness of expenditure recognition and capitalisation accounting policies;
- Testing the year end cut-off of expenditure and non-grant income to ensure that transactions have been recorded in the appropriate financial period;
- Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statement, specifically those that move expenditure to PPE balance sheet general ledger codes; and
- Performing sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised.

Our response to significant risks (continued)

	What is the risk?	What will we do?
Misstatements due to fraud or error*	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	• Identifying fraud risks during the planning stages. • Inquiry of management about risks of fraud and the controls put in place to address those risks. • Understanding the oversight given by those charged with governance of management's processes over fraud. • Consideration of the effectiveness of management's controls designed to address the risk of fraud. • Determining an appropriate strategy to address those identified risks of fraud. • Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	Our audit approach?
Valuation of land and buildings Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. The fair value of other land and buildings represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. The Council land and building assets are annually valued, and are subject to a number of assumptions and judgements, which if inappropriate could result in a material impact on the financial statements	We will; • Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding • Evaluate the competence, capabilities and objectivity of management's specialist. • Review the terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards. And assess if the instruction includes a specific instruction from the council to the valuer relating to an assessment on the unvalued population; • Consider the work performed by the Council's external valuer, including the adequacy and scope of the work performed. • Perform a sample test the asset data used by the valuer over the completeness and appropriateness of information provided to the valuer in performing their valuations (e.g. floor plans to support valuations based on a price attributed to area measurements); • Review the classification of assets and ensure the correct valuation methodology has been applied. • Consider changes to useful economic lives as a result of the most recent valuation; • Test the accounting entries have been correctly processed and recorded in the financial statements; and • Review any assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;

Other areas of audit focus (continued)

What is the risk/area of focus?	Our audit approach
Pension Liability Valuation - LGPS The Local Authority Accounting Code of Practice and IAS19 require extensive disclosures within the financial statements regarding membership of the Local Government Pension Scheme administered by Derbyshire County Council. The information disclosed is based on the IAS 19 report issued to the Council by the actuaries to the County Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates	We will: • Liaise with the auditors of Derbyshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to South Derbyshire District Council; • Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
IFRS16 - leases IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as "pay as you go" arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset. Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to published, but in July 2019 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'. This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including: ▸ the identification of leases ▸ the recognition of right-of-use assets and liabilities and their subsequent measurement ▸ treatment of gains and losses ▸ derecognition and presentation and disclosure in the financial statements, ▸ the management of leases within the Prudential Framework. The guidance also covers the transitional arrangements for moving to these new requirements, such as: ▸ the recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees ▸ the mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes).	IFRS 16 - leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. Although the new standard will not be included in the CIPFA Code of Practice until 2020/21, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020. In particular, full compliance with the revised standard for 2020/21 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2020 in order to identify: ▸ all leases which need to be accounted for ▸ the costs and lease term which apply to the lease ▸ the value of the asset and liability to be recognised as at 1 April 2020 where a lease has previously been accounted for as an operating lease. We will discuss progress made in preparing for the implementation of IFRS 16 - leases with the finance team over the course of our 2019/20 audit.

Other matters

What is the area of focus?	What will we do?
Going Concern Compliance with ISA 570 This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee. The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.' 'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'	The revised standard requires: • auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias; • greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Council obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements; • improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the Council are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements; • a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and • necessary consideration regarding the appropriateness of financial statement disclosures around going concern. The revised standard extends requirements to report to regulators where we have concerns about going concern. We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.

03 Value for Money Risks

Value for Money

Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

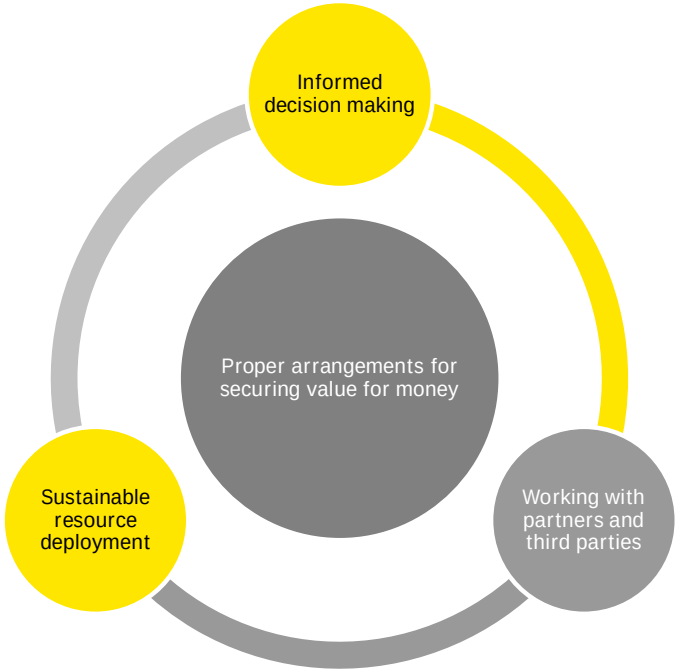
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2019/20 this has included consideration of the steps taken by the Council to consider medium-term financing and investment.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. Our risk assessment is ongoing, but thus far has resulted in the identification of the significant risks noted on the following page which we view as relevant to our value for money conclusion.



Value for Money Significant Risks

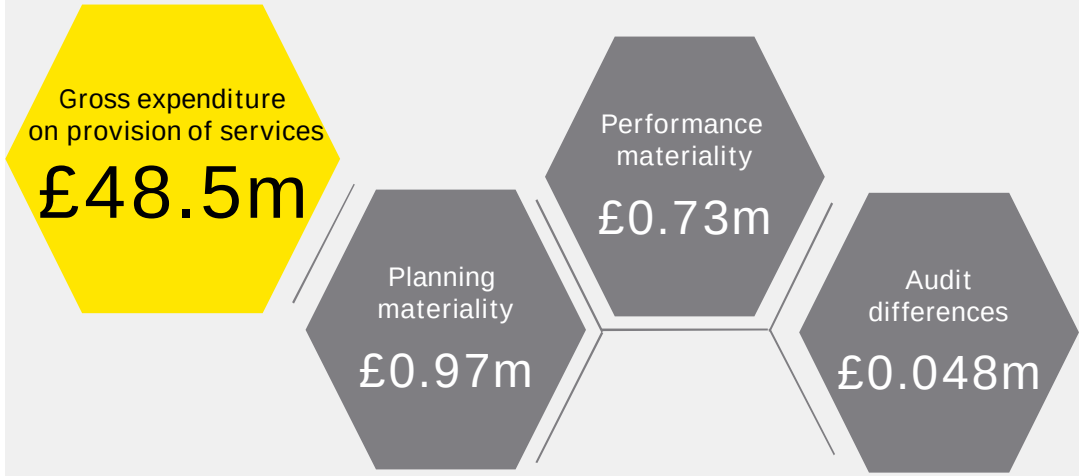
What is the significant value for money risk?	What arrangements does the risk affect?	Our audit approach
Securing financial resilience Review of the updated of the medium term financial strategy (MTFS) reported to Finance and Management Committee on 13 February 2020, outlines that the Council has forecasted budget deficits from 2020/21 to 2024/25, ranging from £0.76m to £1.4m, respectively. These gaps will require the Council to will require a draw its general fund reserves. The impact is the general fund reserve will fall from £8.5m to 2.1m, over that period but remaining above the Council's minimum level threshold of £1m.	Deploy resources in a sustainable manner Planning resources effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	We plan to: ▪ Review the detail of the revised MTFS including assessing the adequacy of the major assumptions used including the Council's plans to update the MTFS following the announcement in the March budget to suspend business rates for small businesses in the retail and leisure sectors. ▪ Review the Council's arrangements to develop a robust savings plan to address the future financial challenges and maintain an adequate level of reserves.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £0.97m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



We request that the Audit-Sub Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.73m which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and balance

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit-Sub Committee, or are important from a qualitative perspective.

Specific materiality – We have considered disclosures in the financial statements where misstatement at a lower level than our overall materiality level might influence the reader of the financial statements. For our strategy we have assessed the Remuneration disclosures including any severance payments, members allowances exit packages and termination benefits as numerically sensitive and set a materiality level of £1k, being the rounding number in the financial statements.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in their use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards
- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code
- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on their use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:
We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, Audit-sub Committee and senior management.

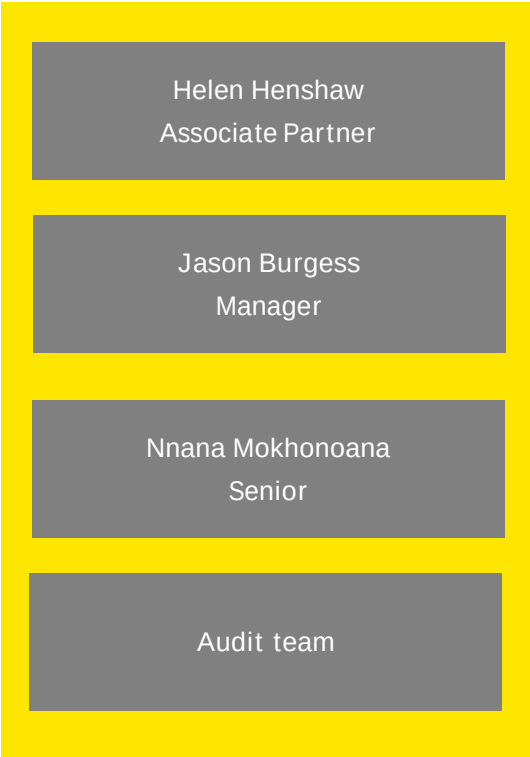
Internal audit:
We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We do not plan to place reliance on the work of internal audit but will consider the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

06 Audit team

Audit team and use of specialists

Audit team structure:

The engagement team is led by Helen Henshaw, Associate Partner, supported by Jason Burgess, Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the finance team. Both work within our dedicated Government and Public Sector team and have significant experience on council audits.



Use of specialists:

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions disclosure	Actuaries of the Derbyshire Pension Fund, the Public Sector Audit Appointments (PSAA) consulting actuary and our EY actuarial service

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

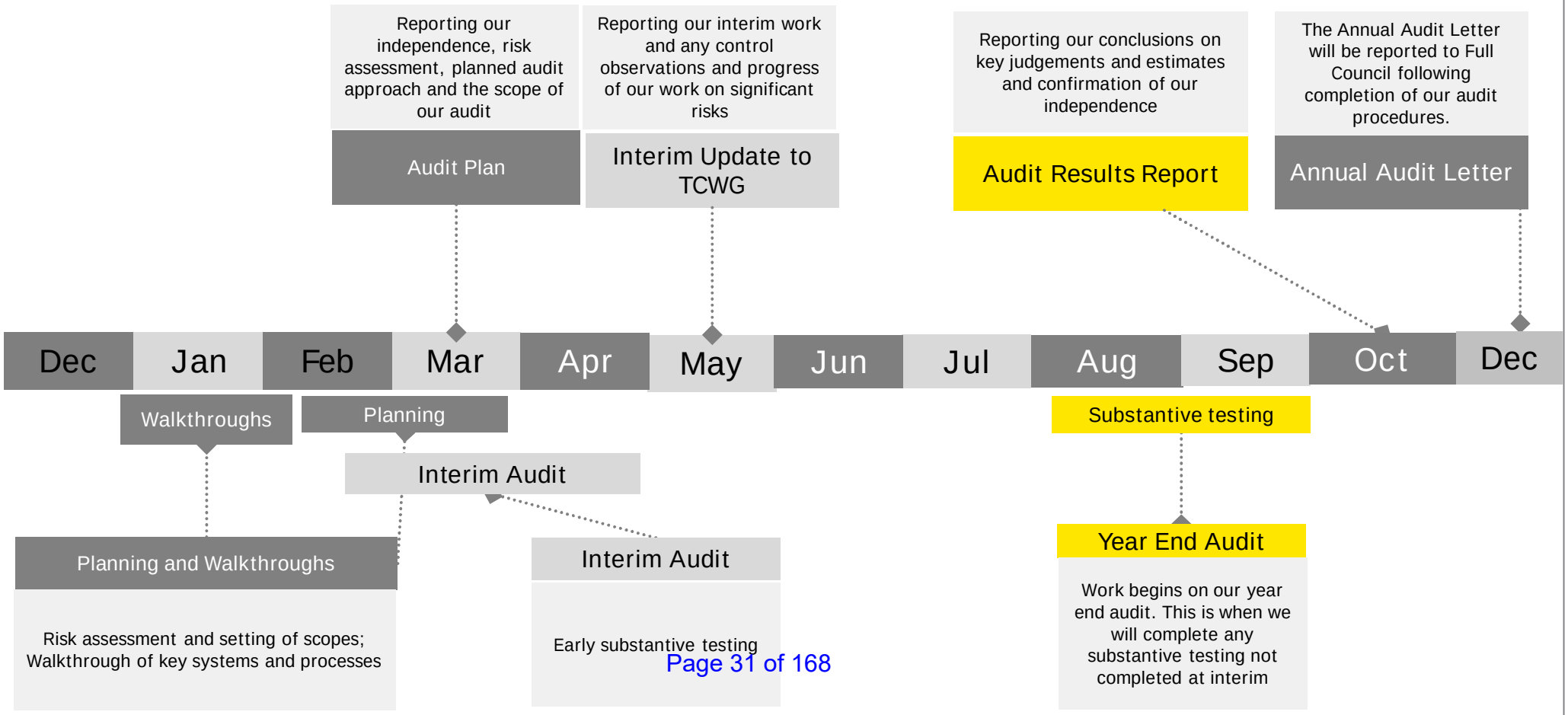
07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

From time to time matters may arise that require immediate communication with the Council and we will discuss them and senior management as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Helen Henshaw, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

At the time of writing, there are no non-audit services to be provided.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Relationships, services and related threats and safeguards (continued)

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

The table below sets out the self review threats that exist as the date of this report.

Description of service	Related independence threat	Period provided/ duration	Safeguards adopted and reasons considered to be effective
Housing benefit work no longer forms part of the work required by PSAA. For 2018/19 the planned fee was £15,500. The work has recently been completed and once the final fee has been agreed we will discuss with Strategic Director (Corporate Resources) the appointment for this work in 2019/20.	Self review threat – figures included in the return are also accounted for in the financial statements.	Year ended 31 March 2019 and for all subsequent accounting periods. However, this will be assessed annually.	The specific testing of individual benefit claims and associated subsidy calculations undertaken in respect of the Housing Benefits agreed upon procedures engagement is distinct and separate to any work we have or will undertake on the financial systems of the Council. The results of the testing is not reflected in the amounts included/disclosed in the financial statements. In respect of the checking of benefit system parameters, this work is common across our external audit procedures and this engagement. Our external audit of the financial statements is concluded prior to the Housing Benefit engagement. The financial statements audit conclusion is therefore not reliant upon the conclusion of the Housing Benefit engagement. No advice will be given in relation to accounting treatment. The report we provide will be prepared or given solely for the purposes of the agreed upon procedures engagement for Housing Benefits and will not be used or relied upon for any other purposes.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.
We anticipate that new requirements for other entities will follow and we will continue to monitor and assess the impact.

Other communications

EY Transparency Report 2019
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019: https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table below.

	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£	£	£
Total Fee – Code work	(Note 4)	39,942	39,942
Other	(Note 4)	N/A	2,000 (Note 1)
Total audit	TBC	39,942	41,942
Other non-audit services not covered above (Housing Benefits)	TBC	N/A	(Note 2)
Pooling of housing capital receipts	TBC	N/A	(Note 3)
Total other non-audit services	TBC	N/A	TBC
Total fees	TBC	33,240	TBC

All fees exclude VAT

(1) Scale fee variation of £2k relates to the additional pension procedures undertaken in relation to the impact of the McCloud judgement. This been discussed and agreed with management but is still subject to approval by Public Sector Audit Appointments Limited.

(2) The Housing benefits work has recently been completed and we are currently determining the final fee with management.

(3) The fee for the pooling of housing capital receipts work cannot be confirmed as the work will not be completed until the end of March 2020.

(4) For 2019/20, the scale fee will be impacted by a range of factors (see pages 34 and 35). The specific issues we have identified at the planning stage which will impact on the fee include the additional work that will be required to address the value for money risk identified.

- In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix A

Fees

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. For an organisation such as the District Council the extent of audit procedures now required mean it will take around 900 hours to complete a quality audit. Based on our own modelling of the inputs required to complete an external audit of the Council concludes that a more appropriate scale fee for the delivery of an external audit to the Council would be in the region of £60,000.

Summary of key factors

1. Status of sector. Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.

    - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.

2. Audit of estimates. There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

    - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists.

3. Regulatory environment. Other pressures come from the changing regulatory landscape and audit market dynamics:

    - Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.

    - This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

Fees

Summary of key factors (cont'd)

4. As a result Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

   - We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.

   - We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

Next steps

- In light of recent communication from PSAA, we will need to quantify the impact of the above to be able to accurately re-assess what the baseline fee is for the Council should be in the current environment. Once this is done we will be able to discuss at a more detailed level with you.

Required communications with the Audit-sub Committee

We have detailed the communications that we must provide to the Audit-sub Committee.

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit-sub Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report (March 2020)
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report (October 2020)

Required communications with the Audit-sub Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report (October 2020)
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report (October 2020)
Fraud	• Enquiries of the Audit-sub Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit results report (October 2020)
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report (October 2020)

Required communications with the Audit-sub Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit planning report (March 2020) and Audit results report (October 2020)
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report (October 2020)
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit-sub Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit-sub Committee may be aware of	Audit results report (October 2020)
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report (October 2020)
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report (October 2020)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report (October 2020)
Auditors report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit results report (October 2020)
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report (March 2020) and Audit results report (October 2020)

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's system of internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit-sub Committee reporting appropriately addresses matters communicated by us to the Audit-sub Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

REPORT TO:	**AUDIT SUB COMMITTEE**	**AGENDA ITEM:6**
DATE OF MEETING:	**13th JULY 2020**	**CATEGORY: DELEGATED**
		OPEN
REPORT FROM:	**INTERNAL AUDIT MANAGER**	
MEMBERS' CONTACT POINT:	**ADRIAN MANIFOLD (01332 643281)** Adrian.manifold@centralmidlandsaudit.com	**DOC:** u/ks/audit/internal audit/annual plans/covering report
SUBJECT:	**PROPOSED INTERNAL AUDIT PLAN 2020-21**	**REF:**
WARD(S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: AS 02**

1.0 Recommendations

1.1 That the proposed Internal Audit Plan for 2020/21 is considered and approved for implementation, subject to any changes agreed by the Committee.

2.0 Purpose of Report

2.1 To consider the proposed Audit Plan for 2020/21. This is in accordance with the Public Sector Internal Audit Standards (PSIAS) which requires Internal Audit to develop a risk-based plan to direct their work in the forthcoming financial year.

3.0 Detail

3.1 The Plan has been drawn up by the Audit Manager. This follows consultation with the Council's Leadership Team and Senior Managers representing all service areas. The Plan details where audit are proposing to allocate their resources over the financial year 2020/21.

3.2 This includes an assessment of the Council's risk areas which helps to inform how audit will allocate resources. The allocation is also based on regulatory requirements to review key financial systems each year.

3.3 The Plan also details the audit approach and coverage that the Council can expect from the Internal Audit Service. The Audit Sub Committee is requested to consider priorities and the proposed allocation of audit resources for 2020/21.

4.0 Financial Implications

4.1 The Plan will be delivered within the budget allocated for Internal Audit.

5.0 Corporate Implications

Employment Implications

5.1 None

Legal Implications

5.2 None

Corporate Plan Implications

5.3 None directly

Risk Impact

5.4 None

6.0 Community Impact

Consultation

6.1 None required

Equality and Diversity Impact

6.2 None directly

Social Value Impact

6.3 None directly

Environmental Sustainability

6.4 None directly

7.0 Background Papers

7.1 None

central midlands audit partnership

South Derbyshire District Council –
Internal Audit Plan 2020-21 & Audit Charter

Audit Sub-Committee: 13th June 2020

South Derbyshire
District Council

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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.

Contacts

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CMAP central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

Introduction

Purpose of Report

The purpose of this report is for the Board to approve the Internal Audit Charter and Annual Internal Audit Plan for 2020-21.

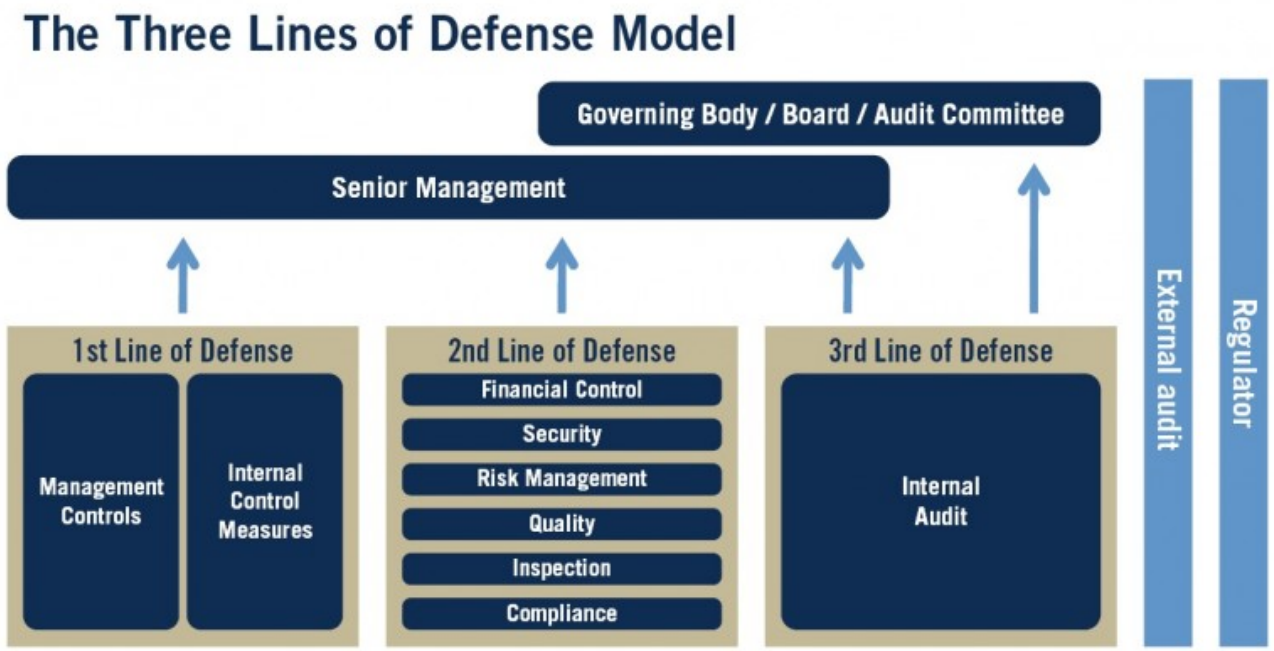
Role of Internal Audit

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015.

The Council's Internal Audit service is provided by Central Midlands Audit Partnership (CMAP) The Partnership was formed as a Joint Board under section 101 of the Local Government Act 1972. It currently serves 6 public sector organisations and Derby City Council is the host authority. This agreement has recently been reviewed and is with each partner organisation for approval/signing, with a view to extending the agreement until 31st March 2025.

Internal Audit provides the Audit Sub-Committee and senior management with objective assurance on the Council's overall control environment, comprising the systems of governance, risk management, and internal control and highlights control weaknesses together with recommendations for improvement. This helps senior management demonstrate that they are managing the Council effectively. Internal Audit's work significantly contributes to the Council's statutory Annual Governance Statement (AGS).

Internal Audit is part of the Council's governance framework which can be summarised in the three lines of defence model shown below.



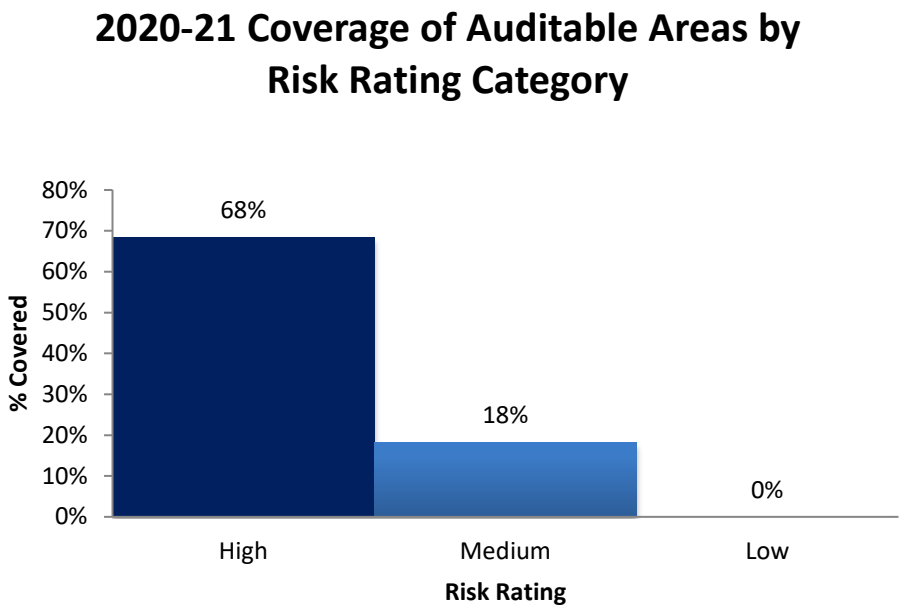
Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

Internal Audit Plan

The Public Sector Internal Audit Standards (PSIAS) state that annually the Chief Audit Executive is responsible for developing a risk-based plan. In this instance, the Chief Audit Executive is Adrian Manifold, Audit Manager.

The annual Audit Plan sets out proposals on how this will be achieved in the year ahead. It is a flexible Plan that allows Internal Audit to respond to emerging and changing risks during the year.

The Audit Plan must incorporate sufficient work to enable the Chief Audit Executive to give an opinion on the adequacy of the Council's overall control environment. Equally Internal Audit must be adequately resourced with the necessary level of skilled and experienced staff to deliver the Audit Plan.



Progress in completing the audit plan, will be submitted to the Audit Sub-Committee as part of regular Internal Audit Progress reports.

Internal Audit Charter

An Internal Audit Charter is a formal document that defines internal audit's purpose, authority, responsibility and position within an organisation. The Internal Audit Charter describes how internal audit will provide value to the Council, the nature of the services it will provide and the specific focus or emphasis required of internal audit to help the Council achieve its objectives.

Having an Internal Audit Charter also establishes the internal audit activity's position within the Council, including reporting lines, authorising access to records, personnel, and physical properties relevant to the performance of engagements; also defining the scope of internal audit activities. A copy of the current Internal Audit Charter is attached at Appendix B. It is the role of the Audit Sub-Committee to review and approve the 'Internal Audit Charter' on an Annual basis.

Approach to Audit Planning

Internal Audit takes into account the Council's risk management framework, including using risk appetite levels set by management for the different activities or parts of the Council. If a framework does not exist, Internal Audit must determine its own judgment of risks following a thorough consultation process. We endeavour to consult with relevant managers to further understand the risk areas where internal audit assurance will be appropriate.

A risk based audit plan has been compiled in consultation with the Council's Management, using the Councils risk registers and CMAP's bespoke risk assessment model which considers the following 8 measures of risk

Impact	Materiality	Potentially, how much money could the Council lose if this area is not properly controlled?
	Criticality	How critical is this function to the effective running of the Council's core activities?
	Sensitivity	How important is this area in the opinion of senior management and the Board?
	Strategic Effect	How does this function affect the Council's long term aims and objectives?
Likelihood	Changes	What changes (staffing, procedural, IT, legislative) has this area been subject to?
	Complexity	How complex is the area under review?
	Review Process	How often is this area reviewed by audit and other agencies?
	Inherent Risks	How susceptible is this area to fraud and irregularity?

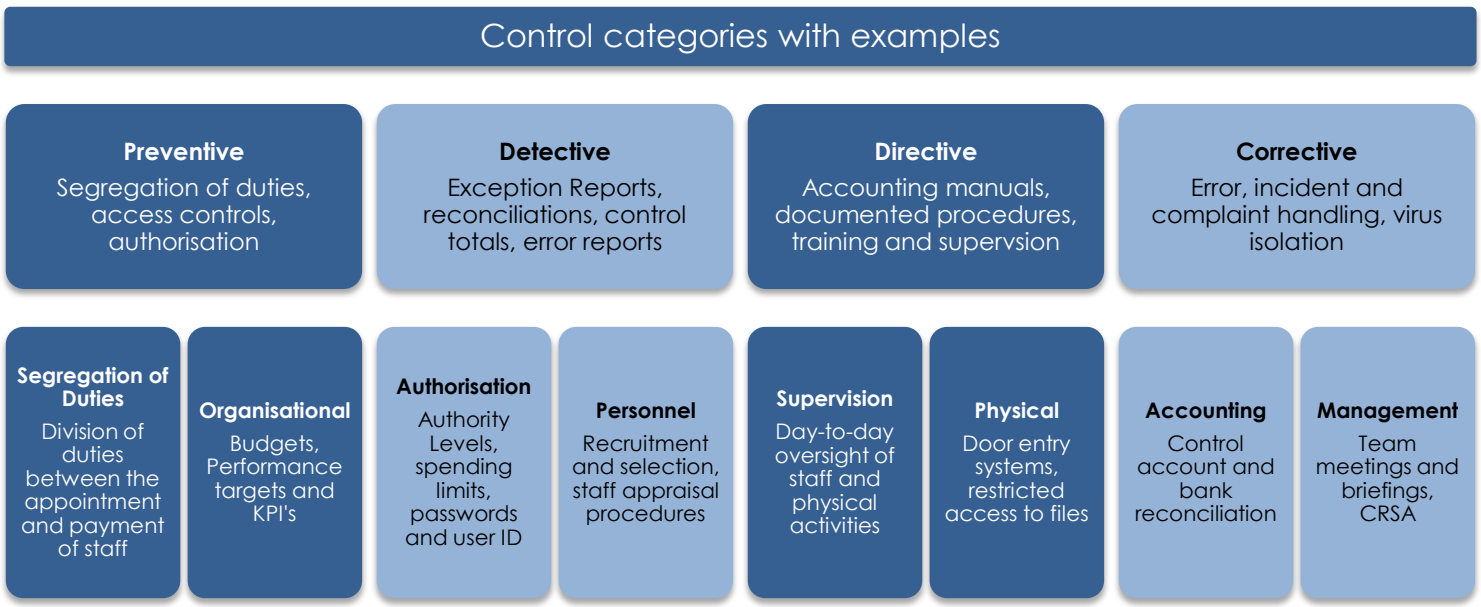
Once the scores for each of the 75 auditable areas identified have been input to the risk model, along with the date when the area was last audited, the risk model will automatically generate a plan of suggested audit coverage. Senior management are consulted on the proposed plan and their views are taken account of before producing the final, ranked list of areas to audit. This year's risk assessment identified 19 High risk areas, 55 Medium risk areas and 1 Low risk areas.

Discussions are also undertaken with the Council's External Auditors to ensure that the proposed coverage, where possible, complements their work.

Types of Audit Work

Key Financial Systems Audit - Much of internal audit's assurance work comes from the review of the risks and controls associated with the Council's financial systems. External Audit will also review the work on the key financial systems to assist them when determining their opinion on Council's annual accounts.

Systems / Risk Based Audits - The auditor's prime role is to review the internal control systems developed by management to mitigate operational risks and report upon the adequacy of those controls (see below for control examples). A Council's overall internal control system is the product of all of those systems and processes that the Council has created to deliver its business objectives, both financial and non-financial.



Source: Chartered Institute of Internal Auditors – Resources – Control

IT Audit – Typically our IT auditing coverage focuses on the following:

- **Infrastructure** - Infrastructure audits cover perimeter defences, authentication, management and monitoring, and devices. Infrastructure audits help provide assurance that the organisation's private network is protected from internet attacks, unauthorised or inappropriate access via local or remote attacks, and also ensure the Council has the necessary monitoring and incident analysis to maintain and analyse the Network.
- **Applications** - Application audits cover thin and fat client applications, and both internal (Intranet) or external (Web) applications. Applications audits typically focus on CIAA (**C**onfidentiality, **I**ntegrity, **A**vailability and **A**ccountability risks) to ensure attackers cannot exploit vulnerabilities to gain unauthorised access to sensitive corporate data.

Governance/Ethics Reviews - The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled. Internal Audit reviews corporate systems such as Risk Management, Health & Safety, Data Quality, Anti –Fraud and should consider organisational ethics, values and culture.

Procurement/Contract Audit - Procurement involves the process of acquisition from third parties, and spans the whole life cycle from the initial concept (determining the need), through buying and delivery, to the end of a service contract. The audit approach to procurement should primarily concern the Council's corporate procurement strategy and associated management structures and processes, including contract procedure rules and detailed procurement guidance.

Client Support Work

To support the Council, time has also been set aside for the following:

Audit Management – There are certain management tasks that are specific to each Partner organisation, such as, reporting to Audit Committee, Audit Risk Assessment & Planning etc. These require a contingency of time to be planned.

Advice & Emerging Issues - On an ad-hoc basis, Audit is called upon to provide risk and control advice on issues throughout the Council. This consultancy work is a very important service and requests for Audit input are considered to be a good measure of the quality of the Audit service and of the satisfaction of our clients.

Anti-Fraud/Probity/Investigations - Internal audit has an important role to play in ensuring that management has effective systems in place to detect and prevent corrupt practices within the Council. Internal audit's role includes promoting anti-fraud best practice, testing and monitoring systems through probity work and advising on change where it is needed. Internal Audit also may be involved in the investigation of suspected internal fraud, theft or major irregularity (where there is some form of alleged financial irregularity, which may have resulted in financial loss to the Council).

Follow-up Audits - Internal Audit is committed towards ensuring that control improvements are achieved and all agreed actions are acted upon. We have developed a recommendation tracking database, which allows us to monitor, follow-up and report upon the status of all management's actions in respect of agreed audit recommendations.

Brought Forward Jobs - A number of incomplete audits from the 2019-20 Audit Plan will need to be concluded in 2020-21.

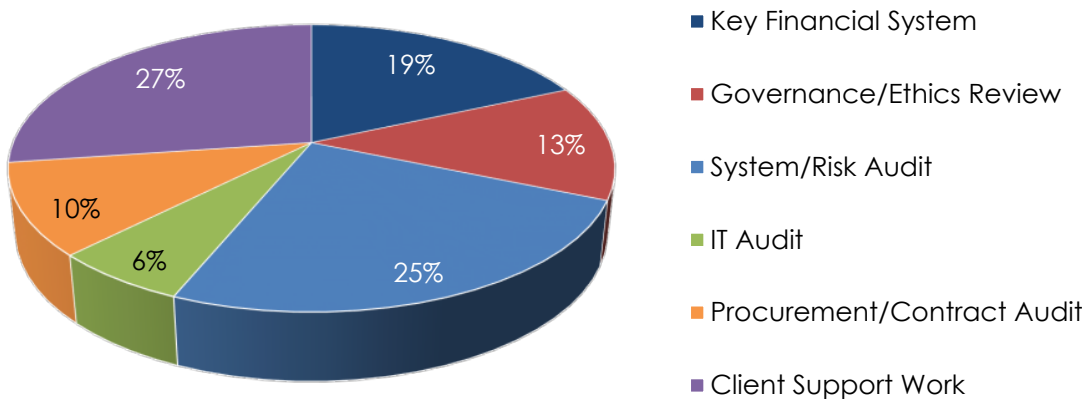
Appendix A - Audit Plan Detail

Our risk assessment of the Council's activities, in consultation with senior management, has concluded that the following audits will be undertaken in 2020-21:

Audit Plan Assignments	Risk Rating	Indicative Quarter
Key Financial Systems Reviews		
Income Streams	Medium	Q4
Treasury Management	High	Q1/2
Taxation	Medium	Q1/2
Debtors	Medium	Q1/2
Revenues Systems	High	Q2
Housing Benefit & Council Tax Support	High	Q3
Governance/Ethics Reviews		
Risk Management	High	Q1
Safeguarding	High	Q2
Data Quality & Performance Management	High	Q3
Overview & Scrutiny Function	Medium	Q2
Procurement/Contract Reviews		
Procurement	High	Q1
Significant Contracts	High	Q2
Housing Repairs	High	Q2
System/Risk Reviews		
Business Continuity & Emergency Planning	Medium	Q4
People Management	Medium	Q3
Waste Management	High	Q1
Development Management	Medium	Q4
Leisure Centres	Medium	Q1
Housing Safety Inspections	High	Q2
Electoral Services	Medium	Q2
Tenancy Management	Medium	Q2/3
IT Audit Reviews		
IT Applications	High	Q1
IT Infrastructure	High	Q2

The detailed scopes of each audit assignment will be agreed with the relevant managers nearer the commencement of the audit. The cost of the Internal Audit Service for 2020-21 is £162,784

Audit Plan 2020-21 per Type of Audit



Appendix B - Audit Charter

Purpose & Mission

The purpose of the Council's internal audit service is to provide independent, objective assurance and consulting services designed to add value and improve the Council's operations. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The internal audit service helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Standards for the Professional Practice of Internal Auditing

The internal audit service will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Chief Audit Executive will report periodically to **senior management**[1]and the **Board**[2] regarding the internal audit service's conformance to the Code of Ethics and the Standards.

Authority

The Chief Audit Executive will report functionally to the Audit Sub-Committee and administratively (i.e., day-to-day operations) to the Executive Director (Resources).To establish, maintain, and assure that the Council's internal audit service has sufficient authority to fulfil its duties, the Audit Sub-Committee will:

- Approve the internal audit service's charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit service's budget and resource plan.
- Receive communications from the Chief Audit Executive on the internal audit service's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Chief Audit Executive to determine whether there is inappropriate scope or resource limitations.
- The Chief Audit Executive will have unrestricted access to, and communicate and interact directly with, the Audit Sub-Committee, including in private meetings without management present.

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[1] The PSIAS defines **senior management** as "Those responsible for the leadership and direction of the Council" which in this instance is the Council's **Senior Leadership Team**.

[2] The Standards require that Internal Audit report to the **Board.** CIPFA have via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that 'Board' may refer to an audit committee to which the governing body has delegated certain functions. In this instance this would be the **Audit Sub-Committee**.

The Audit Sub-Committee authorises the internal audit service to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of the Council, as well as other specialised services from within or outside the Council, in order to complete the engagement.

Independence & Objectivity

The Chief Audit Executive will ensure that the internal audit service remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Chief Audit Executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the Council or its affiliates.
- Initiating or approving transactions external to the internal audit service.
- Directing the activities of any Council employee not employed by the internal audit service, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Chief Audit Executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.

- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Chief Audit Executive will confirm to the Audit Sub-Committee, at least annually, the organisational independence of the internal audit service.

The Chief Audit Executive will disclose to the Audit Sub-Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Sub-Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the Council. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed.
- The actions of the Council's officers, directors, employees, and contractors are in compliance with the Council's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Council.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Chief Audit Executive will report periodically to senior management and the Audit Sub-Committee regarding:

- The internal audit service's purpose, authority, and responsibility.
- The internal audit service's plan and performance relative to its plan.
- The internal audit service's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Sub-Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the Council.

The Chief Audit Executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit service may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit service does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The Chief Audit Executive has the responsibility to:

- Submit, at least annually, to senior management and the Audit Sub-Committee a risk-based internal audit plan for review and approval.
- Communicate to senior management and the Audit Sub-Committee the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in the Council's business, risks, operations, programmes, systems, and controls.
- Communicate to senior management and the Audit Sub-Committee any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Sub-Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit service collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact the Council are considered and communicated to senior management and the Audit Sub-Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit service.
- Ensure adherence to the Council's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such

conflicts will be resolved or otherwise communicated to senior management and the Audit Sub-Committee.

- Ensure conformance of the internal audit service with the Standards, with the following qualifications:
    - If the internal audit service is prohibited by law or regulation from conformance with certain parts of the Standards, the Chief Audit Executive will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
    - When the Standards are used in conjunction with requirements issued by CIPFA, the Chief Audit Executive will ensure that the internal audit service conforms with the Standards, even if the internal audit service also conforms with the more restrictive requirements of CIPFA.

Quality Assurance & Improvement Programme (QAIP)

The internal audit service will maintain a quality assurance and improvement programme that covers all aspects of the internal audit service. The program will include an evaluation of the internal audit service's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit service and identify opportunities for improvement.

The Chief Audit Executive will communicate to senior management and the Audit Sub-Committee on the internal audit service's quality assurance and improvement programme, including results of internal assessments (both on-going and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council.

Central Midlands
Audit Partnership

REPORT TO:	**AUDIT SUB COMMITTEE**	**AGENDA ITEM: 7**
DATE OF MEETING:	**13th JULY 2020**	**CATEGORY: RECOMMENDED**
		OPEN
REPORT FROM:	**AUDIT MANAGER**	
MEMBERS' CONTACT POINT:	**ADRIAN MANIFOLD (01332 643281)** adrian.manifold@centralmidlandsaudit.co.uk	**DOC:** u/ks/audit/internal audit/quarterly reports/quarterly report cover
SUBJECT:	**INTERNAL AUDIT PROGRESS REPORT**	**REF:**
WARD(S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: AS 02**

1.0 Recommendations

1.1 That the report of the Audit Manager is considered and any issues identified are referred to the Finance and Management Committee or subject to a follow-up report as appropriate.

2.0 Purpose of Report

2.1 To provide an update on progress against the approved Internal Audit Plan. This details the performance and activity of Internal Audit as at June 2020.

3.0 Detail

3.1 There are two reports attached, which cover details of the work undertaken in 2019/20, together with the first part of the financial year 2020/21.

4.0 Financial Implications

4.1 None.

5.0 Corporate Implications

5.1 None directly.

6.0 Community Implications

6.1 None directly.

7.0 Background Papers

7.1 None

central midlands audit partnership

South Derbyshire District Council – Audit Progress Report (2019-20)

Audit Sub-Committee: 13th July 2020

South Derbyshire District Council

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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.

Contacts

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Head of Audit Partnership
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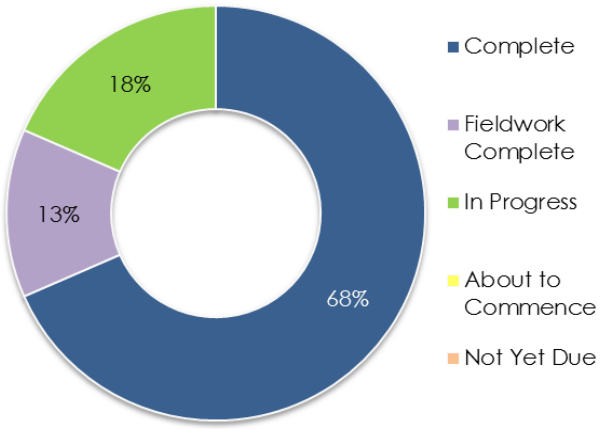
CMAP central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

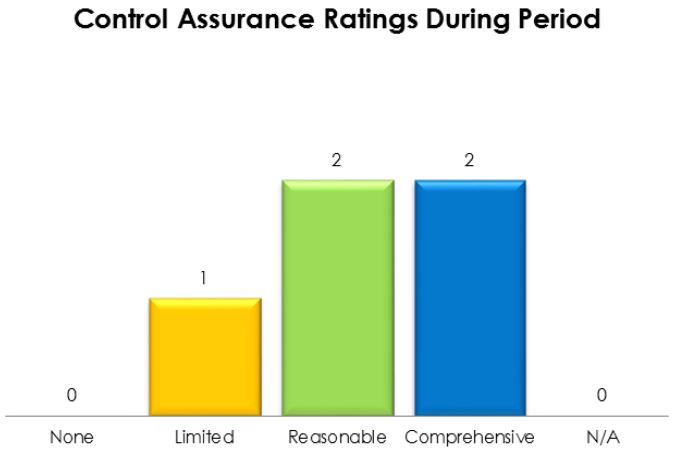
South Derbyshire District Council – Audit Progress Report

AUDIT DASHBOARD

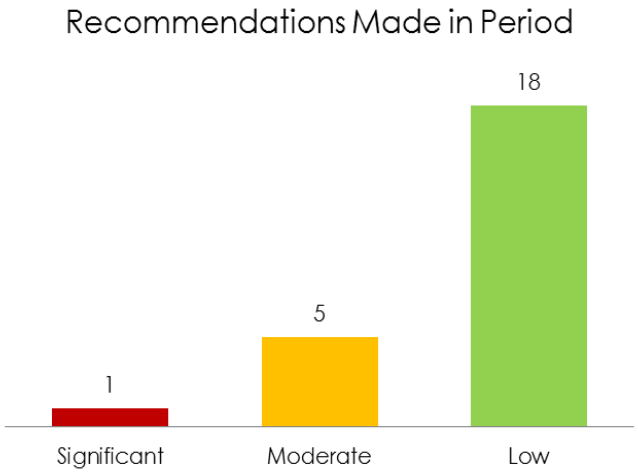
Plan Progress



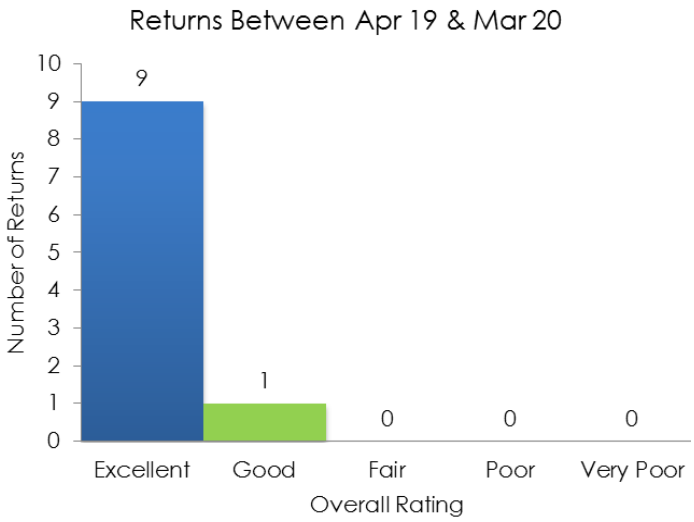
Jobs Completed in Period



Recommendations



Customer Satisfaction



AUDIT PLAN PROGRESS

Progress on Audit Assignments

The following tables provide Audit Sub-Committee with information on how audit assignments were progressing as at 31st March 2020.

2019-20 Jobs	Status	% Complete	Assurance Rating
Management of Novus Contract	In Progress	60%	
Procurement of Rosliston Contract 2019-20	Draft Report	95%	
Main Accounting System 2019-20	Fieldwork Complete	90%	
Treasury Management 2019-20	Draft Report	95%	
Banking Services 2019-20	Final Report	100%	Comprehensive
Payroll 2019-20	In Progress	60%	
Officers Expenses & Allowances 2019-20	Final Report	100%	Comprehensive
Creditors 2019-20	Final Report	100%	Comprehensive
Fixed Assets 2019-20	Final Report	100%	Comprehensive
Revenues Systems 2019-20	In Progress	55%	
Cashiering 2019-20	Final Report	100%	Comprehensive
Housing Benefit & Council Tax Support 2019-20	In Progress	45%	
Anti-Fraud & Corruption 2019-20	In Progress	60%	
ICT Key Controls	In Progress	75%	
Mobile Phones	Final Report	100%	Limited
~~Project Management~~	Removed from Plan		
Business Change & Transformation	In Progress	55%	
Data Quality & Perf. Mgmt 2019-20	Final Report	100%	Reasonable
Rent Accounting 2019-20	Final Report	100%	Reasonable
Former Tenants Arrears 2019-20	Final Report	100%	Reasonable
Council House Sales - Right To Buy 2019-20	Final Report	100%	Limited
Grounds Maintenance	Draft Report	95%	
Improvement Grants (Disabled Facilities Grant)	Final Report	100%	Reasonable
Bereavement Services 2019-20	Draft Report	95%	
~~Electoral Services 2019-20~~	Removed from Plan		
~~Economic Development 2019-20~~	Removed from Plan		
B/Fwd Jobs	**Status**	**% Complete**	**Assurance Rating**
Information Governance	Final Report	100%	Reasonable
Capital Programme	Final Report	100%	Comprehensive
Payroll 2018-19	Final Report	100%	Reasonable
Creditors 2018-19	Final Report	100%	Reasonable
Revenue Systems 2018-19	Final Report	100%	Comprehensive
Housing Benefit & Council Tax Support 2018-19	Final Report	100%	Comprehensive
File Server Security	Final Report	100%	Reasonable
Development Management	Final Report	100%	Reasonable
Food Safety 2018-19	Final Report	100%	Reasonable
Active Communities & Health	Final Report	100%	Comprehensive
Rosliston Forestry Centre	Final Report	100%	Comprehensive
Maintenance of Public Buildings	Final Report	100%	Limited
Housing Safety Inspections	Final Report	100%	Limited
Community Safety Partnership 2018-19	Final Report	100%	Comprehensive
Corporate Governance 2018-19	Final Report	100%	Reasonable

Plan Changes

An emerging risk was brought to our attention by management, which resulted in our ICT Audit coverage being transferred from our proposed focus on Personal Data Checks to looking at controls over Mobile Phone usage.

Following a request from Management, the Electoral Services audit planned for 2019-20 was agreed to be deferred until after the May 2020 elections. Even though the May 2020 elections have now been cancelled, it is too late in this Plan year to commence this audit. Accordingly, it will remain deferred to the 2020-21Audit Plan.

When measures were brought in to restrict the spread of the Covid-19 virus, it was immediately apparent that we would be unable to undertake certain 2019-20 planned audits in time to support my 2019-20 Audit Opinion report. Decisions were taken, in consultation with the Strategic Director (Corporate Resources), on each of the audit assignments still in progress to determine whether or not they were essential to deriving an Audit Opinion.

The decision was taken to remove the Project Management audit as it was insufficiently progressed and it was perceived that enough assurance on this area could be derived from the ongoing Business Change & Transformation audit.

The decision was also taken to remove the planned Economic Development audit from the 2019-20 plan. This assignment was also insufficiently progressed and the Economic Development service was busy administering the Council's response to the Government's Business Support Grant scheme. We subsequently provided informal advice to the Head of Economic Development and Growth on the proposed procedures for processing grant payments.

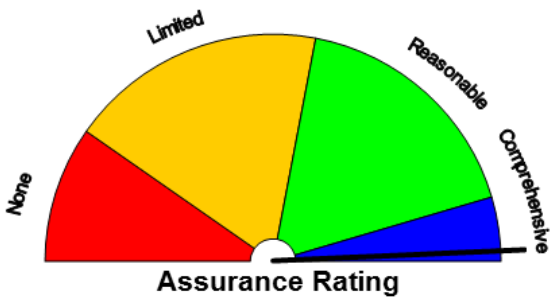
AUDIT COVERAGE

Completed Audit Assignments

Between 1st December 2019 and 31st March 2020, the following audit assignments have been finalised since the last Progress Report was presented to this Sub-Committee.

Audit Assignments Completed in Period	Assurance Rating	Recommendations Made				% Recs Closed
		Critical Risk	Significant Risk	Moderate Risk	Low Risk	
Active Communities & Health	Comprehensive				1	0%
Former Tenants Arrears 2019-20	Reasonable				6	67%
Mobile Phones	Limited		1	4		60%
Improvement Grants 2019-20	Reasonable			1	8	0%
Creditors 2019-20	Comprehensive				3	33%

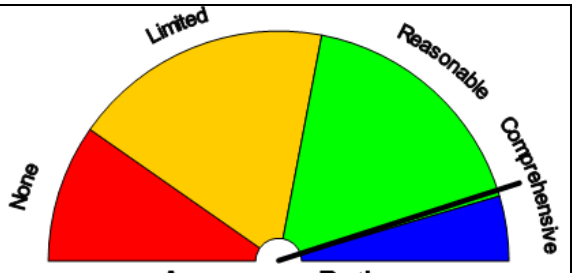
Active Communities & Health



Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
Management of the Active Health & Communities Section are keeping the financial viability of the service under constant review and are actively seeking out and perusing the additional funding options that may be available to them.	7	6	1	0
Suitable management arrangements are in place for maximising the level of service delivery within existing constraints, while continuing to develop the service and maintaining existing support.	9	7	2	0
TOTALS	**16**	**13**	**3**	**0**

Summary of Weakness	Risk Rating	Agreed Action Date
Community consultations were not considered to be appropriately inclusive of all members of the disabled community.	Low Risk	31/01/2020 Being Implemented 31/07/2020

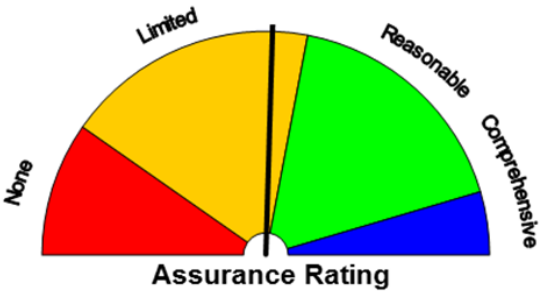
Former Tenants Arrears



Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
Appropriate procedures are adhered to for the recovery and monitoring of former tenant arrears	21	17	3	1
Former tenant arrears are minimised through robust end of tenancy procedures	18	15	2	1
TOTALS	**39**	**32**	**5**	**2**

Summary of Weakness	Risk Rating	Agreed Action Date
The Income Management policy was dated 2016 and as such was out-of-date.	Low Risk	01/11/2020 Future Action
Recent address details of customers provided with short stay temporary accommodation out of hours was not being effectively shared.	Low Risk	29/01/2020 Implemented
Orchard did not always contain a complete record of recovery actions taken.	Low Risk	29/01/2020 Implemented
The Former Tenants Arrears Account Monitoring procedure did not include the allocation of court fees to individual debtor accounts.	Low Risk	28/02/2020 Implemented
There was no focused procedure in place to ensure that rent accounts were in balance at the end of a tenancy.	Low Risk	28/02/2020 Implemented
Insufficient action was taken to minimise arrears due to housing benefit adjustments at the end of a tenancy.	Low Risk	28/02/2020 Implemented

Mobile Phones

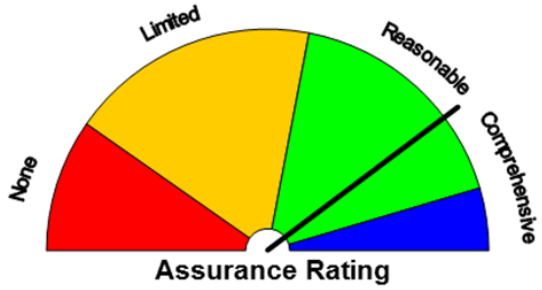


Following an incident at the Council, it was agreed with the Strategic Director (Corporate Resources) that Internal Audit would evaluate the adequacy of a number of systems and process specific to the provision and management of mobile phone devices. This report deals with the system weaknesses identified during the review and recommends what Audit considers to be appropriate control improvements.

Summary of Weakness	Risk Rating	Agreed Action Date
The Council had incurred significant overcharges due in part to a lack of contractual and technical safeguards not being in operation for mobile phone devices issued to employees.	Significant Risk	Implemented
Monitoring and alerting procedures for mobile phone/smartphone usage was ineffective, leading to significant overcharges going undetected over a significant period of time.	Moderate Risk	Implemented
The budget monitoring process had failed to appropriately resolve an identified spike in expenditure against the cost centre and account code that was used for payment of the O2 mobile phone bills.	Moderate Risk	31/03/2020 Being Implemented 30/09/2020
Users were still permitted to log urgent service requests and incidents to a shared mailbox	Moderate Risk	Implemented

that was not directly linked to the helpdesk system, and was therefore vulnerable to error, oversights and incidents going unresolved.		
Asset management procedures for controlling the ownership, movement and usage of mobile devices were not effective.	Moderate Risk	31/08/2020 Future Action

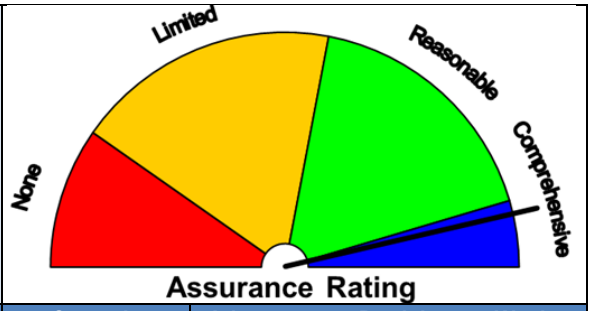
Improvement Grants 2019-20



Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
Policies relating to the administration of DFG are in place, and include consideration of financial thresholds	3	0	1	2
DFG applications are processed timely and in adherence with appropriate procedures	16	12	1	3
Applications are only processed for eligible works and eligible claimants	13	12	1	0
Works performed are adequately reviewed prior to passing invoices for payment	13	13	0	0
Responsibilities for the ongoing maintenance of works performed through the DFG have been considered and documented.	4	2	0	2
TOTALS	**49**	**39**	**3**	**7**

Summary of Weakness	Risk Rating	Agreed Action Date
The Private Sector Housing Assistance Policy 2019-22 did not fully reflect the situation in practise.	Low Risk	30/04/2020 Action Due
The Private Sector Adaptations Policy 2019-2022 was not available to view on the Council's website.	Low Risk	30/06/2020 Being Implemented 30/06/2020
Options for discretionary funding of adaptations had not been fully considered.	Low Risk	30/04/2020 Action Due
There was no procedural guidance document in place detailing the Disabled Facility Grant process.	Low Risk	30/04/2020 Action Due
No performance targets had been set for the key stages of the DFG process, and there was no regular monitoring or reporting of performance to management.	Moderate Risk	30/06/2020 Future Action
The Council could not demonstrate that it had been proactive in ensuring that delays in Disabled Facilities Grant applications, particularly those marked as fast track, were minimised.	Low Risk	30/04/2020 Action Due
Reassessment forms and redetermination letters were not prepared and authorised in all cases where additional works were required.	Low Risk	30/04/2020 Action Due
The Initial Test of Resources form referred to a charge of 10% of eligible expenses to cover the cost of services provided by the Council, however this was not charged in practise.	Low Risk	30/04/2020 Implemented
The respective responsibilities of the customer and the Council for maintenance of adaptations were not clearly communicated to the customer.	Low Risk	30/04/2020 Implemented

Creditors 2019-20



Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
To ensure that up-to-date policy, procedures and guidance are in place and access to the Creditors system is properly administered.	4	4	0	0
To ensure that adequate controls are in place for the input, authorisation and processing of invoices received.	7	3	4	0
To ensure that robust systems are in place for processing payments to suppliers.	6	6	0	0
TOTALS	**17**	**13**	**4**	**0**

Summary of Weakness	Low Risk	Agreed Action Date
The method of checking for duplicate payments did not identify all potential duplicate payments.	Low Risk	Implemented
When registering invoices, there was no consistent methodology in place for allocating a supplier's invoice reference, for invoices received from suppliers who do not number their invoices.	Low Risk	30/04/2020 Implemented
Out of a sample of 17 purchase order invoices tested, 8 did not have an official order raised until after the invoice was received.	Low Risk	01/07/2020 Future Action

central midlands audit partnership

South Derbyshire District Council – Audit Progress Report (2020-21)

Audit Sub-Committee: 13th July 2020

South Derbyshire District Council

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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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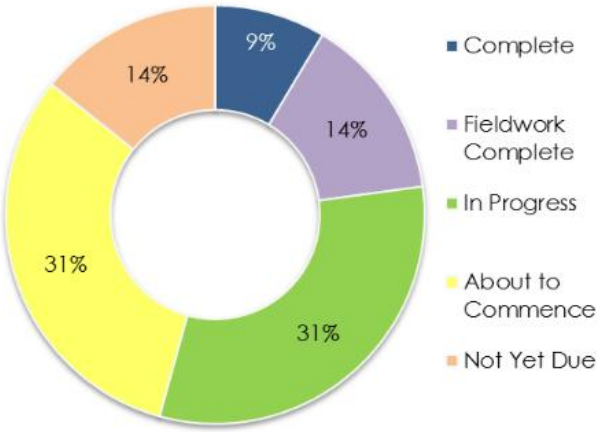
CMAP central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

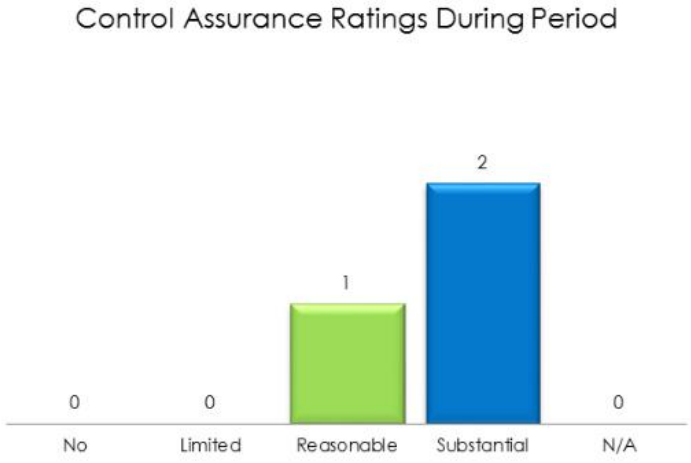
South Derbyshire District Council – Audit Progress Report

AUDIT DASHBOARD

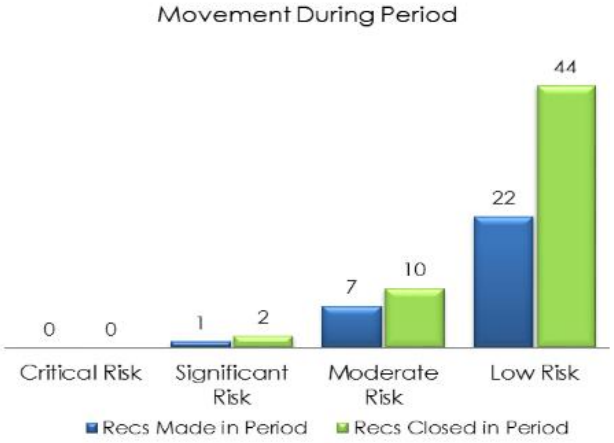
Plan Progress



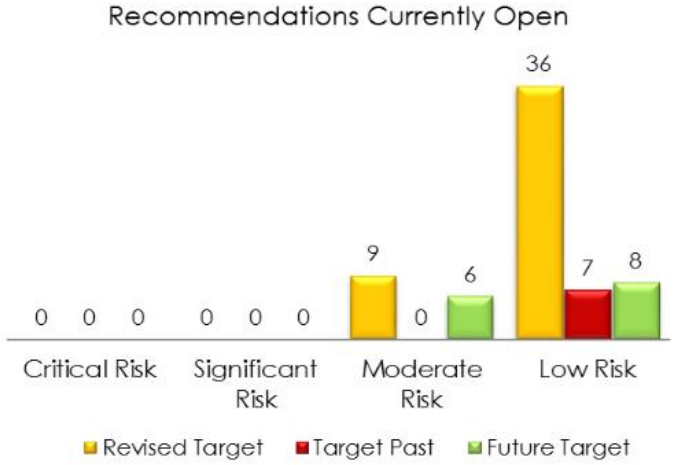
Jobs Completed in Period



Recommendations



Recommendations



Recommendations

Customer Satisfaction

AUDIT PLAN

Progress on Audit Assignments

The following tables provide Audit Sub-Committee with information on how audit assignments were progressing as at 31st May 2020.

2020-21 Jobs	Status	% Complete	Assurance Rating
Risk Management 2020-21	Allocated		
Business Continuity & Emergency Planning	Not Allocated		
Procurement 2020-21	In Progress	5%	
Income Streams	Not Allocated		
Safeguarding 2020-21	Allocated	10%	
Treasury Management 2020-21	Allocated		
Taxation 2020-21	Allocated		
Debtors 2020-21	In Progress	25%	
Revenues Systems 2020-21	Allocated		
Housing Benefit & Council Tax Support	Not Allocated		
IT Applications 2020-21	Allocated	15%	
IT Infrastructure 2020-21	Allocated	10%	
~~People Management*~~	Removed from Plan		
Data Quality & Performance Management	Not Allocated		
Business Support Grant*	Allocated		
Waste Management (Trade Waste)	In Progress	5%	
Development Management	Not Allocated		
Leisure Centres 2020-21	Allocated	5%	
Housing Repairs (Voids)	In Progress	20%	
Housing Safety Inspections 2020-21	In Progress	20%	
Tenancy Management (Interventions and Support)	Allocated	10%	
Procurement of Waste Contract	Allocated		
Electoral Services 2020-21	In Progress	20%	
Overview & Scrutiny Function	In Progress	50%	
B/Fwd Jobs	**Status**	**% Complete**	**Assurance Rating**
Management of Novus Contract	Final Report	100%	Substantial
Procurement of Rosliston Contract 2019-20	Draft Report	95%	
Main Accounting System 2019-20	Final Report	100%	Substantial
Treasury Management 2019-20	Final Report	100%	Reasonable
Payroll 2019-20	In Progress	80%	
Revenues Systems 2019-20	In Progress	65%	
Housing Benefit & Council Tax Support 2019-20	In Progress	70%	
Anti-Fraud & Corruption 2019-20	In Progress	50%	
ICT Key Controls	Draft Report	95%	
Business Change & Transformation	Fieldwork Complete	90%	
Grounds Maintenance	Draft Report	95%	
Bereavement Services 2019-20	Draft Report	95%	

Plan Changes

It is highly likely that the delivery of the 2020-21Audit Plan will be materially affected by the Covid-19 pandemic. The disruption to services caused by the lockdown, staff secondments into front-line services and increased sickness levels will inevitably lead to delays in our audits and a reduction in audit coverage. We are not currently in a position to determine exactly what that reduction will be. Accordingly, we have decided not to make any major changes to the 2020-21Audit Plan at this time.

*Given the significant fraud risk presented to the Council, through the operation and delivery of the Small Business Grants Fund (SBGF), Retail, Hospitality and Leisure Grant Fund (RHLGF) and Local Authority Discretionary Fund, the Peoples Management assignment has been removed from the Plan to accommodate a review of the Business Support Grant process.

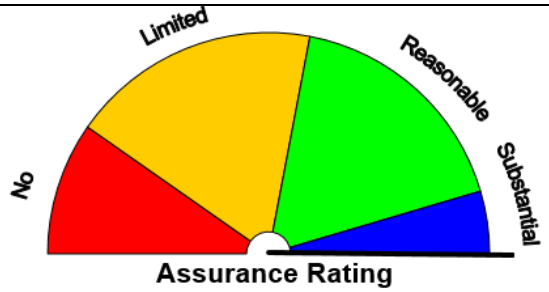
AUDIT COVERAGE

Completed Audit Assignments

Between 1st April 2020 and 25th June 2020, the following audit assignments have been finalised.

Audit Assignments Completed in Period	Assurance Rating	Recommendations Made				% Recs Closed
		Critical Risk	Significant Risk	Moderate Risk	Low Risk	
Main Accounting System	Substantial					n/a
ICT Key Controls				1		100%
Treasury Management 2019-20	Reasonable			1	3	50%
Management of Novus Contract	Substantial				1	100%

Main Accounting System



Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
Key control account reconciliations are carried out on a regular basis, reconciling items are cleared and the reconciliation is subject to independent review.	9	8	1	0
Robust systems are in place which allow revenue budget monitoring to take place.	4	4	0	0
Appropriate controls are in place with regard to the processing of journals.	5	5	0	0
TOTALS	**18**	**17**	**1**	**0**

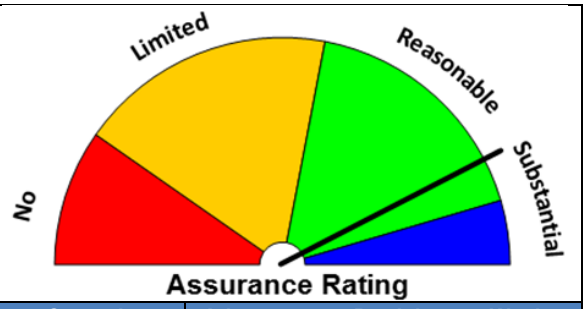
Summary of Findings

No key control weaknesses were identified by this audit, but one minor risk issue was highlighted for management's consideration.

ICT Key Controls

The ICT Key Controls audit is still ongoing, but during the testing, we identified a data protection risk relating to sensitive records on the Council's file. It was considered an appropriate course of action to draw this issue to management's attention before the conclusion of the full audit. Management resolved to email all employees and give them 14 days to remove files at root level before deleting / archiving the files by 23/03/2020. This matter has now been addressed to our satisfaction.

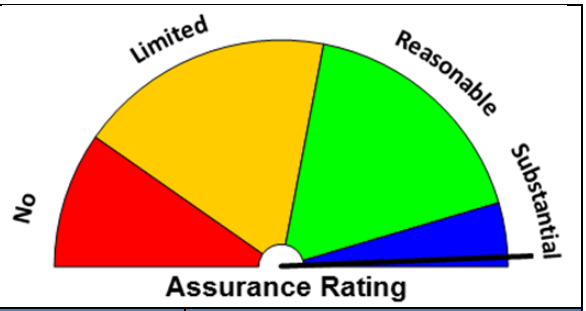
Treasury Management 2019-20



Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
Appropriate and approved Treasury Management Strategy, Policy and Procedures are in place and maintained.	7	4	2	1
Treasury Management transactions comply with the Council's agreed Investment Strategy.	3	1	1	1
Investment decisions are authorised and promptly recorded, and controls are in place to ensure that interest received is correct and funds invested are recovered by the due date.	11	9	0	2
Treasury Management activities and performance is monitored and reported.	3	3	0	0
TOTALS	**24**	**17**	**3**	**4**

Summary of Weakness	Risk Rating	Agreed Action Date
Officers could not locate a contract or similar agreement between the Council and its appointed financial advisor. A letter of appointment had been provided by the advisors that suggested that the current arrangement had been in place for eight years, seemingly without review or reaffirmation. Accordingly, Contract Procedure Rules could have been breached and the procurement could be non-compliant with Procurement Regulations.	Moderate Risk	28/02/2021 Future Action
The Counterparties listing did not always reflect the advice given by the Council's advisors with regard to institutions suitable for investment and the maximum duration of any investment made.	Low Risk	Implemented
Documents detailing anticipated cash flows had not been retained in respect of two recommended investment values and durations. Confirmation that the funds would not be required for the investment durations being suggested was not available to demonstrate completeness of the approval process.	Low Risk	Implemented
The Treasury Management Procedure required only that investments be authorised by one of three named Senior Officers, but made no provision for the secondary check and authorisation of investments, where they had been initiated by one of these same three Officers.	Low Risk	28/02/2021 Future Action

Management of Novus Contract



Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
Housing and public buildings repairs and maintenance is being delivered in line with the Novus contract.	7	6	1	0
Council departments are actively using the Novus contract to provide their repair and maintenance services.	2	2	0	0
TOTALS	**9**	**8**	**1**	**0**

Summary of Weakness	Risk Rating	Agreed Action Date
There were no KPIs in place to manage performance against the contract.	Low Risk	Implemented

RECOMMENDATION TRACKING

Final Report Date	Audit Assignments with Open Recommendations	Assurance Rating	Recommendations Open		
			Action Due	Being Implemented	Future Action
09-Jun-20	Treasury Management 2019-20	Reasonable			2
06-Mar-20	Creditors 2019-20	Substantial			1
03-Mar-20	Improvement Grants 2019-20	Reasonable	4	1	2
25-Feb-20	Mobile Phones	Limited		1	1
30-Jan-20	Former Tenants Arrears 2019-20	Reasonable			1
17-Dec-19	Active Communities & Health	Substantial		1	
22-Nov-19	Council House Sales - Right To Buy 2019-20	Limited		2	
20-Nov-19	Information Governance	Reasonable			1
20-Nov-19	Fixed Assets 2019-20	substantial		1	
13-Nov-19	Development Management 2018-19	Reasonable		1	1
15-Oct-19	Community Safety Partnership 2018-19	Substantial	1		
11-Sep-19	Data Quality & Perf. Mgmt 2019-20	Reasonable		3	
24-Jul-19	Rent Accounting 2019-20	Reasonable		2	
16-Sep-19	Officers Expenses & Allowances 2019-20	Substantial		1	
16-May-19	Housing Ben. & Council Tax Support 2018-19	Substantial		1	
31-Mar-19	Orchard IT Application	Limited		2	
26-Mar-19	Fleet Management	Reasonable	2	1	
23-Jul-19	Payroll 2018-19	Reasonable		1	
16-Apr-19	Revenue Systems 2018-19	Substantial		3	
29-Aug-19	Corporate Governance 2018-19	Reasonable			1
08-May-19	Creditors 2018-19	Reasonable		1	
03-Jul-19	Housing Safety Inspections	Limited		3	
21-Aug-19	Maintenance of Public Buildings	Limited			4
12-Feb-19	PCI Compliance 2018-19	Reasonable		6	
14-Feb-19	Allocations & Homelessness 2018-19	Reasonable		3	
25-Jan-19	Section 106 Agreements 2018-19	Reasonable		2	
25-Apr-18	Organisational Culture & Ethics	Reasonable		1	
10-Jan-19	Health & Safety	Reasonable		1	
06-Mar-18	Tenants Arrears 2017-18	Reasonable		3	
19-Jan-18	Rent Accounting 2017-18	Reasonable		1	
13-Nov-17	Officers Expenses & Allowances	Reasonable		1	
07-Aug-17	Parks & Open Spaces	Reasonable		2	
		TOTALS	**7**	**45**	**14**

Action Due = The agreed actions are due, but Internal Audit has been unable to ascertain any progress information from the responsible officer.

Being Implemented = The original action date has now passed and the agreed actions have yet to be completed. Internal Audit has obtained status update comments from the responsible officer and a revised action date.

Future Action = The agreed actions are not yet due, so Internal Audit has not followed the matter up.

South Derbyshire District Council – Audit Progress Report

Audit Assignments with Recommendations Due	Action Due			Being Implemented		
	Significant Risk	Moderate Risk	Low Risk	Significant Risk	Moderate Risk	Low Risk
Improvement Grants 2019-20			4			1
Mobile Phones					1	
Active Communities & Health						1
Council House Sales - Right To Buy 2019-20					2	
Fixed Assets 2019-20						1
Development Management 2018-19						1
Community Safety Partnership 2018-19			1			
Data Quality & Perf. Mgmt 2019-20						3
Rent Accounting 2019-20					1	1
Officers Expenses & Allowances 2019-20						1
Housing Ben. & Council Tax Support 18-19						1
Orchard IT Application						2
Fleet Management			2			1
Payroll 2018-19					1	
Revenue Systems 2018-19						3
Creditors 2018-19						1
Housing Safety Inspections					1	2
PCI Compliance 2018-19					1	5
Allocations & Homelessness 2018-19						3
Section 106 Agreements 2018-19						2
Organisational Culture & Ethics					1	
Health & Safety						1
Tenants Arrears 2017-18						3
Rent Accounting 2017-18						1
Officers Expenses & Allowances					1	
Parks & Open Spaces						2
TOTALS			**7**		**9**	**37**

HIGHLIGHTED RECOMMENDATIONS

Being Implemented – Significant or Moderate Risk Recommendations

The following significant or moderate risk rated recommendations, that have not yet been implemented, are detailed for Committee's scrutiny.

PCI Compliance 2018-19	Rec No. 8
Summary of Weakness / Recommendation	Risk Rating
The Council was not PCI Compliant and was paying non-compliance fees to a third party. Further management fees were being paid to the financial system provider for PCI and they were also charging the Council for a verbal assessment that no-one at the Council knew anything about. We recommend that the Council establishes a PCI Compliance Action Plan which should take account of the non-compliance fees being paid and should look to work with the third party to ensure that they are able to provide compliance to them and remove the non-compliance fee. The Council should also determine what benefits the Council receives for the PCI DSS Management Fee and verbal assessment.	Moderate Risk
Management Response/Action Details	Action Date
This matter has been raised with Capita360 and there are several issues that have been raised previously about responsibility for the various elements of PCI DSS compliance and which appear to affect compliance. Following the meeting with Capita on 15th February 2019 a compliance action plan will be drafted for agreement by each team.	01/04/2019
Status Update Comments	Revised Date
The Council has kicked off a project to ensure PCI compliance which should be in place by mid-late 2020. The project is set to incorporate a PCI audit, new policies and procedures, the completion of the PCI self-assessment and the introduction of new solutions to remove card data from the authority.	01/10/2020

Organisational Culture & Ethics	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
The Council had not undertaken a staff survey which was specifically geared towards the Council's culture, ethics and values. We recommend that the Council consider undertaking a specific Cultural Survey aimed at assessing officer opinions on the Council's culture, ethics and values. The results of the survey could then be used to make improvements where necessary should any common specific themes or patterns result.	Moderate Risk
Management Response/Action Details	Action Date
A survey will be undertaken following research with the Council's Communications section.	31/10/2018
Status Update Comments	Revised Date
As part of our work to embed the Corporate Plan and our Values throughout the Council, several Staff Briefings took place in January 2020. Each briefing was led by a representative from Leadership Team with support provided by the Organisational Development and Performance Team. Following the briefing sessions, the Leadership Team and the Heads of Services reviewed the feedback from staff. An action plan has been developed to further embed our values, improve culture and team working across the council. Staff will receive an update on the actions every quarter through our existing communication channels. Further staff briefings will be held throughout	31/10/2020

2020. An employee engagement survey will also be launched in Autumn 2020. The themes and questions in the survey will be based on the information collected from the Staff Briefing sessions.

Officers Expenses & Allowances	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
The review of essential user allowances process, which was due to be carried out annually, had not been carried out. We recommend that the Council considers a root and branch review of its approach to the payment of travel expenses, with a view to reducing the number of uneconomic payments made through the essential user scheme.	Moderate Risk
Management Response/Action Details	Action Date
The payments are contractual for employees and therefore formal consultation will need to be undertaken. The Council is completing a job evaluation project and it is planned to commence discussions with the Trade Unions as part of a wider review of employment conditions and to fit in line with negotiations being completed on a national basis. Position to be reviewed 30th September 2019.	30/09/2018
Status Update Comments	Revised Date
This will be subject to the Head of the Paid Service agreeing the terms of reference with the Council and the Trades Unions.	31/03/2021

Payroll 2018-19	Rec No. 1
Summary of Weakness / Recommendation	Risk Rating
There was no process in place to check that all changes made on the Resource Link Payroll system were valid and supported by appropriate documentation. We recommend that a standard report should be setup on the Resource Link system that produces a listing of all changes made to Payroll records by all users within the period. This should then be used to ensure that appropriate documentation is held to support all changes made, and that they have been accurately input. Furthermore, the Checked by column in the HR spreadsheet should be regularly competed to evidence each item listed has been checked.	Moderate Risk
Management Response/Action Details	Action Date
A number of options are being explored to address this issue with the software provider and will subsequently eradicate the level of risk. There is already a report developed that can be used to run reports on all users from Resource Link. The process of running reports was agreed in the previous audit 2017/18. Subject to the implementation of a new reporting tool, reports will be run on all users to identify any new starters and changes made to the system. In addition, the previously agreed arrangements will continue and this will include the exchange of information between HR and payroll to clarify any other changes that impact on an employee's salary. This will include the completion of the checked by column.	01/10/2019
Status Update Comments	Revised Date
The Council has made a decision to move its Payroll Service to a shared service arrangement, which was planned to be implemented on 1 April 2020. This has not come to fruition and the implementation date has been put back to April 2021. This will avoid a mid-year implementation and allow greater time for preparation. In the meantime, it is proposed to continue with the interim solution to mitigate the risk until a new system is in place as part of the shared service arrangement.	01/04/2021

Council House Sales: Right To Buy	Rec No. 1
Summary of Weakness / Recommendation	Risk Rating
There was no overall process map to ensure that officers were fully aware of their responsibilities, and the procedure notes followed by Business Support did not fully reflect current practice or government guidance. We recommend that senior management determine responsibilities, and a process map covering the whole Right To Buy process should be developed to provide clarity. Furthermore, we recommend that the Business Support procedure notes are reviewed and updated to ensure that they fully encompass current practice, government guidance, and any recommendations made within this report.	Moderate Risk
Management Response/Action Details	Action Date
To be implemented as per recommendation	01/02/2020
Status Update Comments	Revised Date
Housing have performed initial research, further input from Legal will allow the end-to-end process to be produced.	01/05/2020

Council House Sales: Right To Buy	Rec No. 6
Summary of Weakness / Recommendation	Risk Rating
Only one Right To Buy valuer had been utilised for over 10 years during which time there had been no procurement exercise, and the valuer did not hold the expected professional qualification. We recommend that a procurement exercise is undertaken to engage an appropriately qualified valuer(s). Consideration should be given to obtaining more than one independent valuation for Right to Buy property sales.	Moderate Risk
Management Response/Action Details	Action Date
To be implemented as per recommendation	01/02/2020
Status Update Comments	Revised Date
Housing have undertaken initial research to understand whether the valuer is required to provide plans in addition to the valuation. Legal requirements will be clarified then procurement of either a valuation and/or valuation-plans service can be commenced.	01/05/2020

Mobile Phones	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
The budget monitoring process had failed to appropriately resolve an identified spike in expenditure against the cost centre and account code that was used for payment of the O2 mobile phone bills. We recommend that the budget monitoring process is reviewed to ensure significant variances in spend are investigated and resolved.	Moderate Risk
Management Response/Action Details	Action Date
To a certain extent, the Accountants are reliant on Budget Managers supplying information to explain budget variances. In this instance, the variance was highlighted by the Accountant but not fully investigated by the Budget Manager. Training all Agresso users on the importance of the Financial Regulations is to be given prior to the end of March and the Accountants have been asked to minute budget monitoring meetings to provide an audit trail and ensure any outstanding actions are escalated and followed up.	31/03/2020
Status Update Comments	Revised Date
The Head of Finance informed that the training was scheduled to take place in the last 2 weeks of March. With the national lockdown this was clearly impractical, and a revised action date of 30th September was provided.	30/09/2020

Housing Safety Inspections	Rec No. 11
Summary of Weakness / Recommendation	Risk Rating
Where an asbestos survey report had recommended the removal of asbestos but this had not been performed, there was no programme of re-inspection to ensure asbestos was being actively monitored. We recommend that once the asbestos survey data is extracted from the secure portal and uploaded to Lifespan (see recommendation 9) that timescales for re-inspection should be defined in Lifespan. This will enable properties requiring regular re-inspection to be identified and programmed in for inspection. Further to this, we recommend that those officers responsible for managing asbestos inspections are provided with appropriate training on Lifespan.	Moderate Risk
Management Response/Action Details	Action Date
A surveyor is being trained as the responsible persons for the asbestos, additionally a number of surveyors are being trained regarding the duty to manage. Only 3 team members have had limited training on lifespan. We are currently in procurement for a new system If life span are successful part of their quotation includes full training.	29/02/2020
Status Update Comments	Revised Date
To be actioned by the Repair and Improvement Team Leader. A surveyor is being trained as the responsible persons for asbestos, additionally a number of surveyors are being trained regarding the duty to manage. Annual inspection regime for communal areas will be in place from April 2020.	01/04/2020

Rent Accounting 2019-20	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
The interface file between the Housing Benefits system (Academy) and the Housing system (Orchard) was being manually manipulated to ensure the data transferred was as accurate as practicably possible. Since there is now a standard interface available between Academy and Orchard, we consider this to be the best solution to ensure that data transferred to Orchard is accurate and complete. We recommend that management conducts a cost benefit analysis to determine whether the purchase of this interface would be appropriate. In the interim, we recommend that the Benefits, Subsidy & Compliance Manager provides Business Support with clear instruction on the manual amendments required on a weekly basis. These amendments should be made directly to Orchard, rather than to the Academy-Orchard interface file, and an appropriate audit trail should be retained.	Moderate Risk
Management Response/Action Details	Action Date
Enquiries have been made in regard to implementing a new interface between Orchard & Academy which should take approximately 1 month to implement. Project Team to be set up to manage the implementation.□The Business Support Team Leader is now applying any amendments manually to Orchard as instructed by the Benefits Manager.	31/12/2019
Status Update Comments	Revised Date
This work will be completed in conjunction with the upgrade to Academy which is scheduled for later this calendar year.	01/06/2020

Being Implemented - Low Risk Recommendations Over 12 Months

The following low risk rated recommendations, that have not yet been implemented and have exceeded their original action date by more than 12 months, are also detailed for Committee's scrutiny.

Tenants Arrears 2017-18	Rec No. 1
Summary of Weakness / Recommendation	Risk Rating
The Income Management Policy had not been reviewed in line with criteria laid down in the policy itself. We recommend that the Income Management Policy be reviewed as soon as is practically possible to ensure that it reflects current legislation and best practice. Future reviews should be scheduled every 2 years in line with the policy or sooner in the event of significant legislative changes.	Low Risk
Management Response/Action Details	Action Date
The policy and associated procedures will be reviewed in preparation for the implementation of Universal Credit in South Derbyshire.	30/09/2018
Status Update Comments	Revised Date
Once the review of all workflows is complete, it will be 'practically possible' to review the Policy and to also incorporate information on the impact of Universal Credits (UC) in our District. In respect to the later, due to unprecedented demand revisions concerning UC may take longer than initially expected. Best Practice processes are still being obtained from other providers, but this may take us till the end of the Calendar year to now implement.	01/01/2021

Tenants Arrears 2017-18	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
A number of procedure manuals were identified and there was confusion as to which procedures were current for the service. We recommend that management review the various procedures and processes available to determine which manuals reflect the current processes, legislation and best practice concerning the recovery of rent arrears. Outdated procedures should be archived and clearly marked as such or removed from the system to ensure there is no confusion over which procedures to use.	Low Risk
Management Response/Action Details	Action Date
Current procedure and process documents will be clearly identified for team members. Obsolete documents will be removed from common folders. This action is included as part of a corporate review of Policies & Procedures.	01/06/2018
Status Update Comments	Revised Date
Once the review of all workflows is complete, it will be 'practically possible' to review the Policy and to also incorporate information on the impact of Universal Credits in our District. Obsolete documents will be removed from common folders.	01/09/2020

Tenants Arrears 2017-18	Rec No. 6
Summary of Weakness / Recommendation	Risk Rating
There were a number of unnecessary codes in the Orchard Housing System for either the same or similar actions and some codes were not linked into the automated workflow processes. We recommend that the Housing Services Manager make arrangements, in conjunction with the Business Support Manager, for the tenancy arrears codes on the Orchard Housing System to be reviewed. This review should remove any unnecessary codes and ensure that the remaining codes are all linked into the automated workflow processes. This will streamline working practices and overall efficiency, while ensuring that follow-up actions are correctly identified by the system.	Low Risk
Management Response/Action Details	Action Date
As part of work underway on the arrears project, a review of tenancy codes is being undertaken as it relates to our secure tenancies workflow. This work will be completed by the year end. The same process will then need to be undertaken for other tenancy.	31/12/2018
Status Update Comments	Revised Date
Although we have ceased using many of the existing codes, we will not be carrying out any deletions until we have finalised and tested all the workflows, letters and arising potential actions. In summary, this task will be completed towards the end of our arrears Project. The scope of arrears project is wider than anticipated and will not be complete until July 2020. Some codes cannot be deleted as they will have an impact on current running of the system.	30/07/2020

Rent Accounting 2017-18	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
Control totals from housing benefit files imported into the Orchard Housing system, on a weekly basis, were not being matched to those from the system, following import. We recommend that, as part of the weekly reconciliation, the Business Support Team Leader source the batch file totals from the Senior Benefit Officer, who produces the housing benefit files for import. The expected total value of postings, and the number of transactions being posted, can then be checked to the import report from the Orchard Housing system to confirm that the information has been successfully transferred.	Low Risk
Management Response/Action Details	Action Date
Housing has requested the batch files totals from Housing Benefit. They have advised that they cannot provide us these totals at the moment without incurring significant expense in terms of an interface/reporting solution between the Orchard and Academy.	31/08/2018
Status Update Comments	Revised Date
The reconciliation of the Academy housing benefit import files to the Orchard Housing system, will now be picked up as part of the wider interface issues identified in the 2019-20 Rent Accounting audit. To be completed as part of the Academy Upgrade which will take place in October 2020	30/10/2020

Parks & Open Spaces	Rec No. 5
Summary of Weakness / Recommendation	Risk Rating
Files and documentation confirming compliance with safety standards was not held centrally, but rather in separate project files in the Cultural Services Department. We recommend that the documentation held by the Council in respect of play equipment and playground surfacing which demonstrates compliance with the relevant safety standards, should be held centrally. Ideally, the relevant documents confirming compliance for each play area should be scanned and stored on separate electronic files, headed up for each play area. Access to the files should be allowed for both the Open Space and Facilities Development Manager and the Street Scene Manager. This would allow all officers involved in the process to access the information as necessary (i.e. for ordering parts) and would serve to ensure that the information was complete and easily accessible.	Low Risk
Management Response/Action Details	Action Date
Central folder to be set up for all Play Equipment paperwork on S Drive. Scan in all relevant documents.	31/03/2018
Status Update Comments	Revised Date
Our internal capacity to progress is temporarily limited but we are undertaking a district wide play audit of our own which will help to address the outstanding recommendations. We are currently engaged in a procurement exercise to secure external expertise to undertake the audit. To allow for the procurement, the audit and then remedial action suggest a revised date for implementing the outstanding recommendations of end September. Play audit nearing completion. To allow for digesting and acting upon recommendations suggest a revised date for implementing the outstanding recommendation of end March 2019. Open Space and Facility development team still suffering from significant capacity issues due to recruitment delays and long-term sickness which means follow up on play audit has had to be delayed. Suggest further 4 months extension. We have been advised the Grounds team has no paper records as they were	30/09/2020

disposed of in the move to the new depot. The Cultural Services unit and Open Space and Facility Development team are keeping central records but are still suffering from significant capacity issues, there is no one at present to retro scan old documents. September 2020 is a reasonable estimate of when staffing resources may be available to undertake the scanning and filing.	

Parks & Open Spaces	Rec No. 7
Summary of Weakness / Recommendation	Risk Rating
Signs at play areas did not clearly identify the site operator, relying instead on a display of the Councils emblem, not necessarily identifiable with all users of the play areas. In addition, out of hours contact details differed on one sign compared to the other three we viewed. We recommend that the signs displayed at the children's play areas across the district clearly display, the name of the site operator, i.e. the district council or parish council as appropriate. This would allow users of the play areas to clearly identify the site operators in the event of accident or equipment failure. In addition, all the signs situated in the play areas should display the correct contact numbers, both in and out of office hours.	Low Risk
Management Response/Action Details	Action Date
Review of signage to be undertaken. New signage to be designed and approved. New signs to be installed on all Council operated play areas – NOTE: subject to budget/cost constraints	31/03/2018
Status Update Comments	Revised Date
Our internal capacity to progress is temporarily limited but we are undertaking a district wide play audit of our own which will help to address the outstanding recommendations. We are currently engaged in a procurement exercise to secure external expertise to undertake the audit. To allow for the procurement, the audit and then remedial action suggest a revised date for implementing the outstanding recommendations of end September 2018. Play audit nearing completion. To allow for digesting and acting upon recommendations suggest a revised date for implementing the outstanding recommendation of end March 2019. Open Space and Facility development team still suffering from significant capacity issues due to recruitment delays and long term sickness which means follow up on play audit has had to be delayed. Suggest further 4 month extension. The play audit has been completed and a follow up report went to Overview and Scrutiny Committee on October 16th. The report contained an action to update, improve and standardise signage at play areas. September 2020 is the targeted date for initiating the improvement programme but is dependent on the outcome of the budget setting and restructure report.	30/09/2020

PCI Compliance 2018-19	Rec. No. 1
Summary of Weakness / Recommendation	Risk Rating
The ICT Security, Electronic Communications and Security and the Credit Card Procedure and Policies and Security Policy documents were out of date and contained dated references with respect to PCI (DSS). We recommend that out of date references are removed and these policies and procedures are subject to regular review. Review periods should be built into the version control history.	Low Risk
Management Response/Action Details	Action Date
Polices to be updated as recommended. ICT Security and Electronic Communications policy will be updated by ICT. Procedural polices updates including communication and training to staff will be updated by Customer Services	01/06/2019
Status Update Comments	Revised Date
The Council has kicked off a project to ensure PCI compliance which should be in place by mid-late 2020. The project is set to incorporate a PCI audit, new policies and procedures, the completion of the PCI self-assessment and the introduction of new solutions to remove card data from the authority.	01/10/2020

PCI Compliance 2018-19	Rec. No. 2
Summary of Weakness / Recommendation	Risk Rating
Officers taking card payments outside of the Contact Centre were not aware of the PCI Standard. Staff taking payments over the phone, did not have written guidance on how to keep the card payer's details secure. We recommend that ICT Security Policy and relevant documents are updated to include a section of PCI compliance where applicable to educate staff on the standard and potential consequences if these are breached. We recommend that procedural guidance is produced which explicitly prevents Contact Centre staff from reading back the full card details to a customer over the phone.	Low Risk
Management Response/Action Details	Action Date
Polices to be updated as recommended. ICT Security and Electronic Communications policy will be updated by ICT. Procedural polices updates including communication and training to staff will be updated by Customer Services	01/06/2019
Status Update Comments	Revised Date
The Council has kicked off a project to ensure PCI compliance which should be in place by mid-late 2020. The project is set to incorporate a PCI audit, new policies and procedures, the completion of the PCI self-assessment and the introduction of new solutions to remove card data from the authority.	01/10/2020

South Derbyshire District Council – Audit Progress Report

PCI Compliance 2018-19	Rec. No. 3
Summary of Weakness / Recommendation	Risk Rating
There was a general lack of awareness of PCI compliance risks amongst staff using the Paye.net system outside of the Contact Centre. We recommend that refresher training is developed for staff responsible for taking card payments over the phone using the Paye.net system are trained on PCI compliance.	Low Risk
Management Response/Action Details	Action Date
Procedural polices updates including communication and training to staff will be updated by Customer Services.	01/06/2019
Status Update Comments	Revised Date
Following the appointment of a new head of customer services in October 2019, this is currently underway. A training plan will be in place by the end of this financial year.	31/03/2020

PCI Compliance 2018-19	Rec. No. 6
Summary of Weakness / Recommendation	Risk Rating
The document which outlined duties and responsibilities in terms of PCI Standards contained out-of-date references. We recommend that the document outlining duties and responsibilities in terms of PCI Standards is updated to reflect the Council's current structure.	Low Risk
Management Response/Action Details	Action Date
Procedural polices updates including communication and training to staff will be updated by Customer Services.	01/04/2019
Status Update Comments	Revised Date
The Council has kicked off a project to ensure PCI compliance which should be in place by mid-late 2020. The project is set to incorporate a PCI audit, new policies and procedures, the completion of the PCI self-assessment and the introduction of new solutions to remove card data from the authority.	01/10/2020

Section 106 Agreements 2018-19	Rec. No. 1
Summary of Weakness / Recommendation	Risk Rating
The Section 106 Agreements version 8 - A guide for Developers document had not been reviewed since April 2010, and contained out-of-date information. We recommend that the Section 106 Agreements version 8 - A guide for Developers document should be subject to a full review and update. Going forward, this document should be subject to regular review and update.	Low Risk
Management Response/Action Details	Action Date
Review to be undertaken in 2019/2020 - to produce formal supplementary planning document (statutory process) - then reviewed as part of the Local Plan process.	01/04/2019
Status Update Comments	Revised Date
Currently in first draft phase of a new version of the guidance document. Third parties need to be involved in the drafting. It is now unlikely that it will be ready for submission to Committee until June 2020.	01/07/2020

Section 106 Agreements 2018-19	Rec. No. 4
Summary of Weakness / Recommendation	Risk Rating
Variances identified as part of the reconciliation between Planning records and Accountancy records for the Section 106 Reserve Account have not been fully investigated and resolved. We recommend that all variances identified as part of the reconciliation between the Planning records and Accountancy records for the Section 106 Reserve Account should be fully investigated and action be taken to ensure that if Section 106 money has not been spent as intended, that it is reflected in the Section 106 Records maintained by the Planning Department.	Low Risk
Management Response/Action Details	Action Date
The team has been alerted to this - will meet with Accounts to discuss further.	31/03/2019
Status Update Comments	Revised Date
These balances will be cleared from the S106 accounts as apart of the year end review.	30/06/2020

Allocations & Homelessness 2018-19	Rec. No. 5
Summary of Weakness / Recommendation	Risk Rating
The Homelessness Prevention Strategy had not been updated to ensure that it met the requirements of new legislation. We recommend that the Homelessness Prevention Strategy is reviewed and updated.	Low Risk
Management Response/Action Details	Action Date
Review to be completed and updated strategy implemented.	01/06/2019
Status Update Comments	Revised Date
External consultant to be appointed to carry out a comprehensive review of homelessness and temporary accommodation in South Derbyshire - this has been agreed by Housing & Community Services Committee. Report expected at Housing and Community Services Committee in July/August 2020.	01/08/2020

Allocations & Homelessness 2018-19	Rec. No. 6
Summary of Weakness / Recommendation	Risk Rating
The Temporary Accommodation Policy was in draft form and had not been updated since 2015. We recommend that the Temporary Accommodation Policy should be updated and finalised.	Low Risk
Management Response/Action Details	Action Date
Policy to be updated and presented to Housing and Community Safety Committee.	01/06/2019
Status Update Comments	Revised Date
External consultant to be appointed to carry out a comprehensive review of homelessness and temporary accommodation in South Derbyshire - this has been agreed by Housing & Community Services Committee. Report expected at Housing and Community Services Committee in July/August 2020.	01/08/2020

PROCESS CHANGE

For each audit assignment, we arrive at an Overall Assurance Rating, which is illustrated in the Swing'o'meter charts on the front cover of each report, followed by a narrative definition in the Executive Summary section of the report. These ratings are calculated using a standardised methodology that considers the potential impacts of each of the risks identified during the audit, as well as the likelihood of those risks materialising. The process of arriving at an Overall Assurance Rating is also quality checked by Audit Management as part of our quality review process, to ensure that a consistent approach has been adopted for each audit assignment.

We have taken the decision to stick to the standard calculation described above, but to change the Assurance Rating categories and narrative definitions as below:

The reason for this is that the CIPFA Internal Audit Special Interest Group has undertaken a review to consider the case for standardising assurance opinions/definitions across internal audit in the public sector. The CIPFA review document is attached at Appendix A. There has been little guidance available in the past, and Audit teams have developed their own assurance ratings and definitions.

Old Rating & Definition (CMAP)	New Rating & Definition (CIPFA)
Comprehensive - We are able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls were in place and operating effectively and risks against the achievement of objectives were well managed.	**Substantial Assurance** - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
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.	**Reasonable Assurance** - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited - We are able to offer limited assurance in relation to the areas reviewed and the effectiveness of the controls found to be in place. Some key risks were not well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.	**Limited Assurance** - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
None - We are not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks were not being well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.	**No Assurance** - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Since April 2013, Internal Audit has worked to a single set of overall standards, the Public Sector Internal Audit Standards (PSIAS). Given that the standards are now consistent across the public sector, it makes sense that there is also a common standard of how best to report the overall assurance results of each individual piece of internal audit work.

CMAP has adopted the CIPFA standard definitions for all audits completed in 2020/21. The most notable change is that the CMAP "Comprehensive assurance" rating will be replaced by "Substantial assurance", while the "None" assurance rating will be re-termed as "No assurance". The narrative definitions that support each rating have been changed to the CIPFA definition, which we believe gives more clarity.

CIPFA The Chartered Institute of Public Finance & Accountancy

Internal Audit Engagement Opinions:

setting common definitions

About CIPFA

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

\ introduction

It is current practice in public sector internal audit teams to provide a summary opinion as part of the final report on internal audit engagements. Currently there is no standard definition or terminology for engagement opinions and it is for each head of internal audit to determine an appropriate methodology.

As organisations in the public sector increasingly work collaboratively with other public bodies, senior managers and audit committee members can find themselves receiving reports from more than one set of internal auditors. There have been questions or challenges to auditors about the consistency of use of their opinions because different terminology was being used. CIPFA's Internal Audit Special Interest Group reviewed existing practices and considered the case for a common approach.

This briefing examines the case for standardising the terminology and definitions used in engagement opinions and recommends a set of opinions and supporting definitions for internal audit teams to use. It focuses on engagement opinions not the annual opinion of the head of internal audit.

\ background

The professional practice of internal audit within public sector bodies across the UK was consolidated into a single set of overall standards, the Public Sector Internal Audit Standards (PSIAS) in April 2013. PSIAS has been successful in ensuring consistency and has assisted in the training of internal audit staff and in supporting their movement across different parts of the sector, eg moving from health to local government.

Whilst the standards are now consistent across the public sector, there is no common practice, and little guidance available, regarding how best to report the overall results of internal audit work at the end of each engagement.

PSIAS defines an *"Engagement Opinion"* as:

"The rating, conclusion and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement."

PSIAS standard 2410 requires audit reports to include the engagement's objectives, scope and results. Standard 2410.A1 specifies the following where opinions are used:

"Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion 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.

Interpretation:

Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance."

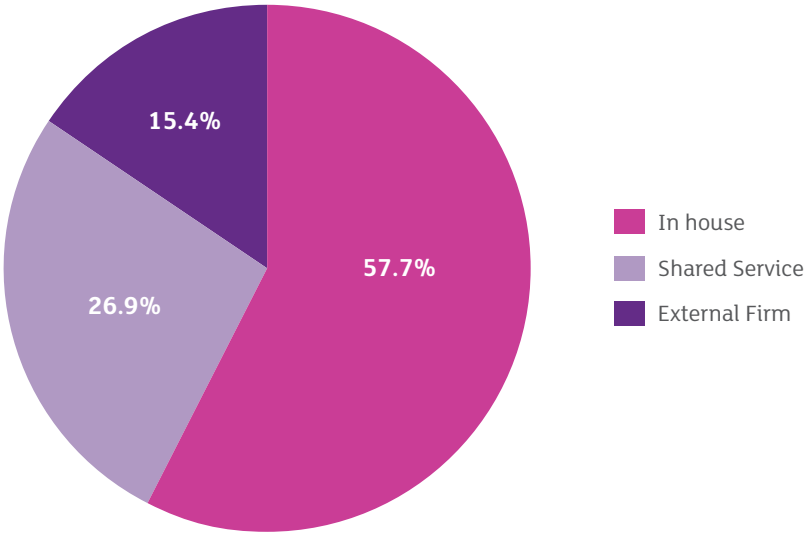
Beyond standard 2410.A1 however, PSIAS gives no guidance around how best to articulate or rate audit opinions. The briefing Delivering Internal Audit Findings, IIA (UK), in 2018 provided some examples of engagement opinions used by internal audit teams and CIPFA is aware that many internal audit teams have shared practice between themselves in this area previously.

Analysis of engagement opinions

CIPFA's special interest group identified a range of current reporting practice and opinions in use by different internal audit providers across the UK public sector. The exercise included 52 organisations across the public sector including small in-house internal audit teams, large shared services, external commercial audit firms and specialist assurance providers. The results were analysed alongside a review of professional and regulatory practice and standards.

The 52 providers included all the main types of internal audit provider (see Figure 1) and encompassed internal audit provision to all parts of the public sector. Whilst the number of external firms comprised the smallest group (eight organisations), these firms are responsible for delivering internal audit services to hundreds of public bodies.

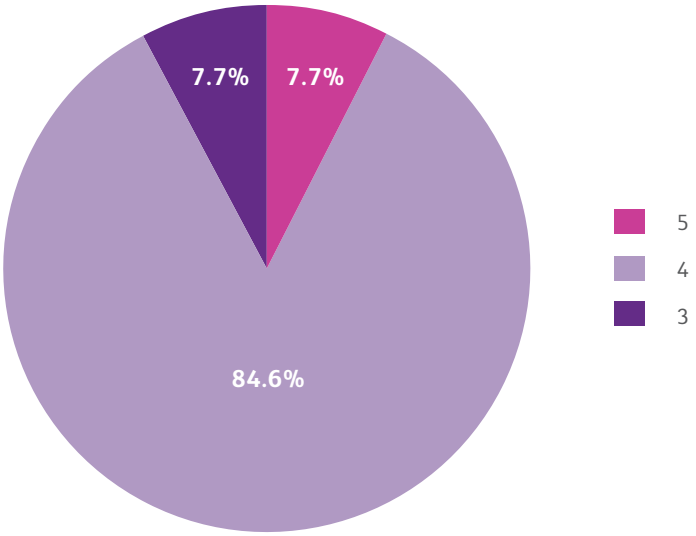
Figure 1: Type of Internal Audit Provider



Opinion levels in practice

Whilst having an engagement level opinion is not mandated by PSIAS, all of the internal audit providers in the sample chose to provide some form of rating or overall opinion. By far the most common practice was four possible levels of opinion on the engagement see figure 2. The opinion levels in use the organisations are summarised in Annex A.

Figure 2: Number of Opinion Levels



A four-level opinion rating was in use by 44 of the internal audit providers. When looking at the type of internal audit provision, the lowest proportion of four-level opinions in use was by in-house teams (83%). The only type of provider to use a three-level opinion was in-house services (four of the 30

in-house teams). All other internal audit providers used four-level opinion ratings, with the exception of one of the eight commercial audit firms, one of the 30 in house teams and two of the 14 shared service providers, who use five-level ratings.

Opinion descriptions in practice

The survey results identify a wide range of language and terminology currently in use by different internal audit providers reporting across the public sector. The results also identify clear 'common' practice however, with the following four-level opinion ratings being far more widespread than any others:

- Substantial
- Reasonable
- Limited
- No or None

The 'pros and cons' of different levels of opinion

Advantages and disadvantages can be put forward for using each of the three, four or five-level opinion ratings. The main arguments can be summarised as follows:

- A five-level rating allows for greater differentiation than fewer levels, and can help audit committees and management to better understand the level of assurance being given.
- A four-level rating forces the auditor to give an opinion 'one side of the line' and explicitly above or below average (positive or negative); this helps organisations to understand if the area is doing 'well' or 'badly'.
- The 'middle' option available within three or five-level ratings creates the risk of becoming (or being seen to be) an easy or default choice. This creates a risk that the middle opinion might be given on occasions simply to avoid a difficult discussion.
- A rating system without a middle rating ignores the normal standard distribution ('bell curve') of how well managed most services are. In reality there are inevitably many audits undertaken on areas which turn out to be 'average', with maybe a few examples of good practice but also with a few weaker areas. Having no middle option creates the need to describe such results either positively or negatively, with the assigning of such opinions inevitably giving rise to some of the most prolonged debate; there is a risk that this can lead to discussions about audit terminology, rather than the substance of the audit report.
- The main external regulators responsible for rating most public services all make use of a four-scale system. There may be an advantage of consistency if internal audit also use a four-scale rating.

the case for standardising opinions across internal audit in the public sector

There are a number of clear advantages to introducing common practice for reporting opinions on internal audit engagements. These include:

- The use of a standard opinion and underlying definition would increase confidence amongst audit committee members and managers that the engagement opinion issued is consistently applied.
- It would assist the sharing, comparability and understanding of assurances across public bodies. This would be of benefit to audit committees, managers and also other auditors (both internal and external).
- It would support audit committee members and senior managers in their understanding of audit reports. In particular those who sit on more than one public sector audit committee, or who receive reports from different auditors in relation to partnerships and joint ventures would find the consistency of benefit.
- It would support the training of internal audit staff, helping to drive up the quality and consistency of audit opinions, and facilitate staff moving across different internal audit teams.
- It would reduce disruption when changing internal audit provider. If the new provider applies a different approach to assurance ratings it results in audit committee members and managers having to learn and understand different terminology.

The principal arguments against adopting standard opinion levels are that this might constrain innovation in the profession, or may not suit the particular needs of an organisation or its audit team.

Overall CIPFA considers that the advantages outweigh the disadvantages.

Establishing robust definitions to support the opinion

To be meaningful an engagement opinion should be understandable to the user and consistently applied. The underlying definition of the opinion is therefore critical. Further analysis was therefore undertaken to review the definitions in use across the sector.

The detailed assurance definitions for each of the four most common gradings were identified, comparing terminology used in the reporting practice of 33 different internal audit providers. These included large and small in-house teams, shared services and large specialist firms responsible for servicing clients across all parts of the public sector.

There is a wide variety of different definitions and language currently in use by different internal auditors to define the same headline level of assurance. As there is no standard terminology, practitioners have developed their own definitions over time.

If the work of internal audit is undertaken in compliance with PSIAS then it would seem most appropriate for internal audit opinions to directly relate back to the PSIAS defined scope of internal

audit. The work of internal audit is defined in PSIAS as being to: "evaluate and improve the effectiveness of risk management, control and governance processes." (Definition of Internal Auditing, PSIAS 2017) This should be reflected in the definitions of the engagement opinions. A number of organisations were found to have adopted this approach in their definitions already.

Recommended definitions for engagement opinions

Based on analysis of this existing practice, and taking into account the PSIAS definition of internal audit, standard definitions for internal audit assurance over an engagement, are proposed to be:

- Substantial Assurance
  - "A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited."
- Reasonable Assurance
  - "There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited."
- Limited Assurance
  - "Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited."
- No Assurance
  - "Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited."

In applying the most appropriate level of opinion the internal auditor will use their professional judgement, based on the results of the audit, consideration of risk and consequences of areas of weakness for the organisation.

\ recommendations

Heads of internal audit working in or for public sector organisations are recommended to adopt the standard definitions for their engagement opinions. CIPFA and its Internal Audit Special Interest Group consider that the advantages of doing so outweigh any disadvantages.

In introducing the change there will need to be explanation to users of engagement reports and members of the internal audit team and this should be planned effectively. For example it may be easier to make the change at the start of the financial year so that all engagement opinions for the year are reported on a consistent basis.

The use of the standardised definitions is recommended but is not mandated. If the head of internal audit or their clients do not consider that it is appropriate to adopt them then there is no obligation to do so. CIPFA would however encourage heads of internal audit to discuss this with their audit committees.

CIPFA would recommend that they disclose the basis for not adopting the ratings in their annual report as this is the place where the overall engagement opinions for the year are generally reported.

Feedback

CIPFA would welcome feedback on the use of definitions from both internal auditors and users of audit reports. We will keep this area under review and consider whether any issues or innovations in the practice of internal audit require a future change to the recommended definitions.

Please send any comments to **diana.melville@cipfa.org**.

Acknowledgements

CIPFA would like to thank members of the Internal Audit Special interest Group for their work on developing this briefing. In particular Michael Townsend who conducted the research and analysis.

ANNEX A

detailed survey results

		Number of internal audit providers using the rating/descriptor			
	Rating/descriptor used	**Total**	**4 Levels**	**5 levels**	**3 levels**
Top rating:	Substantial	21	19		2
	High	11	7	3	1
	Good	6	6		
	Full	3	2	1	
	Significant	2	2		
	Effective	2	2		
	Green	2	1		1
	Strong	1	1		
	1	1	1		
	Low risk (green)	1	1		
	Assurance	1	1		
	Satisfactory	1	1		
	Total	**52**	**44**	**4**	**4**
Bottom rating:	No/None	26	22	4	
	Limited	7	5		2
	Unsatisfactory	4	4		
	Minimal	2	2		
	Poor	2	2		
	Low	2	1		1
	Red	2	1		1
	Fundamental weakness	1	1		
	Unsound	1	1		
	Unacceptable	1	1		
	Inadequate	1	1		

		Number of internal audit providers using the rating/descriptor			
	Rating/descriptor used	**Total**	**4 Levels**	**5 levels**	**3 levels**
	Little	1	1		
	4	1	1		
	Critical risk (red)	1	1		
	Total	**52**	**44**	**4**	**4**
Above middle ratings:	Reasonable	16	16		
	Satisfactory	7	7		
	Substantial	7	3	4	
	Moderate	3	3		
	Adequate	2	2		
	Medium	2	2		
	Effective with opportunity to improve	2	2		
	Significant with some/ minor improvements	2	2		
	Qualified	1	1		
	Considerable	1	1		
	Good	1	1		
	Sound	1	1		
	2	1	1		
	Partial	1	1		
	Amber	1	1		
	Total	**48**	**44**	**4**	**0**
Middle Ratings (3 or 5 levels):	Moderate	3		2	1
	Reasonable	1		1	
	Adequate	1		1	
	Acceptable	1			1
	Satisfactory	1			1
	Amber	1			1
	Total	**8**	**0**	**4**	**4**

		Number of internal audit providers using the rating/descriptor			
	Rating/descriptor used	**Total**	**4 Levels**	**5 levels**	**3 levels**
Below middle ratings:	Limited	28	24	4	
	Partial	5	5		
	In need of improvement/ improvement required	3	3		
	Reasonable	2	2		
	Moderate	2	2		
	Low	1	1		
	Some	1	1		
	High risk (orange)	1	1		
	Insufficient	1	1		
	Weak	1	1		
	Unsatisfactory	1	1		
	3	1	1		
	Red/Amber	1	1		
	Total	**48**	**44**	**4**	**0**

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02/2020

REPORT TO:	**AUDIT SUB COMMITTEE**	**AGENDA ITEM: 8**
DATE OF MEETING:	**13th JULY 2020**	**CATEGORY: DELEGATED**
		OPEN
REPORT FROM:	**EXTERNAL AUDIT**	
MEMBERS' CONTACT POINT:	**JASON BURGESS** Jburgess3@uk.ey.co	**DOC:** u/KS/audit/EY/committee briefings/quarterly update cover
SUBJECT:	**LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING: QUARTER 1 MARCH 2020**	
WARD(S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: AS 01**

1.0 Recommendation

1.1 That the Committee consider the key questions highlighted by the Council's External Auditors contained in their latest sector update.

2.0 Purpose of Report

2.1 To provide the latest briefing from the Council's External Auditors. This is aimed at supporting the Council in an environment that is constantly changing and evolving. It covers issues which may have an impact on the Council, the wider local government sector and the audits that are undertaken.

3.0 Detail

3.1 The Briefing is attached separately to the report. The key questions are detailed on Page 8 of the Briefing and include matters relating to:

- Budget 2020
- Local Government Settlement 2020/21
- Local Authority Investment in Commercial Properties
- CIPFA Financial Resilience Index
- The Local Public Audit Environment
- PSAA Report on the Future Procurement and Market Review

4.0 Financial Implications

4.1 None

5.0 Corporate Implications

5.1 None

6.0 Community Implications

6.1 None

Local Government Audit Committee Briefing

Quarter 1, March 2020

EY
Building a better working world

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This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation and the Local Government sector as a whole.

The briefings are produced by our national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but also wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please contact your local audit team.

Government and economic news

EY Club Item

The outlook for the UK economy has improved over the last three months, with the decisive nature of the General Election result and the resulting clarity on the first stage of Brexit expected to provide a short-term boost to economic activity. The strong performance of the labour market in terms of new jobs – although less so in pay growth – suggests there may be more momentum than previously thought, and it appears the global slowdown may be bottoming out. Reflecting these factors, The EY ITEM Club's Winter Forecast has increased its projection for GDP growth to 1.2% in 2020 and 1.7% in 2021, compared to the 1% and 1.5% predicted in its last quarterly previous forecast.

Significant uncertainty may still exist, but we can be certain that change is coming. The UK is leaving the EU, the new Government has talked of an ambitious programme, the global policy consensus is under real pressure, and demographics, technology and the climate emergency will all impact the economy in the coming years. These factors may come together in new ways: concerns over the climate may lead to further reductions in trade, and support for localism that boosts towns may be possible through deploying technology in new ways. The economic outlook is challenging and now is the time for businesses to think creatively about their long-term strategy and plans to deliver it.

Budget 2020

Chancellor Rishi Sunak delivered his first Budget in the House of Commons on 11 March 2020, announcing the government's tax and spending plans for the year ahead. Key points have been summarised below.

Coronavirus – £30 billion stimulus package to counteract the COVID-19 outbreak, equivalent to 1.3% of GDP.

- This includes £5 billion for the NHS and other public services and £7 billion to businesses and families
- The government announced that statutory sick pay (SSP) will be paid to all those who choose to self-isolate, even if they aren't presenting any symptoms. Small- and medium-sized business will be refunded eligible SSP costs
- Local Authorities will be provided with £500mn hardship fund to support vulnerable people in the local area

- Small firms will be able to access up to £1.2mn of business interruption loans
- Business rates will be abolished for small business in the retail, leisure and hospitality sectors with a rateable value below £51,000

Personal taxation

- NIC threshold will be raised saving individuals £100 a year

Transport, Infrastructure and housing

- More than £600 billion to be spent on roads, rail, gigabit broadband and housing. This includes £12.2 billion for the Affordable Homes Programme and a commitment to create an average 300,000 homes a year
- Additional funding to help tackle potholes- £2.5 billion will be made available in 2020/21 then £500 million per year until 2024/25

Borrowings

- Public sector net borrowing is expected to increase by 0.3% to 2.1% of GDP in 2019/20 and rising to 2.4% and 2.8% in subsequent years

Environment

- The Plastic Packaging tax rate was confirmed at £200 per tonne of plastic packaging for manufactures and importers whose products are less than 30% recyclable. This tax will be effective from April 2022

Investment in flood defences will double to £5.2 billion over the next five years. £320 million has been made available for communities affected by this year's winter flooding.

PWLB

Alongside the Budget, the Treasury launched a consultation on changes to the PWLB, which it said would attempt to "focus PWLB loans on service delivery, housing, and regeneration, and ensure that this money is not diverted into financial investments that serve no direct policy purpose. Once a workable system is designed and implemented, the government intends to cut the interest on all new loans from the PWLB."

The government said it would hold workshops with local authorities to develop rules that would prevent local authorities buying investment assets primarily for yield.

The consultation said: "Local authorities that wish to buy investment assets primarily for yield would remain free to do so but would not be able to take out new loans from the PWLB in the year in which they have bought the asset."

As a result of this budget, the Office of Budget Responsibility predicts a 1.1% GDP growth in 2020 and 1.8% in 2021 without taking into consideration the impact of COVID-19. This is in line with the EY Club Item predictions above.

Local Government Settlement 2020/21

Communities secretary, Robert Jenrick MP, submitted the proposed local government settlement for 2020/21 to the House of Parliament on 06 February 2020. This settlement is set to give local authorities a 4.4% real term increase in spending powers from £46.2 billion in 2019/20 to £49.2 billion in 2020/21. The government commented that the "settlement delivers the biggest real-terms increase in spending power for a decade."

The key elements of the settlement include:

- The core settlement resources, including Revenue Support Grant and business rates baseline funding, will rise in line with inflation. Local authorities will continue to be able to increase council tax by 2% without a local referendum. Those authorities with adult social care duties will be able to increase council tax by a further 2%
- Extra social care resources of £1.5bn for both children's and adult's social care
- New Homes Bonus payments will be maintained at 0.4% growth baseline

According to research conducted by the Local Government Information Unit 93% of councils plan to increase their council tax in 2020/21 by more than 1.5%. David Williams, chair of the County Councils Network, commented that the ability to increase council tax by up to 4% via a 2% adult social care precept will help address rising costs and growing demand, however in the long term this above inflation increase would still leave county authorities facing a £7.7bn funding shortfall.

It is not clear what the impact of Coronavirus and Brexit will have on local authority finances. CIPFA's chief executive has called upon the government to publish an economic assessment for the impact of Brexit in order for authorities to effectively plan ahead.

Another growing cost pressure faced by local authorities is the cost of providing for the homeless. Research conducted by the Local Government Association (LGA) found that 69% of local authorities in England overspent on homelessness budgets during 2018/19 by more than 27%. The LGA stated that the gap between affordable rents and housing benefits combined with an acute shortage of affordable housing has resulted in council having no choice but to increasingly provide temporary accommodation. The amount of money spent by local authorities in England housing families in bed and breakfasts increased by 23% in 2018/19 to £115mn compared to £93mn in 2017/18. Council Leaders and the LGA have urged the Government to use the upcoming budget to provide long term sustainable funding to help prevent homelessness.

Local Government Pension Scheme (LGPS) news: Exit Pensions Credit Payments and Pooling

The Ministry of Housing, Communities and Local Government (MHCLG) has announced amendments to regulations which require funds to pay exit credits where pension liabilities have been overfunded. This announcement is in response to concerns that outsourced contractors are claiming exit payments on top of existing arrangements designed to share pensions risk. MHCLG stated that "it became clear that service providers were becoming entitled to exit credits where this would not have been the intention." In response to this MHCLG have proposed changes to the 2013 Regulations which will required LGPS administering authorities to take into account the level of risk that an employer has borne in determining the amount of exit credits.

Critically, this change means that administering authorities will have discretion over the amount of exit credit paid. Responding to this announcement, actuary partner and pension advisor at Hymans Robertson, Richard Watson, said that "Amending regulations were needed to better reflect historic risk-sharing arrangements"; however, there is a fear that the new discretionary powers for funds may lead to more claims and disputes from outsourced contractors. The LGPS Advisory Board has been called upon to issue guidance on how to interpret the new regulations.

In other LGPS news the government has estimated that the shift to mandatory pooling of assets has saved more than £155mn between November 2015 and March 2019. It has also estimated that the total savings that will be achieved through asset pooling by 2033 is in the region of £2bn.

In a response to the growing climate emergency, that many local authorities have officially recognised, one LGPS asset pool, Brunel Pensions Partnership, has announced a five-point plan to increase the green credentials of its investments and to divest from investments in companies with high carbon emissions. This plan will include stress-testing its portfolios under a range of climate scenarios such as alignment of emissions with the benchmark set in the Paris Climate Agreement. The Government minister for pensions has welcomed the move saying that they have their full support.

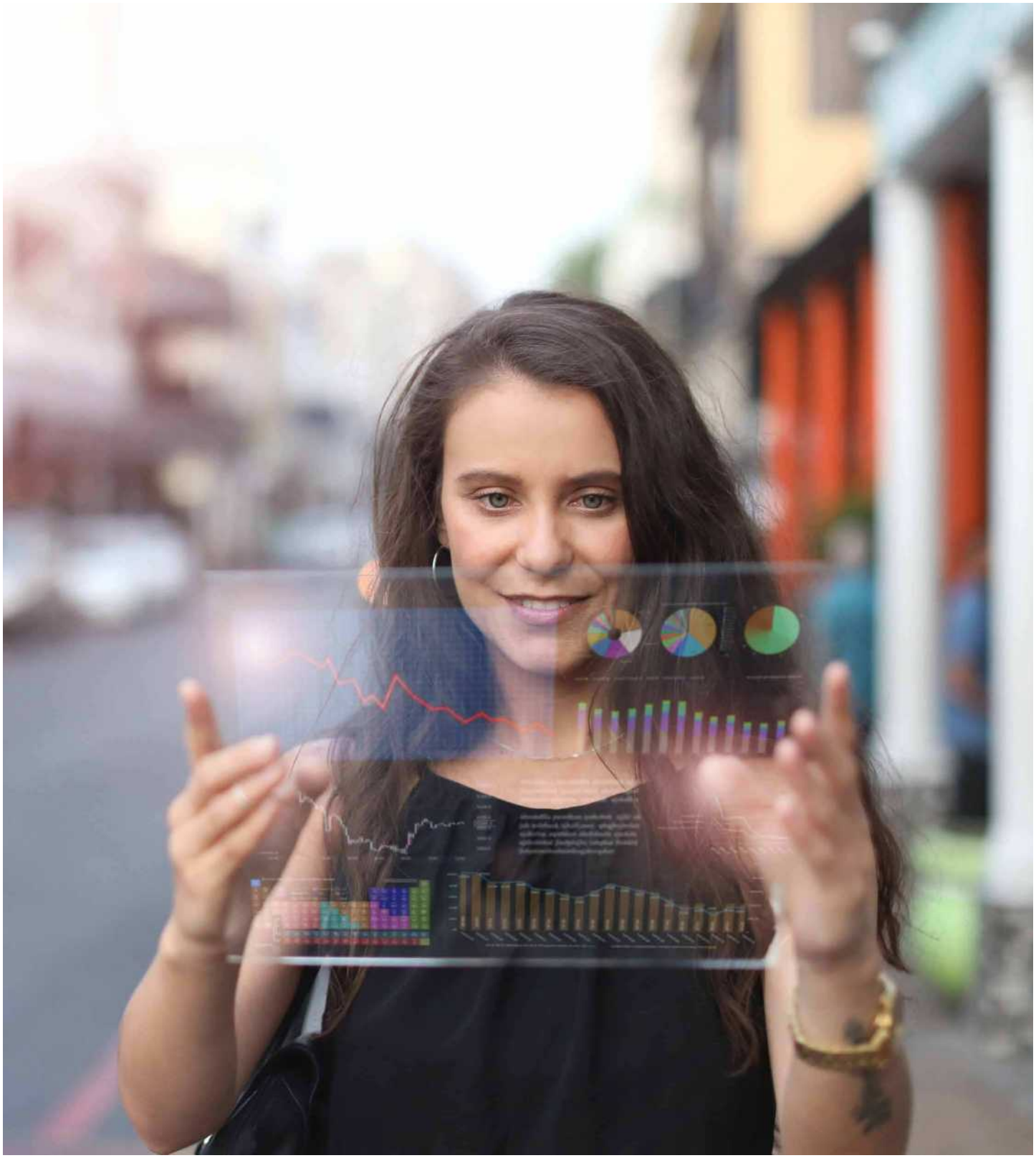
Local Authority Investment in Commercial Properties

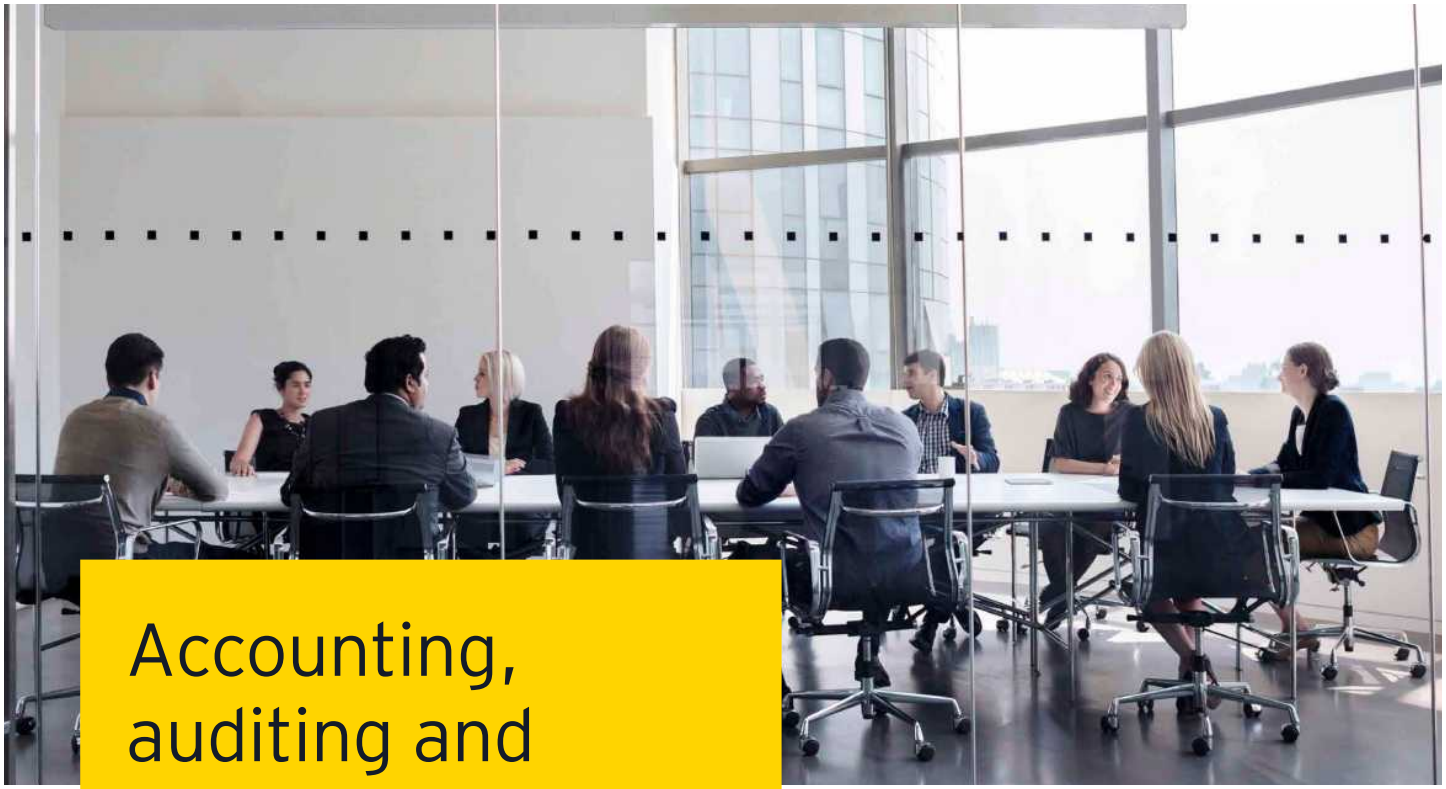
The National Audit Office (NAO) has published a report on the increasing activity of some local authorities making investments in commercial properties. The report comments that between 2016/17 and 2018/19 £6.6bn was spent by local authorities on commercial properties; this is 14.4 times more than the preceding 3 years. However, 80% of this cumulative spend was only incurred by 49 councils (14%). Interestingly district councils are disproportionately active compared to their size and there is a significant geographical skew as authorities in the South East contributed to 53% of the total cumulative spend on commercial properties during this period. The report also highlighted an increasing trend that 38% of commercial property purchases within this period being made out of the geographical area of the councils.

The report focused on MHCLG's role in relation to local government finance and concluded that improvements should be made to the quality of data and analysis of that data by MHCLG to better understand the commercial risks that local authorities are entering into. This will help provide MHCLG with better assurance as to whether local authorities are complying with the CIPFA's Prudential Code, that sets out the framework for responsible financial management. Furthermore, MHCLG should also give consideration as to whether the Prudential Code in its current form is achieving its intended objectives.

CIPFA has welcomed the NAO's report stating it provides vital insight into the activity and extent of commercial investments within the sector. CIPFA commented that councils have the flexibility to make their own investment decisions, however these decisions should be taken in line with service objectives and should be prudent and sustainable in order to provide value for money to tax payers. Avoidance of all risk is not possible; however councils should have full regard to CIPFA's prudential code to ensure that they do not take on an inappropriate amount of risk.

MHCLG has responded to the NAO report stating that councils are responsible for managing their finances and must properly consider the risks as well as the opportunities when commercial decisions are made. As the steward of the local government finance system MHCLG will carefully consider the findings of this report.





Accounting, auditing and governance

CIPFA Financial Resilience Index

CIPFA launched its latest iteration of the Financial Resilience Index on 16th December 2019. The index uses a range of indicators to analyse council finances based on data collected over the past four years. The index includes indicators which assess the level of stress in a council's finances including the level of reserves, rate of depletion of reserves and external debt. The overall outlook based on the results of the Financial Resilience Index is that approximately 1 in 10 councils are showing signs of risk to their financial stability and security. CIPFA has commented that most failures in financial resilience are due to whether effective governance arrangements are in place, rather than down to poor financial management itself.

CIPFA's Financial Resilience Index is publicly available on its website.

The local public audit environment

In our last briefing we highlighted the outcome of the Brydon review which was focused on the quality and effectiveness of audit in the UK and Ireland. We note that the recommendations seek to enhance transparency, including more focus on resilience, internal control and the public interest, for the benefit of investors and stakeholders (including the public). It has also increased the responsibility of boards, audit committees and auditors. A number of the recommendations go to the heart of what we do as auditors and will require pragmatic implementation.

Running side by side with the Brydon review has been the MHCLG review of local government financial reporting and audit, led by Sir Tony Redmond. We now expect the Redmond review to report its findings and recommendations this summer. These reviews, as well as the Competition and Markets Authority and Kingman reviews, have been carried out during a period of significant challenge for local public auditors and local government audited bodies.

On 10 February 2020, Janet Dawson, EY's UK Government and Public-Sector Assurance Leader, wrote to the audit committee chairs and chief finance officers (CFOs) of the local government bodies EY audits under its contract with Public Sector Auditor Appointments (PSAA) Ltd. The letter focused on the concerns we all share regarding the timetable for financial reporting and auditing, audit fees and the regulatory, contractual and legal context of delivering local government external audit. The key messages Janet highlighted were:

- We believe the current timetable and expectations for financial reporting and external audit are unsustainable and need to change
- Because of our views on the factors driving an unsustainable timetable, to ensure we deliver the best quality audit, we have informed PSAA, the NAO and the Local Public Audit Stakeholder forum that we will be scheduling a number of 2019/20 external audits for completion after the 31st July 2020

- We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment
- In the face of all these unprecedented factors, we still remain committed to deliver high quality sustainable local public audit that serves the public interest and stakeholder needs. It is clear therefore that audit fees for local public audit will have to rise

At the end of February, PSAA emailed CFOs with an update on audit matters. PSAA referenced several of the issues highlighted in Janet's letter and stated that it is encouraging audited bodies and local auditors to have early dialogue about when the audit will take place and the likelihood of additional audit work being required which may lead to a fee variation proposal.

Your Audit Partner has been discussing the proposed timing of your 2019/20 external audit with your CFO and a current estimate of your audit fee and will communicate with the audit committee in due course.

PSAA Report on the Future Procurement and Market Supply Options Review

On 4 March PSAA released a report it commissioned from independent consultants to inform its future procurement and market supply options review project. The consultants were asked to capture the views of current and potential local public audit providers on how to structure a future procurement approach and audit contracts in order to maximise a sustainable audit supply in the next procurement exercise. The report's summary findings were that the sustainability of audit supply will be difficult to achieve and will depend to a great extent of factors that are outside PSAA's control.

Specific findings to note:

- A lack of experienced local public auditors is the main threat to the future sustainability of the market
- It will be difficult to bring in new providers to the market due to a lack of enthusiasm for entering the market in its current state, barriers to entry and a lack of belief from these providers that they would not be successful against the existing providers in a tender exercise
- All existing providers highlight that their risks have increased significantly since they bid for the current contracts and fees have not increased to compensate for the increased risk and the timing of local audits

The report suggests some options for PSAA including changing the balance of price and quality in its tender evaluation arrangements and considering the number and size of contracts. However, the report recognises that some of the issues that impact the future sustainability of local audit are outside of PSAA's control, including the:

- Fragmentation of the market for procurement of public sector audits (including distinctive arrangements in local government, health and central government
- Accreditation regime for local audits
- Timing of local authority audits
- Regulatory regime for quality checking of audits

PSAA have shared the report publicly to inform the debate and support the work ongoing to strengthen the system of local public audit.

In the next quarter, we will be publishing thought leadership papers and thereafter a series of articles setting out our point of view on several areas that we believe are critical to secure the future sustainability of local public audit.

Key Questions for the Audit Committee

Budget 2020

How does the Budget 2020 impact your local authority?

Has your authority assessed the impact of the coronavirus on day-to-day operations?

Local Government Settlement 2020-21

How will the local government settlement for 2020/21 impact your local authority? Does this change any of the budgeting assumptions included on your authority's medium term financial plan?

How much financial pressure is homelessness creating for your authority? What are your authority's plans to address homelessness over the long term?

Local Government Pension Scheme (LGPS): Exit Pensions Credit Payments

Is your authority impacted by the change in regulation regarding LGPS payment of pensions exit credits?

How is your authority's LGPS scheme achieving value for money through asset pooling?

Local Authority Investment in Commercial Properties

How does your authority assess its risk appetite for making commercial decisions? How does your authority ensure that it will achieve long term value for money for tax payers?

How does your authority comply with CPIFA's Prudential Code?

CIPFA Financial Resilience Index

How does your authority compare to other local authorities in CIPFA Financial Resilience Index?

What steps does your authority take to achieve long term financial resilience?

The local public audit environment

Are you clear on the timing of your 2019/20 audit and an indication of the fees being proposed by your auditor?

PSAA Report on the Future Procurement and Market Supply Options Review

Have you read PSAA's report and considered what your perspectives are on the steps that should be taken to support the future sustainability of local public audit?

Find out more

EY Club Item

https://www.ey.com/en_uk/growth/ey-item-club/ey-item-club-winter-forecast-2020

Budget 2020

https://www.gov.uk/government/publications/budget-2020-documents/budget-2020#executive-summary

https://www.bbc.co.uk/news/uk-politics-51832634

Local Government Settlement 2020-21

https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2020-to-2021-written-statement

https://www.publicfinance.co.uk/news/2019/12/local-government-settlement-provides-ps29bn-cash-boost

https://www.publicfinance.co.uk/news/2020/01/majority-councils-overspend-homelessness-pressure-mounts

Local Government Pension Scheme (LGPS): Exit Pensions Credit Payments

https://www.publicfinance.co.uk/news/2020/02/lgps-funds-given-discretion-over-employer-exit-payments

https://www.publicfinance.co.uk/news/2020/02/pooling-lgps-schemes-has-saved-ps155m-four-years

https://www.publicfinance.co.uk/news/2020/01/lgps-pension-pool-demands-action-climate-change

Local Authority Investment in Commercial Properties

https://www.nao.org.uk/press-release/local-authority-investment-in-commercial-property/

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-response-nao-report-on-council-investment-in-commercial-property

CIPFA Financial Resilience Index

https://www.publicfinance.co.uk/news/2019/12/cipfa-financial-resilience-index-finances-10-councils-risk

https://www.cipfa.org/services/financial-resilience-index/financial-resilience

The local public audit environment

https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852960/brydon-review-final-report.pdf

PSAA Report on the Future Procurement and Market Supply Options Review

https://www.psaa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf

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ED None

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REPORT TO:	**AUDIT SUB COMMITTEE**	**AGENDA ITEM: 9**
DATE OF MEETING:	**13th JULY 2020**	**CATEGORY:** **DELEGATED**
REPORT FROM:	**STRATEGIC DIRECTOR (CORPORATE RESOURCES)**	**OPEN**
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE (01283 595811)** Kevin.stackhouse@southderbyshire.gov.uk	**DOC:** u/ks/financial strategy/section 151 role/CFO role to ASC 25 March 2020
SUBJECT:	**THE ROLE AND RESPONSIBILITIES OF THE CHIEF FINANCE OFFICER IN LOCAL GOVERNMENT**	
WARD(S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: AS 04**

1.0 Recommendations

1.1 That the Council's compliance with the Statement on the role and responsibilities of the Chief Finance Officer as detailed in the report is considered and noted.

2.0 Purpose of the Report

2.1 To detail how the Council complies with the Chartered Institute of Public Finance and Accountancy (CIPFA) Statement on the role of the Chief Finance Officer (CFO) in Local Government.

3.0 Detail

Background

3.1 The CIPFA Statement on the role of the CFO in local government aims to provide guidance on how councils can assure that the role meets professional standards and delivers legislative responsibilities.

3.2 The CFO has fiduciary responsibilities to local taxpayers. Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and to appoint a CFO to have responsibility for those arrangements.

3.3 The Statement sets out how the requirements of legislation and professional standards should be fulfilled by CFOs in undertaking their role. The Statement aims to codify the key responsibilities of the CFO in local government and assist those carrying out that role in ensuring that they meet the key personal duties of the role.

Structure and Approach

3.4 The Statement contains 5 principles that define the core activities and behaviours that belong to the role of the CFO in local government, together with the organisational arrangements needed to support them.

3.5 The first three principles cover the governance arrangements required within an organisation to ensure that CFOs can operate effectively and perform their core duties. Two principles then cover the personal skills and professional standards organisations can expect from their CFO.

3.6 In summary the 5 principles are that the CFO in local government:

1. Should be a key member of the Leadership Team.

2. Must be actively involved in and able to bring influence to bear on all material business decisions.

3. Must lead the promotion and delivery by the whole organisation of good financial management.

To deliver these responsibilities, the CFO:

4. Must lead and direct a finance function that is resourced to be fit for purpose, and

5. Must be professionally qualified and suitably experienced.

3.7 Compliance with the 5 principles is detailed in **Appendix 1**.

4.0 Financial Implications

4.1 None

5.0 Corporate Implications

Employment Implications

5.1 None

Legal Implications

5.2 None

Corporate Plan Implications

5.3 None directly, although the principles which provide the basis of sound financial management at the Council, allow the Council's services and priorities to be delivered.

Risk Impact

5.4 If compliance with the Statement is not demonstrated, this could bring into question the Council's financial governance arrangements, resulting in a negative impact on its reputation with stakeholders.

6.0 Community Impact

Consultation

6.1 None required.

Equality and Diversity Impact

6.2 None

Social Value Impact

6.3 None

Environmental Sustainability

6.4 None

7.0 Background Papers

7.1 None

APPENDIX 1

THE ROLE AND RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER IN LOCAL GOVERNMENT

Evidence of Compliance with the Five Principles Contained in the Statement published by the Chartered Institute of Public Finance and Accountancy (CIPFA)

CIPFA Principle	**Evidence of Compliance (*i.e. what systems and processes has the CFO available/implemented to achieve each principle*)** **(As at March 2020)**
1. The CFO is a key member of the Leadership Team. *To enable the CFO to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest.*	• The CFO is the Strategic Director of Corporate Resources and sits on the Leadership Team (LT) of the Council. • The CFO reports directly to the CEO. • As part of the LT, the CFO meets with leading Members of the Controlling Group every two weeks. • The CFO is the lead officer who supports and advises the Finance and Management (F&M) Committee; this is the key decision-making body at the Council with oversight of all financial matters and major corporate decisions under its Terms of Reference. • The CFO has regular briefings with the Chairman of the F&M Committee and opposition spokespeople for financial matters at the Council. • The Council's Head of Finance is the appointed Deputy Section 151 Officer. This aims to ensure the sound delivery of operational matters, together with a check and balance with the Strategic Director to ensure that their wider (strategic) role does not dilute their CFO role.

2. The CFO is actively involved in and able to bring influence to bear on *all material* business decisions. *To ensure immediate and longer term implications, opportunities and risks are fully considered and aligned with the Council's overall financial strategy*.	• Proposals regarding major policy changes, procurement, service reviews and restructures, etc. are subject to consultation with the Head of Finance, before being submitted to the LT. • The standard template used for formal Committee reporting includes specific sections for Financial and Risk implications to ensure that these can be highlighted and considered separately. • In their wider role as Strategic Director (Corporate Resources) the CFO also leads and has overall responsibility for all resources in addition to Finance, at the Council. This includes HR, Policy and Performance, ICT and Business Change (*see below*), together with Procurement, Audit and Property. • The Business Change Unit utilise a Business Change Framework to evaluate proposed projects, which includes financial implications, risk, deliverables and value to the Corporate Plan, etc. This is backed up by a Project Management framework to deliver projects in accordance with approved business cases. All change programmes are required to be delivered through this process. • Through a Service and Financial Planning Working Group, which has Elected Member representation, competing priorities for additional resources (capital and revenue) are subject to a Service Development process. The Working Group effectively score bids against set criteria to allocate resources set-aside in the MTFP; this includes a detailed assessment of the financial implications over the longer-term.
3. The CFO must lead the promotion and delivery by the whole organisation of good financial management. *To ensure that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.*	• The Council's Constitution contains at Section 24, Budget and Policy Framework; Section 26, Financial Regulations and Section 27, detailed Financial Procedure Rules. These are reviewed annually, and their application is subject to Audit from time-to-time.

	• The CFO advises the Council's Overview and Scrutiny Committee who are responsible for scrutinising the Council's Budget and Medium-Term Financial Plan. • The CFO uses the Central Midlands Audit Partnership to fulfil the Council's Internal Audit function. • Regular financial training delivered for Members and bi-monthly updates at Joint Negotiating Group (Union Representatives) and through Core Briefs to staff. • Regular financial training delivered at an operational level for service managers and budget holders. • Quarterly revenue, capital and treasury management reporting to the F&M Committee. • Annual budget out-turn report produced in addition to the statutory Annual Accounts and Financial Statements.
4. The CFO must lead and direct a finance function that is resourced to be fit for purpose. *To ensure that the financial needs of the Council are met and that the finance function has appropriately developed finance skills*.	• An all-encompassing centralised finance function that reports through a Head of Service to the CFO. • The structure and resources are regularly reviewed with the current structure having been reviewed and implemented in August 2019. • The Head of Finance is supported by two senior roles, i.e. a Chief Accountant and an Exchequer Manager. • Junior Accountant roles on the Establishment are filled with several staff undertaking training towards a chartered accountancy qualification. • Finance staff undertaking CPD and regularly attend external workshops and seminars for updates and development purposes.

5. The CFO must be professionally qualified and suitably experienced. *To demonstrate professional and interpersonal skills and to apply business and professional experience.*	• The CFO retains full membership of the Chartered Institute of Public Finance, a body recognised by the International Federation of Accountants. • The CFO is qualified through examination and subject to oversight by a professional body that upholds professional standards and exercises disciplinary powers. • The CFO has experience ranging from operational finance, directly leading the finance function through to strategic responsibility for the delivery of corporate objectives. • The CFO has undertaken management development programmes and has received personal coaching in making the transition to strategic level. • The CFO networks through the Society of District Council Treasurers and the Derbyshire Financial Officers Association.

REPORT TO:	**AUDIT SUB COMMITTEE**	**AGENDA ITEM: 10**
DATE OF MEETING:	**13th JULY 2020**	**CATEGORY:** **DELEGATED**
REPORT FROM:	**STRATEGIC DIRECTOR (CORPORATE RESOURCES)**	**OPEN**
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE (01283 595811)** **Kevin.stackhouse@southderbyshire.gov.uk**	**DOC:** u/ks/financial strategy/FM Code/Report to ASC 25 March 2020
SUBJECT:	**THE CIPFA FINANCIAL MANAGEMENT CODE**	
WARD(S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: AS 04**

1.0 Recommendations

1.1 That the Council's compliance with the Financial Management Code as detailed in the report is considered and noted.

2.0 Purpose of the Report

2.1 To detail a new Financial Management Code that has been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This includes an assessment of the Council's position against the standards of good practice set out in the Code.

3.0 Executive Summary

3.1 The CIPFA Financial Management Code (FM Code) is designed to support good practice in financial management. It has been produced to assist local authorities in demonstrating their financial sustainability through a set of standards of financial management.

3.2 The standards have different practical applications according to the size and different circumstances of individual authorities and their use locally should reflect this. The principle of proportionality applies to the FM Code and reflects a non-prescriptive approach to how each standard is met.

3.3 Of 17 individual standards, it is considered that the Council substantially complies with 16 with only one, regarding consultation with stakeholders on the Council's longer-term financial planning, not currently undertaken.

4.0 Detail

Background

4.1 The FM Code has been produced in the light of continuing budget and financing pressures on local authorities, together with the financial sustainability of a minority of authorities being questioned.

4.2 The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide a strong basis to:

- Manage the short, medium and long-term finances of a local authority.
- Manage financial resilience to meet unforeseen demands on services.
- Manage unexpected shocks in financial circumstances.

4.3 Each local authority must demonstrate that the requirements of the FM Code are being satisfied. The FM Code recognises that this must be undertaken on a proportionate basis relevant to each authority and their individual circumstances.

Timescale for Implementation and Status of the FM Code

4.4 The FM code will apply from April 2021. This is designed to provide authorities enough time to ensure that they comply with all standards.

4.5 The FM Code itself has not got a statutory basis and it is for each authority to take a view on its suitability. However, the Local Government Act 1972 requires every local authority "*to make arrangements for the proper administration of their financial affairs.*"

4.6 In addition, CIPFA are the recognised "*regulators*" of local government finance and accountancy and it would be prudent to assume that compliance or otherwise with the FM Code will be tested at some point.

4.7 In particular, the remit of External Audit is currently being reviewed. There are proposals to extend its scope to focus to a greater extent in the future, on financial sustainability, the degree of which could have an impact on the Auditor's opinion on an authority's financial position.

4.8 In any case, the Council and the Chief Finance Officer, have a professional responsibility to adhere to codes of practice and the FM Code is no different to that extent. At the very least, it is considered good practice that the Council adheres to the basic principles of the FM Code to ensure that it can demonstrate that it is well managed financially.

South Derbyshire Compliance

4.9 Having said that, the requirements of the FM Code do not seem onerous for the Council. It is considered that its current financial planning framework, together with its overall governance arrangements and current financial position, lend themselves to most of the standards being met.

4.10 However, there is still scope to develop in certain areas as highlighted later in the report.

The Structure of the FM Code

4.11 The FM Code has 17 individual standards (A to Q) which are grouped under:

- Financial leadership
- Governance and financial management style
- Longer term financial planning
- The Annual Budget
- Stakeholder engagement
- Monitoring financial performance
- External financial reporting

The Council's Compliance

4.12 The Standards are detailed in a separate document attached to the Report and demonstrate the extent of compliance.

4.13 It is considered from the evidence that the principle of each Standard is embedded in the Council's financial planning system.

4.14 Some recent changes have been made to bring the Council's position into line with the Standards and these relate to the Annual Report of the Chief Finance Officer (*Standard K*) and demonstrating Value for Money (*Standard A*).

4.15 In addition, a further review associated with *Standard* C, overall Governance and Control, to determine compliance with the 15 "Nolan" principles, as recommended by the Government Committee on Standards in Public Life

4.16 It is considered that there is one Standard where the Council does not comply, i.e. Standard L – "*The Council has engaged where appropriate with key stakeholders in developing its long-term financial strategy, MTFP and annual budget*".

4.17 Although statutory consultation is undertaken each year on the Council's budget proposals, this focuses more on the dissemination of information on the Council's financial position. Clearly, this is important but there is no proper engagement on developing proposals prior to the Council publishing its draft budget and MTFP.

4.18 Many authorities appear to undertake greater engagement. This is mainly undertaken where authorities provide options for Council Tax increases or budget reductions due to limited resources.

4.19 The Council should consider how appropriate this is given its own financial position.

5.0 Financial Implications

5.1 None. Compliance with the FM Code is delivered within current resources.

6.0 Corporate Implications

Employment Implications

6.1 None

Legal Implications

6.2 As highlighted in the Report.

Corporate Plan Implications

6.3 None directly, although sound financial management and ensuring the Council's financial sustainability allow the Council's services and priorities to be delivered.

Risk Impact

6.4 If compliance with the FM Code is not demonstrated, this could bring into question the Council's financial sustainability, resulting in a negative impact on its reputation with stakeholders.

7.0 Community Impact

Consultation

7.1 None required on the FM Code itself.

Equality and Diversity Impact

7.2 None

Social Value Impact

7.3 None

Environmental Sustainability

7.4 None

8.0 Background Papers

8.1 None

A. The Leadership Team is able to demonstrate that the services provided by the Council provide value for money.

The Council has the following frameworks and systems in place to support the delivery of value for money (VFM) in service delivery.

Governance

- A Governance Structure in the Council's Constitution, governs how decisions on policy, service delivery and spending are made.
- A Committee reporting structure for which reports to decision-makers are based on a standard template; this effectively sets out a business case for the consideration of major policy, service change and spending proposals, etc.

Planning

- An evidence based 4-year Corporate Plan which sets outs the Council's vision and its priorities
- A Delivery Plan and Service Plans are in place to support and measure performance against the Corporate Plan.

Allocation of Resources

- The Council's Constitution contains a Budget and Policy Framework, Financial Regulations and detailed Financial Procedure Rules. These set out the way in which resources are allocated, controlled and reported upon, etc.
- An annual Base Budget review is undertaken to determine how Services are funded.
- The Council's Procurement Service is provided through a shared service arrangement. They apply the Council's Contract Procedural Rules in purchasing with associated guidance for Officers.

Monitoring

- The Overview and Scrutiny and the Audit Sub-Committee are open to scrutinise decisions and the delivery of services, including their efficiency and effectiveness.
- A performance management system which measures success or failure against priorities in the Corporate Plan, together with a suite of corporate indicators.
- A Risk Management system which includes quarterly risk registers being reported to Council Committees.

- Contract management arrangements are in place for major contracts and in particular the Housing Repairs and Planned Maintenance, Waste Recycling and Leisure Management Contracts.

Demonstrating VFM

- A VFM Statement is in place which sets out the principles of VFM and how it applies to the specific aims of the Council and the District. This acts as guidance to enable Officers to demonstrate how they deliver VFM.

- This has been enhanced by the requirement for an explicit demonstration of VFM to be an integral part of proposals for service development and restructures, etc

- A VFM test is included in the Capital Evaluation process.

- An annual VFM report published alongside the Accounts and Financial Statements; this sets out case studies to demonstrate how VFM has been achieved. *(This is a new Report which will be presented to the Finance and Management Committee in July 2020).*

B. The Council complies with the CIPFA statement on the Role of the Chief Finance Officer in Local Government.

- Evidence of compliance is reported annually to the Audit Sub-Committee.

C. The Leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control.

The Council has the core frameworks and systems in place expected of a local authority to support proper governance and internal control, which are endorsed and overseen by the Council's Leadership Team.

This includes a Constitution, decision making through Committees, an Internal Audit function which focuses on governance, together with Codes of Conduct for Members and Officers, registers of gifts, hospitality and interests, etc.

To support this, the Council's Monitoring Officer sits on the Leadership Team and also attends meetings of Full Council and the Audit Sub-Committee.

To further demonstrate the importance of governance and internal control, the Council should work towards implementing the 15 best practice standards contained in the "Nolan" principles, as recommended by the Government Committee on Standards in Public Life.

Many of these principles are embedded in the Council's Governance arrangements, but this will need to be reviewed if the Council is to fully demonstrate compliance with this particular FM Standard.

D. The Council applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework 2016.

- A regular assessment and evidence of compliance with the Framework principles is reported six monthly to the Audit Sub-Committee. The Framework and evidence of its effectiveness forms the basis of the Annual Governance Statement.

E. The financial management style of the Council supports financial sustainability.

The Council's financial management style has the following characteristics:

- It is prudent and cautious, as highlighted in the Chief Finance (Section 151) Officer's Annual Report to Council.
- However, it is forward looking with a rolling 5 year General Fund Medium Term Financial Plan (MTFP) and Capital Investment Programme, together with a 10 year financial plan for the Housing Revenue Account (HRA).
- Probity and the use of resources are controlled through the Constitution, Financial Regulations and Procedural Rules, together with a Finance and Management Committee.
- The management of Finance is centralised with a corporate Financial Services Unit who lead and co-ordinate the Accounts, budget preparation and monitoring.
- The Financial Strategy sets targets based on a minimum level of General Reserves by the end of each rolling financial planning period.
- All resource proposals and spending decisions, including budgets, are referred from Policy Committees to the Finance and Management Committee for consideration and approval.
- All resource proposals and spending decisions are channelled through the Chief Finance (Section 151) Officer and/or their Deputy for prior sign-off.
- All reports to Council Committees are required to detail Financial Implications separately even to state that there are none.
- There is a principle that "money is generated before it is spent".
- Financial literacy across the Council can be varied and therefore regular training sessions are held for Elected Members. In addition, Core Briefings for staff and the workforce provide broad updates regarding the Council's financial position to ensure that a financial message is disseminated across the Council.

Therefore, the Council's financial management style supports financial sustainability because it:

- **Delivers Accountability** – this is embedded as financial resources are controlled, led centrally and meet regulatory requirements.

- **Supports Performance** – it ensures sufficient long-term resources in Budgets to provide on-going services and to deliver priorities in the Council's Corporate Plan.

- **Enables Transformation** – it provides resources for investment through a Growth Reserve and a Business Change Unit, together with capital sums for asset replacement, IT investment and to develop digitisation of services.

F. The Council has undertaken a credible and transparent financial resilience assessment.

The assessment is based on CIPFA's Financial Resilience Index and is integral to the Chief Finance Officer's Annual Report (*Standard K*).

The assessment is used to support the Chief Finance Officer's opinion on the sustainability of the Council's finances.

G. The Council understands its prospects for financial sustainability in the longer term and has reported this clearly to Members.

As above, this is set out in the Annual Budget and Section 25 Report. It is also reviewed in the ½ yearly reviews of the MTFP.

Financial sustainability is a key risk on the Council's Corporate Risk Register. This highlights the risk, the potential impact and mitigating measures in place. This risk is reviewed and reported to Members quarterly.

H. The Council complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.

The Council has complied since the introduction of the Code several years ago and sets a suite of Prudential Indicators to monitor capital expenditure and financing in accordance with the Code.

These are considered by the Finance and Management Committee based on the recommendation of the Section 151 Officer as part of the Treasury Management Strategy.

Indicators are reviewed annually as part of the budget setting process and cover a 5 year rolling period. Compliance is monitored throughout the financial year in a quarterly report to the Finance and Management Committee.

Following an update to the Code in December 2017, the Council has adopted a Capital Strategy. This sets out the principles on which capital expenditure is financed in light of Council priorities and resources to ensure that decisions are being made with sufficient regard to the long term financing implications and potential risks to the Council.

I. The Council has a rolling multi-year MTFP consistent with sustainable service plans.

This has been established for many years and is the cornerstone for financial planning. The General Fund is guided by a 5 year rolling plan and the HRA by a longer term, 10 year plan. This ensures that there is sufficient investment to maintain the Housing Stock and that sufficient resources are set-aside to repay HRA debt.

Plans are updated quarterly for the effects of any in-year budget changes and are reviewed and updated in detail every 6 months. The broad aims of the Plans are to:

- Provide a prudent but realistic Direction of Travel.
- Model known and anticipated changes to Council spending and financing.
- Ensure sufficient resources are in place to meet Council priorities and external pressures.
- Ensure that the Council is operating within its Reserves Target into the medium term.

J. The Council complies with its statutory obligations in respect of the budget setting process.

The Annual Budget Round is integral to the Council's financial framework and is given dedicated time in the decision making process. The timetable and process involved is summarised below:

Action	Timetable
Financial Services review base spending with budget managers and Heads of Service	October and November
Draft budgets and major variances considered by Strategic Directors and the Leadership Team	December
Special Budget Committees convened to consider proposals at policy committee level	Early January

Finance and Management Committee consider consolidated proposals and recommend level of Council Tax	Mid-January
Consultation • Local businesses invited to meet with the Chief Finance Officer and Leader of the Council • Proposals disseminated to residents at Area Forums • Proposals also communicated to staff • Proposals presented to the Local South Derbyshire Partnership • Proposals scrutinised by the Overview and Scrutiny Committee	Mid-Jan to Mid-February
Finance and Management Committee propose final budget to Full Council	Mid-February
Leader's Statement and Council Tax set at Full Council	End of February

K. The Budget Report includes a statement by the Chief Finance Officer (CFO) on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.

This is integral to the Annual Report of the CFO (Strategic Director of Corporate Resources) under Section 25 of the Local government Act 2003.

This report is made separately, but alongside the Annual Budget Report to the Leadership Team and Members. It is then subsequently presented to Full Council in February ahead of the final budget proposals being considered and agreed.

L. The Council has engaged where appropriate with key stakeholders in developing its long term financial strategy, MTFP and annual budget.

This has not been undertaken.

M. The Council uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

This used in appropriate circumstances and in particular when considering options for service delivery (in-house, partnership, shared service, etc.).

The Capital Evaluation Framework is based on bids for finite resources being subject to a business case. Each project is then assessed against other bids to ensure that investment is steered towards the Council's Corporate Plan priorities and provides Value for Money.

N. The Leadership Team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

The Council has an established Performance and Financial Monitoring system in place with quarterly reports to Policy Committees. As part of this process, information is presented to the Leadership Team so that it can assess any issues in order to advise and make recommendations for corrective action.

Reports focus on areas where planned performance (both financial and non-financial) is not as expected or budgeted. Reports include the risks of not meeting anticipated performance, with quarterly financial reports highlighting any variances which have an impact on the MTFP.

O. The Leadership Team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

The Chief Finance Officer has identified those elements of the Balance Sheet which pose the most significant risk to the Council's financial sustainability.

These are detailed in **Appendix 1** together with the potential risk each element poses and the mitigation and monitoring measures in place which are designed to combat those risks.

P. The CFO has personal responsibility for ensuring that the statutory accounts provided to the Council comply with the Code of Practice on Local Authority Accounting in the UK.

This is a key element of the Section 151 duties. The Strategic Director (Corporate Services) in their role as CFO certifies the Accounts to confirm that they have been prepared to comply with the Accounting Code. This is also highlighted in the covering report to Finance and Management Committee when the Accounts are presented for review and adoption.

Note: *Although delivery of the Section 151 role is stated as a responsibility in the Job Description (JD) of the Strategic Director (Corporate Resources) responsibility for compliance with the Accounting Code is not specifically mentioned. To ensure greater transparency, the JD should be amended to reflect this good practice requirement*.

Q. The presentation of final out-turn figures and variations from budget allow the Leadership Team to make strategic financial decisions.

As part of the financial planning system, a separate budget out-turn report is produced. This reports the final accounts of the Council in a form that allows actual figures to be compared to Budget, with detailed commentary on variances. The out-turn report also

shows any effects on the MTFP. The report is based on quarterly performance reports that are produced and reported during the year.

APPENDIX 1: STANDARD O: BALANCE SHEET MONITORING

Balance Sheet Element	Potential Risk	Risk Mitigation Measures and Monitoring Arrangements
Fixed Assets	They are not suitably maintained and unforeseen expenditure is incurred or loss of value leads to impairment costs.	• Recent stock condition surveys identify maintenance requirements. • Planned maintenance programmes in place and these are monitored as part of the Financial Management framework. • Vehicle replacement and ICT upgrade programmes in place with resources set-aside to fund these programmes. • Any major unforeseen expenditure would be financed from General Reserves in the short term.
Long Term Investments	The Council has £4m invested in the Local Authority Property Fund. Its value could go down.	• The investment has been made on a long-term basis so that any short-term fall in property values is evened out over time.
Short Term Cash Deposits	Financial markets are uncertain and this could threaten the security of deposits. (***Note**: the Council's financial plans are not dependent on achieving a specific yield from interest on deposits*).	• Strict lending criteria with an associated Counterparty List are in place as part of the Treasury Management Strategy. The principle of investment is "*security and liquidity before yield*". • The Counterparty List is kept under review with the Council's Treasury Advisors who issue alerts regarding economic data and any effects for the Council's Counterparty List. • A large amount of cash is on deposit with other local authorities and no investment is made longer than for 364 days. • Cash on deposit with banks and in Money Market Funds is on an instant access basis.
Debtors	Collection falls which builds up arrears and potential bad debts. Cost of Provisions to meet bad	• Debt Recovery Team in Customer Services dedicated to arrears collection; quarterly report produced on activity.

	and doubtful debts charged to revenue accounts,	• Specific resources in Housing team to support tenants affected by Universal Credit. • Provisions made in the Accounts as a contingency to meet the cost of write-offs. Budgets included in revenue accounts to top these up if required.
Provisions	In accordance with accounting practice, provisions are set up from time-to-time to meet issues arising from day-to-day activity which incur a one-off cost in a future accounting period, such as a legal appeal, an inquiry or a contractual issue, etc. The risk is that the amount calculated and set-aside in the Accounts is not sufficient to meet the final outcome.	• The Provision itself is the mitigating factor. Amounts are kept under review as part of quarterly financial reporting. Any shortfall would be financed from general reserves.
Long-Term Borrowing	Interest rates rise or repayment schedules on HRA debt become unaffordable.	• 80% of debt is at fixed interest rates. • Variable rate debt currently at an interest rate less than 1% with provision in the HRA Financial Plan of 3% per year. This part of the debt is due to be repaid in 2021/22. • Surpluses in the HRA being set-aside to repay debt in accordance with the repayment schedule. • Situation monitored and reported quarterly. • If there is a significant change in the position, debt could be rescheduled to alleviate any short term issues.

Usable Reserves	These deplete greater than planned. In particular general reserves and those used to fund on-going base budget expenditure, mainly in Cultural and Community Services.	• The monitoring of reserves is a fundamental element of the Council's financial planning framework. • The planned use of reserves and their balances are projected over the life of the MTFP. This means timely action could be undertaken where there is unplanned use.

REPORT TO:	**AUDIT SUB COMMITTEE**	**AGENDA ITEM:11**
DATE OF MEETING:	**13th JULY 2020**	**CATEGORY: DELEGATED**
		OPEN
REPORT FROM:	**EXTERNAL AUDIT**	
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE (01283 595811)** kevin.stackhouse@south-derbys.gov.uk	**DOC:** u/ks/audit/EY/grants/grants cover report
SUBJECT:	**ANNUAL REPORT OF AGREED UPON PROCEDURES 2018/19**	**REF:**
WARD(S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: AS 01**

1.0 Recommendations

1.1 That the Auditor's Report for 2018/19 is considered and the future arrangements, together with management actions, for ensuring Housing Benefit claims are processed accurately, are approved.

2.0 Purpose of Report

2.1 For Ernst and Young LLP, as the Council's appointed auditors, to present their outcomes from their annual review of claims and returns which are subject to external certification by Auditors.

3.0 Detail

3.1 The Auditor's report summarises the findings from their certification of the Housing Benefits Subsidy Claim and the Pooling of Housing Capital Receipts Return on behalf of Government Departments.

3.2 The Auditor identified several processing errors from their work regarding Benefits Subsidy, which resulted in an amended Claim being submitted. These errors had been repeated from previous years and in some cases had increased in volume.

3.3 No issues were raised with the Housing Capital Receipts Return.

4.0 Financial Implications

4.1 The Fee of £17,500 for undertaking the work is contained within the Council's Budget of £18,500; this was also slightly lower than that charged in 2017/18 of £18,100.

4.2 The submission of the amended claim to the DWP showed that the Council had underclaimed subsidy of approximately £13,000 from a total claim of approximately £16 million.

5.0 Corporate Implications

Employment Implications

5.1 None

Legal Implications

5.2 None

Corporate Plan Implications

5.3 None

Risk Impact

5.4 Although the Council acts as an Agent for the DWP in processing claims for housing benefit, it is not reimbursed, though subsidy, for every £1 pound that it awards. In assessing entitlement, the regulations are detailed, open to interpretation and subject to claimants submitting the relevant details with their claim.

5.5 This unfortunately leads to genuine processing errors which can affect the amount of subsidy reclaimed from the DWP. The Council generally reclaims approximately 99.5% of payments made to claimants, but even a 0.5% shortfall equates to approximately £80,000, for which the Council is left with the cost.

5.6 This is not unique to South Derbyshire and affects all authorities. The Council budgets for the shortfall.

5.7 The Council can reclaim overpayments due to “claimant error” but this can take time and incurs an extra cost for the Council in doing so.

5.8 It should be noted that the number of claims for Housing Benefit continues to fall as working-age claimants are being transferred to Universal Credit (UC) – Housing Benefit being one of the six benefits within UC. This may reduce the amount of processing errors as the income and circumstances of the remaining group, i.e. those of pensionable age tends to be less volatile.

6.0 Community Impact

Consultation

6.1 None required.

Equality and Diversity Impact

6.2 None from the Audit of the Claims and Returns itself, although clearly the award of Benefit is supporting those residents on lower incomes.

Social Value Impact

6.3 None

Environmental Sustainability

6.4 None

7.0 Background Papers

None

South Derbyshire District Council

Annual report of agreed upon procedures 2018-19

May 2020

Building a better working world

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01 Housing benefits agreed upon procedures

02 Pooling of Housing capital receipts

03 2018-19 fees

04 Looking forward

01 Housing benefits

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£16,154,496
Amended/Not amended	Amended – subsidy increased by £13,338
Qualification letter	Yes
Fee – 2017-18	£16,313
Fee – 2018-19	£15,500

In previous years the audit of Housing Benefits subsidy claims has been completed in accordance with the requirements of Public Sector Audit Appointments (PSAA). In 2018, the Department of Works and Pensions (DWP) introduced a new Housing Benefits Assurance Process (HBAP), with the work completed under ISRS 4400 as an agreed upon procedures engagement. Under the new DWP arrangements, in August 2018, the Council appointed EY as its reporting accountant to undertake the agreed upon procedures. We completed and reported the findings of our work to the DWP in February 2020. The subsidy claim was re-signed and showed that the Council had underclaimed subsidy by £13,338.

In March 2019, we reported to Audit-sub Committee the results of the 2017/18 Housing Subsidy claim, which highlighted a number of errors impacting on the claims for the different types of benefits administered by the Council. The 2018/19 work not only identified some of the errors repeated from prior years but the incidence of errors had increased. The errors arising from our work are summarised below;

Overpayment of benefit subsidy

1. Rent Rebates (benefits to Council tenants)

- Occupational pension assessed incorrectly

2. Rent rebates (private tenants)

- Tax credits had been incorrectly been applied in the assessment

Misclassifications of expenditure and overpayments

1. Non- HRA benefits

- Various misclassifications including errors between non-HRA and HRA, and Local Authority and Technical overpayments. These were amended in the final claim.

2. Rent Rebates (benefits to Council tenants)

- Misclassifications in Local Authority error and administrative delays.
- Misclassifcations of expenditure and incorrect use of the local rent reference resulted in adjustments in classifications of rent allowance expenditure. There was no impact on the overall subsidy claim.

3 . Modified schemes

- Testing identified that local scheme element of the modified scheme was overstated resulting in an amendment to the final claim.

Housing benefits subsidy claim

Underpayment of benefit subsidy

1. Non-HRA benefits

- Incorrect calculation of claimant earnings
- Liability off-set had not been applied correct to a claimant moving address

2. Rent rebates (private tenants)

- Incorrect application of under-occupancy rate
- Incorrect omission of Family premium
- Incorrect calculation of claimant earnings
- Incorrect calculation of claimant occupational pension
- Incorrect calculation assessment of employment support allowance (calculation based)
- Incorrect calculations of a claimant self-employed income (wrong national insurance band applied and pension contribution excluded).

claim software and system reconciliation workbooks

Our work on module 5 identified imbalances in the year-end reconciliations. The Council reconciled the imbalances for Rent Rebates (private tenants) and Council Tenants (HRA) and this results amendments to the claim with a reduction to rent allowances of £900.

02 Pooling of Housing capital receipts

Pooling of housing capital receipts

During 2018-19 we also acted as the Council's reporting accountant to complete agreed upon procedures for the pooling of housing capital receipts return.

This work has been undertaken outside the PSAA regime and we did not identify any issues from this work to be brought to the attention of the Audit-sub Committee.

The fees for this are included in the figures in Section 3. They are referred to here to ensure to ensure Members have a full understanding of the various returns on which we provide assurance.

03 2018-19 certification fees

2018-19 fees

Claim or return	2018-19	2018-19	2017-18
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	15,500	15,500	16,313
Pooling of housing capital receipts return	2,000	2,000	1,800

04 Looking forward

Looking forward

Housing Benefits 2019/20

Our work in 2018/19, as detailed in section 1, has reported a greater level of errors, than compared with audits in prior years. The nature of the errors have resulted in underpayments across different benefit types particularly rent allowances (private tenants), which in practical terms means that the Council's housing benefit claimants are receiving a lower entitlement to benefit and are having to pay a higher level of rent.

The impact of the covid-19 crisis on the UK economy has been unprecedented seeing many people being furloughed or made unemployed. This has inevitably placed many individuals and families into financial hardship and resulted in a significant rise in claims for state benefit both with the DWP and local Authorities including South Derbyshire District Council.

It is important for the Council to ensure that claims are assessed accurately and claimants receive the correct entitlement based on their circumstances. Therefore, the Council should continue to review its arrangements which include;

1. Regular Training

- Review training requirement to ensure that HB assessors are up to date with changes in legislation and regulations and to focus on the types of errors referred to in the HBAP report to the DWP; and

2. Quality assurance reviews

- Review the adequacy of current arrangements including factors such as;
  - Are sample numbers at a sufficient level?
  - Is the quality control check a general review or could the review be focused to align to specific types of error included in the HBAP report to the DWP?

REPORT TO:	**AUDIT SUB-COMMITTEE**	**AGENDA ITEM: 12**
DATE OF MEETING:	**13th JULY 2020**	**CATEGORY:** **RECOMMENDED**
REPORT FROM:	**STRATEGIC DIRECTOR CORPORATE RESOURCES**	**OPEN**
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE (01283 595811)** **Kevin.stackhouse@southderbyshire.gov.uk**	**DOC:**
SUBJECT:	**PROPOSED EXTERNAL AUDIT FEE 2019/20**	
WARD(S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: AS 01**

1.0 Recommendations

1.1 That consideration is given to increasing the Annual Audit Fee, payable to the Council's External Auditor, as detailed in the Report.

1.2 That any agreed increase in the Fee is referred to the Finance and Management Committee to consider implications for the Base Budget.

2.0 Purpose of the Report

2.1 To consider proposals from the Council's External Auditors, Ernst and Young LLP (EY) to increase their fee for 2019/20. This fee is the charge from the Auditor to discharge their statutory duty, which covers auditing the Council's accounts and financial statements, together with providing an opinion on the Council's systems for securing value for money in its use of public resources.

3.0 Detail

Background

3.1 EY are the Council's appointed Auditors under Contract whose term covers the five financial years from 2018/19 to 2022/23. EY were appointed following a national procurement exercise in 2017. This exercise was co-ordinated by the Public Sector Auditing Appointments (PSAA) an organisation set up by the Government to appoint and oversee the work of Auditors in local government.

3.2 As part of the procurement exercise, Auditors submitted prices for undertaking their work for the contract period. Generally, these prices were lower than the prevailing fees at that time.

3.3 Since 2011, Audit fees have been reducing across the sector as a more competitive market was introduced. However, in 2018/19 following the most recent procurement exercise, there was a further drop as shown in the following table.

Financial year ended	Audit Fee (£)
31 March 2011	102,600
31 March 2012	115,500
31 March 2013	64,800
31 March 2014	64,800
31 March 2015	65,700
31 March 2016	49,275
31 March 2017	49,275
31 March 2018	49,275
31 March 2019	37,942

The 2018/19 Audit

3.4 The Committee will be aware that the Council's Audit for 2018/19 was delayed beyond the normal statutory deadline of 31 July 2019. The Council's accounts were signed off in November 2019.

3.5 As reported at the time, this was due to the inability of EY to provide sufficient resources to enable them to deliver a quality-based audit in accordance with Regulations. EY cited problems, particularly with recruitment and retention, which meant that a proportion of their clients' audits were delayed.

3.6 This seemed to reflect a wider problem in the local government audit sector. A record number of Audits were not delivered throughout local government by 31 July. This has led many practitioners, professionals and regulators, etc. to indicate that the pricing of current contracts was a contributing factor which is not sustainable in the longer-term.

Audit Fees 2019/20

3.7 This has now led to Auditors reviewing their cost of delivering audits and submitting revised prices to local authorities. The PSAA for their part, have notified authorities of scale fees for 2019/20 (as per the Contract) and have effectively left each authority to agree any variation to that fee locally.

3.8 The Council's scale fee for 2019/20 is £37,942. EY have submitted proposals for the fee to be increased to £62,558. This is an increase of £24,616 and is detailed in the following table.

Additional Fee for Increase in Client Risk	£	
1 additional significant risk present	1,953	Revenue/expenditure recognition (per Audit Plan)
4 additional other risk present	3,905	Valuation of PPE, Pensions, IFRS 16, Going Concern
1 additional VFM risk present	2,561	Financial Resilience (per Audit Plan)
	8,419	

Additional Fee for Increase in Regulatory Compliance

Increase in overheads	6,815	Includes the increase in the Levy
Additional property valuation requirement	7,265	Specialists to support audit of PPE - per asset base
Additional Pension requirements	1,251	Specialists to support audit of actuarial assumptions
	15,331	

Additional fee for client readiness and tech

Quality of working papers and response from team	**866**
Total Additional Fee (including additional levy)	**24,616**

3.9 In principle, the increases above are not just specific to the Council but are relevant across the sector due to an increase in and strengthening of, accounting standards.

3.10 Auditors have been keen to express that since the procurement exercise in 2017, the requirements on them have increased due to these standards, together with the changing landscape in local government.

3.11 This has meant additional testing to provide the relevant assurance, together with additional work on assessing the financial resilience of local authorities.

3.12 In addition, the deadline for auditing the accounts has been brought forward from 30 September to 31 July each year and this has also impacted on the ability of Auditors to provide their opinion on a timely basis.

The Use of Specialists

3.13 The biggest increase proposed by EY relates to the use of specialists to test property valuations and actuarial assumptions for pension disclosures. This is in addition to the costs incurred by the Council to obtain these valuations.

3.14 EY have stated that they need to employ specialists outside of their core team to appropriately challenge numbers and assumptions to comply with accounting standards.

The Levy

3.15 This is a payment the Auditors are required to make to the PSAA and is included in their fee.

3.16 It should be noted that the PSAA have traditionally recredited a proportion of the levy back to local authorities and the Council received £5,500 in 2019/20. As this is not guaranteed each year, the Council does not budget for any contribution. Therefore, any credit received offsets the overall cost of Audit.

Options

3.17 The Council is under no obligation to pay any other fee other than that advised by the PSAA, i.e. the tendered fee from the procurement exercise in 2017. At the other extreme, it has the option of accepting the proposals by EY, or even negotiating an alternative fee through compromise, including for example, a phased increase over the remaining term of the Contract.

3.18 It should be noted that EY are not able to provide any guarantee in the short-term that the timeliness of the Audit will improve. It is understood that like other Auditors, recruitment and retention remains a problem across the sector.

3.19 Therefore, the Council could pay more money but effectively receive the same level of service.

3.20 However, consideration also needs to be given to the degree of negativity that could impact upon the Council by continuously publishing its accounts up to 8 or 9 months after the year end, albeit through no fault of its own.

3.21 It should also be noted that EY have already informed the Council that they will not deliver the Council's Audit of the 2019/20 Accounts until October/November. In the meantime, the Government have relaxed the deadline in any case for production of the Accounts until 30 November 2020 due to the impact of Covid-19.

The Wider Audit Review

3.22 Due to changes in regulations and financial uncertainty, the Government have commissioned three independent reviews of Audit in the past 12 months. These have covered:

- Audit Regulation
- The Audit Market
- The Audit Product

3.23 In addition, the Government also commissioned an independent examination *(the Redmond Review*) into the quality of local authority audits and the effectiveness of local authority financial reporting. This included a fundamental review of the audit regime and local authority accounts in the light of the current situation.

3.24 The Redmond Report is due shortly and is expected to recommend some fundamental changes for local authority financial reporting and audit.

4.0 <u>Financial Implications</u>

4.1 As detailed in the report. The Council's Budget for Audit fees is the PSAA scale fee of £37,942.

4.2 If the Committee agree to an increase in the current fee, it will need to be referred to the Finance and Management Committee to consider additional budgetary provision.

5.0 <u>Corporate Implications</u>

Employment Implications

5.1 None

Legal Implications

5.2 None

Corporate Plan Implications

5.3 None directly

Risk Impact

5.4 As detailed in the report, i.e. potential risks of the Council not publishing its accounts and financial statements in a timely manner.

6.0 Community Impact

Consultation

6.1 None required

Equality and Diversity Impact

6.2 None

Social Value Impact

6.3 None

Environmental Sustainability

6.4 None

7.0 Background Papers

Letter from the PSAA to the Council on 20 April (**Appendix 1**)

APPENDIX 1

30 April 2020

By email

Email generalenquiries@psaa.co.uk

Dear Section 151 Officer and Audit Committee Chair

Fee Scale for the Audit 2020/21 and update on 2019/20

I am writing to notify you of your 2020/21 audit scale fee. In previous years your auditor has been required to write to you to do this. However, going forward, we have agreed with the audit firms that it is more efficient for PSAA to write out to all bodies directly.

PSAA commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of the financial year, and we published the 2020/21 scale fees on our website on 31 March 2020. In addition to notifying you directly of your scale fee, this letter provides you with key updates and information on audit matters in these difficult times.

We wrote to all S151 officers on 12 December 2019 describing that local audit and audit more widely is subject to a great deal of turbulence with significant pressures on fees.

These pressures still apply, and the key aspects are summarised below.

- It is apparent that the well publicised challenges facing the auditing profession following several significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reviewed the audit product.

- It is not yet clear what the long-term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

How we set your scale fee

We consulted on the 2020/21 Scale of Fees in early 2020 and received a total of 54 responses. We published the final document on our website (Scale fee document). In it we explained that although we have set the scale audit fee at the same level as for 2019/20, we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage.

The impact of these changes is likely to vary between bodies depending on local circumstances, and information to determine that impact with any certainty is not yet available. Our view is that it would also be inappropriate to apply a standard increase to all authorities given the differing impact of these changes between bodies. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit.

	Scale fee for the audit 2020/21	**Scale fee for the audit 2019/20**
South Derbyshire District Council	£37,942	£37,942

As well as the Scale of Fees document, we have also produced a Q&A which provides detailed responses to the questions raised as part of the consultation. We will update the Q&As periodically to take account of ongoing developments affecting scale fees.

The fee for the audit is based on certain assumptions and expectations which are set out in the Statement of Responsibilities. This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of both in certain areas.

The final fee for the audit will reflect the risk-based approach to audit planning as set out in the Code. Under the Code, auditors tailor their work to reflect local circumstances and their assessment of audit risk. This is achieved by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting audit responsibilities or financial reporting standards.

Fee Variations

As noted above, we recognise that with so much turbulence and change in the local audit environment, additional fee variations are likely to arise for most if not all bodies.

The amount of work required on arrangements to secure VFM is a matter of auditor judgement and is based on the requirements set out in the new Code and supporting guidance which will be published later in 2020. Once the Auditor Guidance Notes have been published we will be able to consider the impact of the new requirements in more depth, and may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Given that local circumstances at each audited body are key to determining the assessment of risk and the audit work required, we would encourage early dialogue with your auditor to determine any related implications for fees. The process for agreeing fee variations begins with local communication, and ideally agreement. We have produced a fee variation process note which is available on our website (Fee variations process). Please note that all fee variations are required to be approved by PSAA before they can be invoiced.

Quality of Audit Services

We are committed to do all we can to ensure good quality audits and a high-quality service for the bodies that have opted into our arrangements. The service that you can expect to receive from your auditors is set out in their Method Statement, which is available from your auditors.

Whilst professional regulation and contractual compliance are important components of the arrangements for a quality audit service, so too is the aspect of relationship management. We recently commissioned a survey via the LGA Research team to obtain audited bodies' views of the audit service provided to them. The themes and improvement areas from the survey will be discussed with firm contact partners for development at a local level. The results from our 2018/19 survey of all opted-in bodies will be available on our website in May and we will notify all S151 officers and Audit Committee Chairs.

Impact of COVID-19 on current 2019/20 audits

The global COVID-19 pandemic has created further turbulence impacting on all aspects of the economy including the public sector. There are potentially significant repercussions for the delivery of audits, audit-related issues, and delays to signing audit opinions for 2019/20. MHCLG has acted to ease these pressures by providing more flexibility in the 2019/20 accounts preparation and auditing timetable by temporarily revising the Accounts and Audit Regulations. This has extended the period which an authority has to publish its draft financial statements until 31 August, and importantly there is much greater flexibility for the public inspection period as it is now required to start on or before the first working day of September 2020. The revised date for publishing audited accounts (if available) is 30 November 2020.

We recommend that you discuss with your auditors the use that can be made of this flexibility in meeting mutual governance and assurance responsibilities, noting that in a letter to all local authority Chief Executives on 22 April, MHCLG encouraged approval of pre-audit accounts earlier than 31 August if possible.

We have referred to the importance of audit quality in this letter, and just as important is the quality of the pre-audit financial statements and the working papers that are prepared by bodies. The disruption caused by COVID-19 will impact on areas of judgement and creates uncertainty in preparation of the financial statements, and it is key that bodies ensure there is sufficient focus upon financial reporting and related processes and controls, and that the planned timetable allows for sufficient internal quality assurance and review of financial reporting issues taking into account the wider impact of the pandemic on the officers' time.

Local Audit Quality Forum

Our Local Audit Quality Forum focuses on providing information to support audit committees (or equivalent) in delivering their remit effectively. We are disappointed that we are not able to host our planned event this summer due to the COVID-19 pandemic. However, we plan to host our next event towards the end of the year. It will provide an opportunity to discuss a range of relevant topics and themes. If there are any particular areas you would like to see included on a future agenda, or if you wish to raise any other issues with PSAA, please feel free to contact us at generalenquiries@psaa.co.uk

Your auditor will, of course, be best placed to answer any questions you may have regarding your audit.

Yours sincerely,

Tony Crawley
Chief Executive

REPORT TO:	**AUDIT SUB-COMMITTEE**	**AGENDA ITEM: 13**
DATE OF MEETING:	**13th July 2020**	**CATEGORY: DELEGATED**
REPORT FROM:	**STRATEGIC DIRECTOR (CORPORATE RESOURCES)**	**OPEN**
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE (01283 595811)** Kevin.Stackhouse@southderbyshire.gov.uk	**DOC:**
SUBJECT:	**COMMITTEE WORK PROGRAMME**	**REF:**
WARD(S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: G**

1.0 Recommendations

1.1 That the Committee considers and approves the updated work programme.

2.0 Purpose of Report

2.1 The Committee is asked to consider the updated work programme.

3.0 Detail

3.1 Attached at Annexe 'A' is an updated work programme document. The Committee is asked to consider and review the content of this document.

4.0 Financial Implications

4.1 None arising directly from this report.

5.0 Background Papers

5.1 Work Programme.

Audit Sub-Committee: Work Programme 13th July 2020/21

Work Programme Area	Date of Committee meetings	Contact Officer (Contact details)
Reports Previously Considered By Committee		
External Audit Planning Report for the year ending 31st March 2020	13th July 2020	Jason Burgess (Assistant Manager) EY Jburgess3@uk.ey.co
Internal Audit Progress Report	13th July 2020	Adrian Manifold (Audit Manager) Adrian.manifold@centralmidlandsaudit.co.uk
Proposed Internal Audit Plan 2020/21	13th July 2020	Adrian Manifold (Audit Manager) Adrian.manifold@centralmidlandsaudit.co.uk
The Role And Responsibilities of The Chief Finance Officer in Local Government	13th July 2020	Kevin Stackhouse (Strategic Director Corporate Resources) Kevin.stackhouse@southderbyshire.gov.uk
The CIPFA Financial Management Code	13th July 2020	Kevin Stackhouse (Strategic Director Corporate Resources) Kevin.stackhouse@southderbyshire.gov.uk

Annual Report of Agreed Procedures 2018/19	13th July 2020	Kevin Stackhouse (Strategic Director Corporate Resources) Kevin.stackhouse@southderbyshire.gov.uk
Proposed External Audit Fee 2019/20	13th July 2020	
Local Government Audit Briefing	13th July 2020	
Internal Audit Annual Report	29th July 2020	Adrian Manifold (Audit Manager) Adrian.manifold@centralmidlandsaudit.co.uk
Local Code of Corporate Governance Review 2019/20	29th July 2020	Ardip / Kevin Stackhouse (Strategic Director Corporate Resources) Kevin.stackhouse@southderbyshire.gov.uk
Local Government Audit Briefing		
Annual Governance Statement 2019/20	29th July 2020	Ardip / Kevin Stackhouse (Strategic Director Corporate Resources) Kevin.stackhouse@southderbyshire.gov.uk
Anti-Fraud and Corruption Annual Report 2019/20	29th July 2020	Elizabeth / Kevin Stackhouse (Strategic Director Corporate Resources) Kevin.stackhouse@southderbyshire.gov.uk

Local Government Audit Committee Briefing	TBC	Jason Burgess (Assistant Manager) EY Jburgess3@uk.ey.co
Certification of Grant Claims and Returns Report 2018/19	TBC	Jason Burgess (Assistant Manager) EY Jburgess3@uk.ey.co