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Date: 10 February 2015

Dear Councillor,

Audit-Sub Committee

A Meeting of the **Audit-Sub Committee** will be held in the **Committee Room**, on **Wednesday, 18 February 2015 at 16:00**. You are requested to attend.

Yours faithfully,

Chief Executive

To:- **Conservative Group**
Councillor Harrison (Chairman), Councillor Ford (Vice-Chairman) and
Councillor Murray.

Labour Group
Councillors Dunn and Shepherd.



AGENDA

Open to Public and Press

- 1** Apologies
- 2** To note, for information purposes, the draft Open Minutes of the Meeting held on 17.12.2014 (Minutes to follow).
- 3** To note any declarations of interest arising from any items on the Agenda
- 4** To receive any questions by members of the public pursuant to Council Procedure Rule No.10.
- 5** To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 6** CERTIFICATION REPORT 2013-14 **3 - 16**
- 7** VALUE STATEMENT **17 - 34**
- 8** INFORMING THE AUDIT RISK ASSESSMENT **35 - 54**
- 9** INTERNAL AUDIT PROGRESS REPORT **55 - 74**

Exclusion of the Public and Press:

The Chairman may therefore move:-

That in accordance with Section 100 (A) of the Local Government Act 1972 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.

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

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 6
DATE OF MEETING:	18th FEBRUARY 2015	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE and CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/Grant Thornton/grants/covering report
SUBJECT:	CERTIFICATION REPORT 2013/14	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 01

1.0 Recommendation

- 1.1 That the report is considered and that the proposed action relating to the Housing Benefit Subsidy Grant Claim is approved.

2.0 Purpose of Report

- 2.1 For the Committee to review the work of the Council's External Auditor for 2013/14 in relation to the certification of grants. In particular, to consider the matters raised in relation to Housing Benefit Subsidy Grant Claim.

3.0 Detail

- 3.1 The report of Grant Thornton as the Council's appointed Auditor is attached.

4.0 Financial Implications

- 4.1 The recommended action arising out of the findings will be contained within current resources.

5.0 Corporate Implications

- 5.1 None

6.0 Community Implications

- 6.1 None

7.0 Background Papers

- 7.1 None

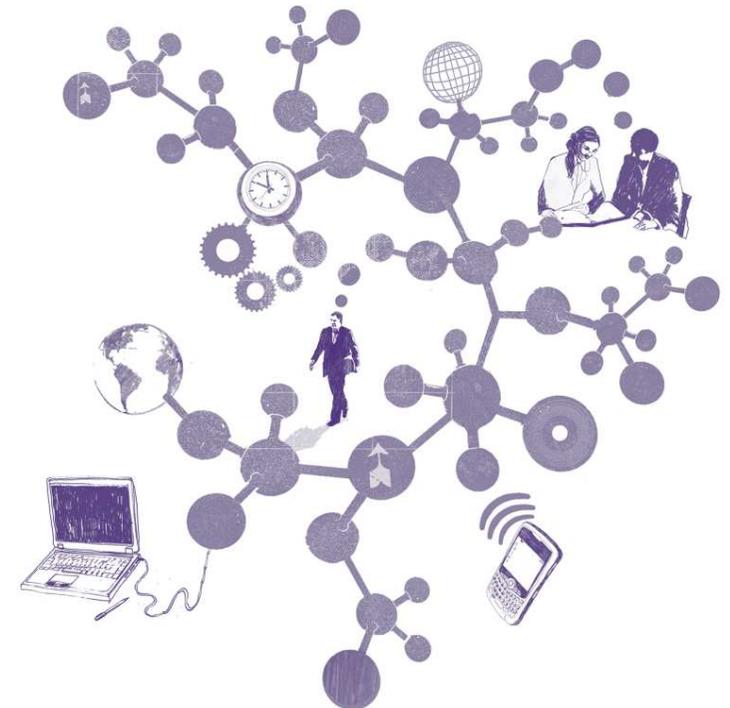
Certification report 2013/14 for South Derbyshire District Council

Year ended 31 March 2014

29 January 2015

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Section 1: Summary of findings

01. Summary of findings

Summary of findings

Introduction

We are required to certify certain claims and returns submitted by South Derbyshire District Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified two claims and returns for the financial year 2013/14 relating to expenditure of £19.3 million.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform were set out in our Certification Plan issued to the Council in March 2014.

Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below.

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	The Pooling of Capital Receipts claim was submitted late for audit. However, both claims were certified on time.	● amber
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	Certification of the Housing Benefit Subsidy claim found errors which are broadly consistent with those noted in 2012/13. These errors led to nine areas where additional testing was required to be completed by the Council. This is highlighted in the qualification letter issued to the Department for Work and Pensions.	● red
Supporting working papers	Supporting working papers for claims and returns were of good quality.	● green

Certification fees

The indicative certification fee set by the Audit Commission for 2013/14 for South Derbyshire District Council is based on final 2011/12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification (such as the national non-domestic rates return) have been removed. The fees for certification of housing benefit subsidy claims were reduced by 12 per cent, to reflect the removal of council tax benefit from the scheme. This is set out in more detail in Appendix C.

The indicative certification fee for South Derbyshire District Council for 2013/14 was £24,848. A fee variation of (£1,368) is proposed. This fee is subject to approval by the Audit Commission.

The way forward

We set out one recommendation to address the key messages above and other findings arising from our certification work at Appendix B.

Implementation of the agreed recommendation will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

Acknowledgements

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP
January 2015

Appendices

Appendix A: Details of claims and returns certified for 2013/14

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefit subsidy claim	£18,379,047	No	N/a	Yes	The claim was submitted and certified in accordance with the certification deadlines. As in prior years the claim was qualified. There were a number of errors including income assessment errors and expenditure mis-classification. The overall number of errors identified were consistent with the prior year.
Capital receipts return	£871,810	No	N/a	No	The claim was submitted late for audit. However, it was certified by the deadline.

Appendix B: Action plan

Priority

High - Significant effect on arrangements

Medium – Some effect on arrangements

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>BEN01: Housing Benefits Scheme</p> <p>As noted in previous years, a number of benefit cases across all tenure types were identified as having been processed with incorrect earnings figures and inaccurate income assessments.</p> <p>A number of benefit cases across all tenure types were incorrectly classified.</p> <p>Recommendation</p> <p>The Council should ensure that appropriate quality control arrangements are in place so that all case details are accurately recorded and to minimise the misclassification of benefit expenditure for subsidy purposes.</p>	High	<p>Our sample in year checking shows that we consistently have less than a 5% error rate in accordance with the Service Contract. Clearly however, this is less than sufficient to meet the demands now expected by the DWP and this will be reviewed. Training of assessors occurs regularly on key issues, particularly feedback from HB subsidy audits. It is disappointing to note the continuation of some of the prior year issues, although overall the impact in financial terms on the grant claim is small.</p> <p>A breakdown of the errors identified that the bulk of errors are around misclassifications and are contained in two areas around Non HRA cells 12 and 13 and arise partly from known system issues in the first case whereas the other flows from issues with regard to the treatment of the vulnerable at cell 97.</p> <p>We will therefore review all non HRA cases before submission of the claim for 14/15 and have already partly completed similar work on cell 97 which will also be complete by the time the final claim is due for submission.</p> <p style="text-align: center;">Page 12 of 74</p>	Ray Keech

Appendix B: Action plan

Priority

High - Significant effect on arrangements

Medium – Some effect on arrangements

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
			<p>This should remove, based on 13/14 outturn, in excess of 80% of the reported classification errors. We appreciate that there is further work to do in Rent Allowance classification and Income assessment generally and will take this forward in future training and quality assurance work.</p> <p>Some of the other issues reported have, as indicated, not been noted before.</p> <p>Finally, our understanding was that the QL, from assurances given by the Audit Commission at a workshop hosted by the DWP, should be amended where there were agreed adjustments to the claim and not qualified. Whilst we understand it may be considered by the External Auditor that there were reasons for not agreeing this, our opinion is that this should have applied, as we requested, to cell 11 and its related cells, where a full check of content was carried out. As a result, in our view, the revised figure could have been fairly stated.</p>	

Appendix C: Fees

Claim or return	2012/13 fee (£)	2013/14 indicative fee (£)	2013/14 actual fee (£)	Variance year on year (£)	Explanation for significant variances
Housing benefits subsidy claim	31,270	23,851	21,751	(9,519)	The 2012/13 fee includes £3,500 relating to further testing of the 2012/13 claim in 2013/14 at the request of the Council and Department for Work and Pensions. The actual fee has reduced because of the removal of council tax benefit from the scheme and a reduction in the level of additional testing (40+ testing) required.
Capital receipts return	630	997	1,729	1,099	Additional testing required in 2013/14 under the Audit Commission cyclical approach.
Total	31,900	24,848	23,480	(8,420)	



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REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	18th FEBRUARY 2015	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE and CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/Grant Thornton/value statement covering report
SUBJECT:	VALUE STATEMENT	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 01

1.0 Recommendation

1.1 That the External Auditor's Value Statement is considered and any matters arising are subject to further review.

2.0 Purpose of Report

2.1 The report summarises the work undertaken by the External Auditor over the last year and demonstrates how they feel they have added value to the Council.

3.0 Detail

3.1 The report of Grant Thornton as the Council's appointed Auditor is attached.

4.0 Financial Implications

4.1 None.

5.0 Corporate Implications

5.1 None

6.0 Community Implications

6.1 None

7.0 Background Papers

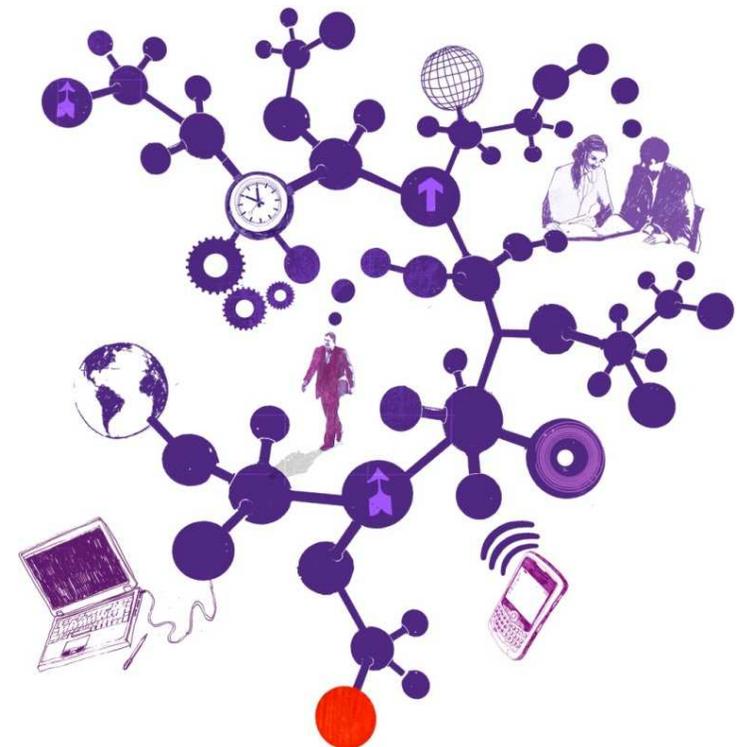
7.1 None

Continuing to deliver value to South Derbyshire District Council

January 2015

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“

South Derbyshire District Council is a valued client of the firm and I hope we demonstrated this during the audit. We pride ourselves on delivering a high quality service and have set ourselves the goal of being second to none in our client care. To help us achieve this, we propose to carry out an independent client service review with you in the coming year. More informally, I would value any feedback from you or your team on areas where you believe we could improve our service to you.

I thought it would be useful to summarise the services we have provided during the year, and to demonstrate how we feel we have added value to you through the other work we do with you. We have made investment in our relationship with you this year, and have included some thoughts as to how we could build on this in the future.

We think our knowledge of the Council, coupled with our wider experience of the Local Government sector, puts us in a strong position to help you with the challenges you face.

We look forward to the opportunity to demonstrate our desire and enthusiasm to work with you in these challenging times.

”

Kyla Bellingall

Engagement Lead

for Grant Thornton UK LLP

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The client names quoted within this report are disclosed on a confidential basis. All information in this document is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP.

How we brought you added value this year

Council leadership

We:

- provided assurance on financial reporting and financial resilience by giving a timely audit opinion and value for money conclusion
- shared our thinking on key issues, including issuing members and management with our annual reports on Governance and Financial Health and our reports on Pensions Governance, Alternative Delivery Models, Welfare Reform, High Growth Index, Better Care Fund and 2020 Vision.

Council management

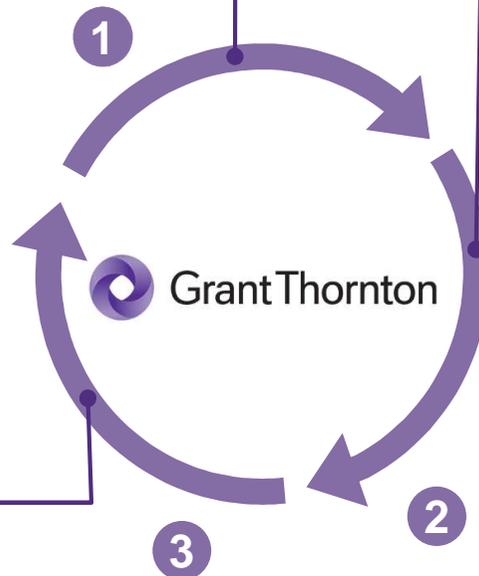
We:

- ensured a smooth external audit process through regular dialogue and meetings to promptly discuss financial accounts opinion audit and other issues including WGA and grant certification work to ensure you submit accurate figures to central government.
- shared technical knowledge, provided early warning on key risks and provided an opportunity to network with other Local Government bodies at our annual finance seminar
- liaised with internal audit to minimise duplication.

Audit - sub committee

We:

- provided independent external audit commentary and insight on your key issues through senior attendance at Audit-Sub Committees
- invested in regular dialogue with the Audit-Sub Committees to ensure there were no surprises and to maintain a robust and independent stance throughout our audit
- provided regular, timely and transparent reports from our work and briefing notes on key sector developments.

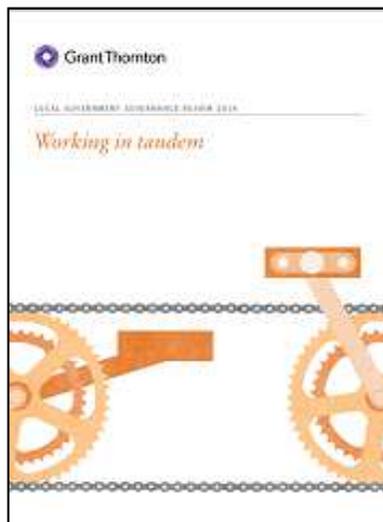


Supporting corporate governance

Each year, we review good governance in Local Government as part of our wider analysis of UK governance practice. This complements our reviews on corporates in the FTSE 350, the NHS and charities. We aim to help organisations improve their governance by learning from other sectors and their peers and to identify examples of good practice and areas where there is scope for further development.

Our national reviews of Local Government corporate governance include analysis of the financial statements and survey responses. We include insight from similar reviews we undertake at FTSE 350 listed companies, which allows us to promote the highest standards of good governance and public reporting. Some key highlights are set out opposite.

We would be happy to engage with you during the year to benchmark your performance against the national group. In this way, you can benefit from good practice across our national Local Government client base.



Download findings from our Improving Local Governance report from March 2014:

<http://www.grant-thornton.co.uk/en/Publications/2014/Local-Government-Governance-Review-2014/>

In reviewing your annual governance statement, we assess your arrangements for providing assurance to those responsible for signing the statement.

We share our sector insights to ensure you are fully aware of sector developments and challenges that may affect your governance or risk management arrangements.

Your Audit-Sub Committee members are invited to attend our local government network which discusses relevant and current topics.

Focus on financial resilience

(as at September 2014)

In the current challenging economic climate, we invest in providing enhanced analysis and reporting on your financial resilience. This includes a RAG rated assessment of where you are performing well and any areas requiring increased attention.

We reported the findings from our 2013/14 financial resilience review to the September 2014 Audit – Sub Committee. Some key highlights from our work are set out opposite. Our latest national report on Local Government financial resilience was published in December 2014. It draws on the results of our assessment of financial resilience across all of our Local Government bodies in England.

We are also able to benchmark you against your peers to help support continued improvement. We can provide and discuss more detailed comparative data with you and consider what this means for your financial resilience, if that is of interest.



Download findings from our Rising to the challenge report from December 2014:

http://www.grant-thornton.co.uk/Global/Publication_pdf/rising-to-the-challenge-the-evolution-of-local-government.pdf

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There is an estimated budget deficit in the future, rising from £172,000 in 2015/16 to nearly £900,000 in 2018/19. The Council faces a financial challenge to identify savings in order to keep the financial position sustainable over the medium term.

The five year Medium Term Financial Plan has been updated to reflect the Council's changing financial environment. In order for a sustainable position to be achieved in the medium term and to maintain a minimum level of balances a savings requirement of £175,000 is required from 2014/15.

The Council has a good track record in managing its budget.

The Council has effective financial control in place. This includes its budget planning, the monitoring of its financial position and its financial forecasting, including savings planning.

Welfare Reform and Alternative Delivery Models in Local Government



In 2013, we surveyed a sample of 39 clients in the local government sector and 44 in housing associations in England

The report focuses on the governance and management arrangements being put in place nationally across the two sectors to deliver reform, the early signs of how successful the reforms have been and the upcoming issues and the risks on the reform agenda in the wider context of social impact. The key messages include:

- There is evidence of a pro-active approach in addressing the current and future impact of welfare reform through effective communications with stakeholders
- There is scope for closer working between local authorities, housing associations and other partners – including the NHS - to ensure that homelessness and disruption is minimised and that employment opportunities are maximised
- The full impact of reform has yet to be felt; there is an element of calm before the storm

Download findings from our Alternative Delivery Model report from January 2014:

<http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/>

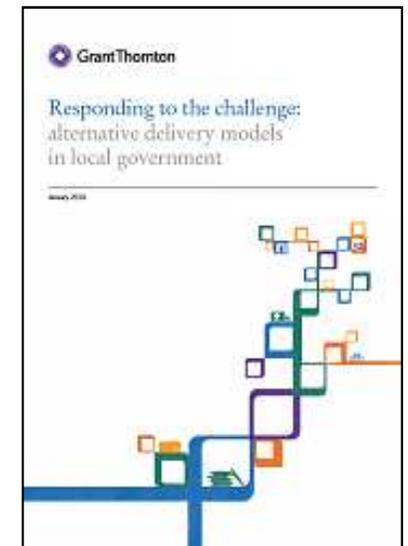
In 2013, we surveyed a sample of 70 clients in the local government sector and identified nearly 40 different services they had externalised and provided under an alternative delivery model.

This report

- outlines the main alternative delivery models
- aims to assist other authorities as they develop their options and implement innovation strategies
- considers aspects of risk.

Download findings from: our National Welfare Reform report from February 2014:

<http://www.grant-thornton.co.uk/en/Publications/2014/Reaping-the-benefit-First-impressions-of-the-impact-of-welfare-reform/>



High Growth Index in Local Government



Where growth happens
The high growth index of places

Place Analytics Insight
Autumn 2014



In 2014, we issued a report on where growth happens in the local government sector in England.

The report focuses on the high growth, dynamic growth and growth corridors. The key messages include:

- **High Growth** – Our High Growth Index of places, based on economic and demographic measures, shows the pivotal role played by London in driving growth nationally and the role of cities for driving growth regionally. Outside London, Manchester is the strongest performer, with Birmingham, Milton Keynes, Bristol and Brighton and Hove all ranking in the top five.
- **Dynamic Growth** – Highlighting past areas of growth, however, may not necessarily be an indicator of future growth or sustainability. A dynamism index, ranked by assessing a basket of productivity drivers, indicates the quality of growth. The emerging picture shows that dynamism clusters around cities and their wider conurbations. Again, London leads, but is followed by Cambridge, then Reading, Manchester, Bristol, Oxford, Brighton and Hove, Milton Keynes, Leeds and Warrington.
- **Growth Corridors** – Combining rankings for both growth and dynamism reveals a pattern of growth in England based around nine growth corridors. These are functional, large scale, economic areas which have been at the heart of growth over the last decade and are likely to maintain a pivotal role in shaping that growth in the future. Based around key cities, these corridors extend across district borders and create key strategic linkages with other high growth and dynamic areas.

Download findings from:
our **Where Growth Happens** report from **Autumn 2014**:

http://www.grant-thornton.co.uk/Global/Publication_pdf/Where-growth-happens-the-high-growth-index-of-places.pdf

Our unique credentials

**Biggest
UK CIPFA employer**



Overview

You are an ambitious Council with a vision of making South Derbyshire a better place to live, work and visit.

We are proud to be associated with you. You are important to us and we are passionate about supporting you to achieve your strategic goals.

As the largest supplier of external audit to local government in the country, we are uniquely placed to work with you and support you in achieving your goals. We understand the political and public sector environment you work in and the challenges and pressures you are facing. We have a genuine insight and understanding into your business and your needs, from our many decades of dedication working in the public sector and our longstanding commitment to local government.

With Grant Thornton, you benefit from the full commitment of an experienced team that has worked together over many years and has a passion for helping you achieve your success.

We believe in Local Government. All our Local Government specialist staff know and understand the unique issues faced by the Local Government bodies. We have the experienced resources available to meet your needs and support you in responding to the challenges you face. Our commitment to you is that we will work with you and help and support management and the Audit – Sub Committee in achieving your goals. We believe that with our extensive knowledge of the Council and our highly skilled and experienced local audit team, we are exceptionally well placed to support the Council over the next few critical years.

At a national level, our extensive access to our wider audit practice, our networks

with central government, local government and healthcare bodies and our focus on people as the driving force for quality and innovation set us apart. Grant Thornton benefits you by:

- bringing its commitment to improving public sector financial and service management for the benefit of users
- fielding local experts in the strategic and operational needs of the Council
- sharing best practice, knowledge and up to date information from across local government, drawing on the knowledge gained from our unparalleled market share
- delivering a high-quality audit focused on the specific issues you face. We audit more councils than any other audit firm and draw on the insights this provides us to tailor our work with you.

At a local level, we offer you:

- an audit team which understands the Council, its direction and objectives and the environment in which you operate, identifying areas where we can support you
- an audit team which is not afraid to deliver difficult messages to you and provide robust challenge to management
- a proven track record of delivering high quality audit work, working with you in partnership to deliver better services for local people.

We are confident we can continue to meet your requirements for a comprehensive, efficient and effective external audit service. You will benefit from our relationship as you face the challenges of delivering a modern and customer focused service. We look forward to continuing our working relationship with you.

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National and local expertise

138

Local Government
audit clients

400+

Dedicated public
sector staff

National credentials

- Through our Audit Commission framework contract, we have been **external auditors to Local Government since 1982**. Over this time, and based on the quality of our work, we have increased our Local Government audit presence.
- Following the outsourcing of the Audit Commission's in-house audit practice we are proud to be **largest external provider of audit services to Local Government, serving 40% of the market**.
- We are currently **auditors to 138 Local Government authorities**.
- We have audit staff on secondment to local authorities, helping our staff learn about local government from the inside out. We also train our staff on the latest developments within Local Government. We also receive staff on secondment from clients. We would be happy to discuss secondment opportunities with you.
- We also deliver a national programme of GT closedown workshops in partnership with CIPFA FAN; a joint approach which allows the opportunity for delegates to hear both the key accounting issues and the audit considerations for the accounts in one combined event.
- We have delivered a series of Local Government Audit Committee conferences for Members, to encourage better governance in Local Government.

Local focus

- Our Midlands Public Sector Assurance team is made up of over **65 dedicated local government and NHS external audit specialists** with extensive skills and experience with local Government. The regional team undertakes external audit services for **two County Councils, four Unitary Councils, five Metropolitan Councils, 19 District Councils and 17 other local government, pension, police and fire authorities**.
- We work flexibly across our assurance and advisory teams. For example, we have a **rolling programme of secondments into the advisory team**, which gives our auditors the broader perspective that our clients appreciate.
- We also have VAT, employment tax, real estate, infrastructure, governance, performance improvement and anti-fraud experts with significant experience of our current Local Government clients

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All of this means that our Local Government clients can be assured of relevant expert knowledge and expertise to support them with current and forthcoming challenges.

Experience of Local Government issues

We have significant experience of the local government sector, and are aware that this is a challenging period for Local Government.

Challenges include the Welfare reforms, the introduction of joint social care, rising demand for services, demands for higher and more consistent quality of service, the reduction of central government grants, the localisation of funding and increasing financial pressures.

Our experience, both locally and nationally, has enabled us to develop a number of audit and advisory services to support our clients in achieving their objectives. We set out opposite some of our areas of specialism:



Regulatory requirements

- Value-added assurance services; external audit; internal audit; governance reviews; financial reporting reviews; IFRS reporting; risk management including IT and systems assurance

Governance

- Advice on governance including: assessment of governance effectiveness and the roles, responsibilities and capabilities of individual directors, working with leaders and Members developing strategy

Efficiency agenda

- Operational services reorganisation; turnarounds; skills gap analysis; performance management; service and cost savings reviews; costing analysis and benchmarking; shared service project support; procurement support; treasury and finance department reviews

Managing infrastructure

- PFI work providing: bid evaluation; refinancing; feasibility studies; preparation of business cases; risk analysis and public sector comparator development; development of payment mechanisms; financial modelling; and funding competitions

Asset management

- use of assets for regeneration, reviews of efficiency and cost in use; diagnostics of performance of inventory, evaluating and prioritising options and implementing rationalisation of assets

Major investments, mergers and acquisitions

- Investment appraisals; business case support; investment due diligence; due diligence and advisory services

Establishment of property trading arms and companies

- Assisting with procurement of development partners, structuring and establishing development vehicles such as Strategic Partnerships, Local Asset Backed Vehicles, and Joint Venture Companies

Alternative Delivery Models

- Outsourcing; quantitative data analysis and stakeholder interviews, benchmarking results against our database of outsourced partnership activity

Tax advice

- Corporate and international tax; indirect tax; employer solutions

Helping to address your challenges

Area of focus	Your challenges	Examples of how we have helped you and other Local Government bodies
Optimise operations	<p>Significant budget shortfalls - you face a significant challenge over the forthcoming four years (2015/16 to 2018/19). There is an estimated budget deficit rising from £172,000 in 2015/16 to nearly £900,000 in 2018/19.</p> <p>Cost Improvement Plans – in order for a sustainable position to be achieved in the medium term and to maintain a minimum level of balances a savings requirement of £175,000 is required from 2014/15.</p> <p>Effectiveness: The Medium Term Financial Plan takes account of changing national funding and assesses the impact of these changes on the Council's strategic priorities and financial targets, and also considers other income streams that could be increased to supplement the loss of government grant funding. The Council is continuously seeking to improve efficiency through changing the way that it works including shared services and working in partnership with neighbouring councils.</p>	<ul style="list-style-type: none"> • We review your arrangements for setting and monitoring your savings plans and assess whether they are realistic and feasible. • We review whether you have appropriate financial management arrangements and plans in place to tackle financial resilience in the longer term. • At other sites, we have facilitated workshops, leading to the generation of a 'long list' of long-term, sustainable savings and service redesign proposals which will feed in to future savings programmes.
Welfare Reform	<p>Welfare Reform – changes to housing benefit and welfare reform continue to increase the rate of homelessness and demand for social housing. Changes include Welfare Benefit cap, under-occupancy adjustment (bedroom limit), Universal Credit and Direct Payments.</p>	<ul style="list-style-type: none"> • Our 2014 Welfare report draws on our experience and that of our clients, over the past year, in order to provide insight into the impact of welfare reform and will be the first in a series of updates that will contribute to understanding of these issues within the sector and provide a platform for sharing experience and good practice.
Realise strategic ambition	<p>The South Derbyshire draft Local Plan – The vision for South Derbyshire is one of sustainable growth, renewal and opportunity. The Plan's Strategy is about harnessing the energy and opportunities of sustainable growth to secure positive benefits for the District's residents and employers.</p>	<ul style="list-style-type: none"> • We are introducing Vivien Holland (Regional Lead – Local Government Advisory) to you, to discuss benchmarking in connection with the existing service contracts. • We invited Members and officers to our Local Government seminar covering: <ul style="list-style-type: none"> ➢ 2020 Vision: Exploring finance and policy futures for English local government ➢ Where Growth Happens: the high growth index of places ➢ Where is your Council on the high growth index of places?

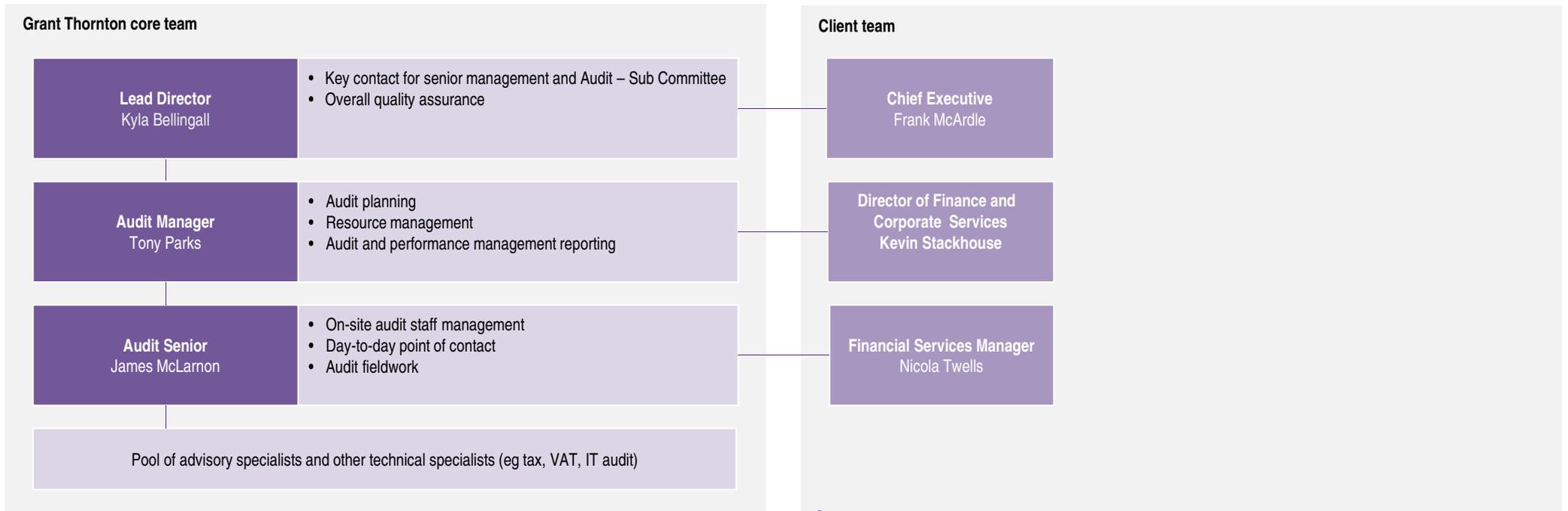
Your audit team will be happy to further discuss these and other challenges with you, and will involve relevant specialists where this is of value to you.

Your client service team

We understand what you expect from us: an approachable, proactive, locally based and highly skilled team with access to a national network of specialists and expertise as required.

The existing team will continue to:

- understand you and your priorities, and provide innovative and constructive advice
- challenge you where necessary to support your continued improvement
- be readily accessible and responsive to your needs but independent and challenging to deliver a rigorous audit
- be connected into a Local Government network
- communicate relevant information to you in a prompt, clear and concise manner



Our fees

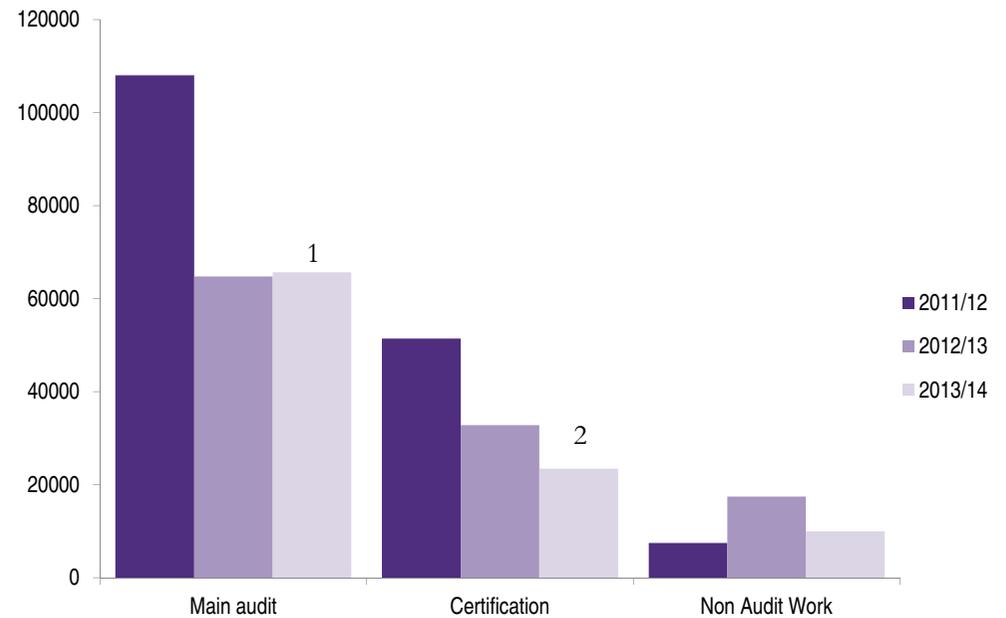
Our fee proposal provides you with transparency and value for money.

Our fees over the past two years and for the current year are set out in the chart to the right. These fees are set by the Audit Commission.

We are committed to openness and transparency in our fee with you. We know that you want an external audit that continues to offer a transparent fee structure which represents best value for money.

To deliver against your needs our fee includes:

- discounted rates – our position as the largest auditors to local government allows us to offer a discount on our usual rates
- no hidden costs – the fee we propose is the fee we will charge (plus VAT)
- investment in our relationship – the value in the core audit and the additional added value inputs we describe in this document are all included in the fee
- certainty over fee levels year on year – we hold the fee for the duration of the contract, absorbing fee inflation through audit efficiencies
- specialist, qualified staff - 100% of the time spent on the audit will be from qualified or part qualified staff, with over 60% from fully qualified staff, all specialists in working with local government
- expenses are included – saving you the 5%-10% that may typically arise on a contract
- no assumption of additional fee income – our external audit fee includes no assumption around you commissioning additional paid for services from us.



1. Includes £900 in respect of work on material business rates balances.
2. This is subject to approval by the Audit Commission





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REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 8
DATE OF MEETING:	18th FEBRUARY 2015	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE & CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) Kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/grant Thornton/interim audits/audit risk assessment cover
SUBJECT:	INFORMING THE AUDIT RISK ASSESSMENT	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 01

1.0 Recommendations

1.1 That the report is considered and noted.

2.0 Purpose of Report

2.1 For the Audit Sub-Committee to consider some important areas of the auditor risk assessment where the External Auditors are required to make inquiries under auditing standards. As part of their risk assessment procedures, they are required to obtain an understanding of management processes and the Audit Sub-Committee's oversight of the following areas:

- Fraud
- Laws and regulations
- Going concern.

2.2 The report includes a series of questions on each of these areas and the response received from the Council's Senior Management. The Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

3.0 Detail

3.1 The report of Grant Thornton as the Council's appointed Auditor is attached.

4.0 Financial Implications

4.1 None

5.0 Corporate Implications

5.1 None

6.0 Community Implications

6.1 None

7.0 Background Papers

7.1 None

Informing the audit risk assessment for South Derbyshire District Council

2014/15

28 January 2015

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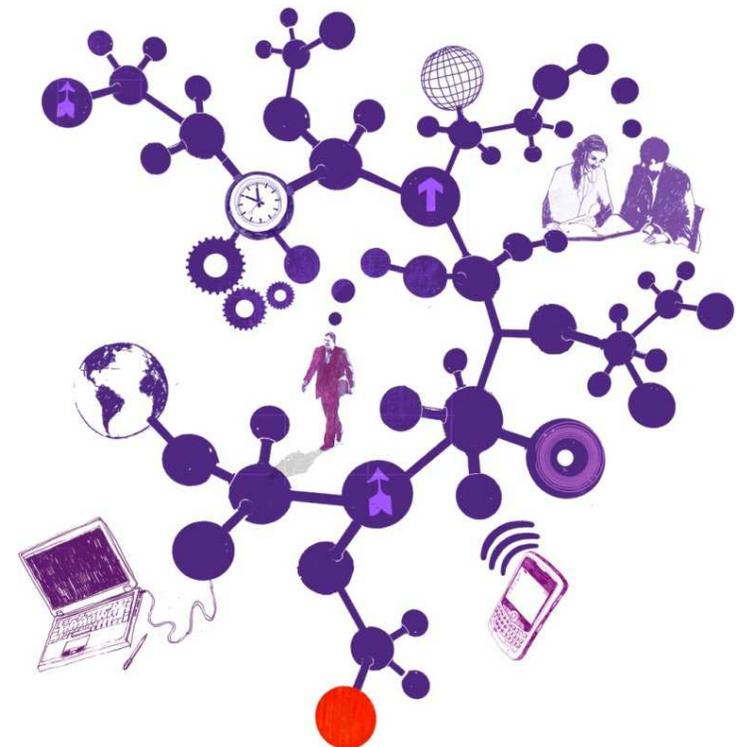
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Audit Sub-Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Sub-Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Sub-Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Sub-Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Sub-Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Sub-Committee and supports the Audit Sub-Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Sub-Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern.

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Sub-Committee should consider whether these responses are consistent with the its understanding and whether there are any further comments it wishes to make.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Sub-Committee and management. Management, with the oversight of the Audit Sub-Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Sub-Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit Sub-Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Sub-Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Sub-Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?</p>	<p>Although there is an on-going risk of fraud being committed against the Council there are arrangements in place to both prevent and detect fraud. This includes the work of the in-house Fraud Investigation Unit using the Housing Benefit Database and Matching Service (HBMS), National Fraud Initiative (NFI) and through the National Anti-Fraud Network. No areas have been highlighted which would have a risk of material misstatement in the financial statements.</p>
<p>What processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>The Fraud Investigation Unit has undertaken a risk assessment of external fraud risks and this will inform proactive investigative activity. All staff at the Council are given access to the Anti-Fraud Policy and Corruption Policy, together with the Whistleblowing policy. Staff are also required to complete self assessments and are provided with Fraud Awareness Training, both by way of e-learning packages and presentations.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>Apart from the potential for Benefits Fraud which remains a high risk area, the Council is proactively targeting wider Council (or Corporate) Fraud. For example, this has focused on Council Tax and Business Rates evasion. This is evidenced by instances highlighted later in this section. Along with two neighbouring authorities, the Council has recently been awarded a Government Grant of £170,000 to enable wider fraud to be tackled under joint arrangements.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Throughout the Council there are segregation of duties in place and devolved responsibility in place, with clear authorisation chains. This is also governed by the Financial Procedural Rules.</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>None identified due to controls over segregation of duties and devolved responsibilities</p>
<p>Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?</p>	<p>None identified due to controls over segregation of duties and devolved responsibilities</p>

Fraud risk assessment

Question	Management response
<p>How does the Audit Sub-Committee exercise oversight over management's processes for identifying and responding to risks of fraud? What arrangements are in place to report fraud issues and risks to the Audit Sub-Committee?</p>	<p>This is undertaken through Internal Audit and the Council's Fraud Unit. The former reports directly to the Audit Sub-Committee under its terms of reference and the latter to the Director of Finance and Corporate Services.</p>
<p>How does the Council communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>The Council gives access to all its staff and contractors to various HR Policies and Procedures, including whistleblowing and the Employee Code of Conduct; these are all available through a separate portal on the Council's intranet. Specific updates are also provided to Departmental Management Teams where necessary and published in the workforce magazine.</p>
<p>How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?</p>	<p>As above, staff are given access to the whistleblowing and fraud policies through the intranet. There are posters on noticeboards and information on the intranet to inform staff of the process on reporting fraud. To encourage staff, the Council also report outlines of fraud cases which proceed to prosecution. Fraud awareness training also encourages staff to report concerns. There was one whistleblowing complaint raised with the Council's Monitoring Officer during 2014/15 and this was dealt with in accordance with the Policy. There were no issues arising that could materially affect the financial statements.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p>No. The Council each year requests a separate disclosure from all Members and Senior Management of related party transactions. Any disclosures are reviewed by the Chief Finance Officer in conjunction with the Monitoring Officer to ascertain whether anything should be reported in the financial statements.</p>
<p>Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2014?</p>	<p>There was one instance reported concerning recruitment but following investigation, nothing was substantiated.</p>

Laws and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Sub-Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Sub-Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of Laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The Council have appointed the Legal and Democratic Services Manager as its Chief Legal and Monitoring Officer. All potential areas of non compliance should be raised with this Officer before they are acted upon. During 2014/15, this was strengthened by the creation of a new post of Senior Legal Officer to support the Legal and Democratic Services Manager.
How does management gain assurance that all relevant laws and regulations have been complied with?	Through these Officers with their knowledge and experience, together with consultation with Law Public, the Council's retained advisory service.
How is the Audit Sub-Committee provided with assurance that all relevant laws and regulations have been complied with?	<p>Compliance is reported in the Annual Governance Statement to the Audit Sub-Committee.</p> <p>If specific changes in law and regulations do come about. For example, in 2014/15, the implications of the Local Audit and Accountability Act 2014 were reported to the Audit Sub-Committee to detail the potential impact on the Council and any changes required. The Committee will monitor actions required by the Act through to implementation.</p>
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2014, or earlier with an on-going impact on the 2014/15 financial statements?	There was one issue regarding planning enforcement from which the Council could suffer a financial liability. However, this is not expected to be significant and materially affect the financial statements.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	These are assessed by the Chief Legal Officer and Law Public (if necessary) and then reported to the Chief Finance Officer who determines the accounting treatment.
Is there any actual or potential litigation or claims that would affect the financial statements?	None.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None.

Going Concern

Issue

Matters in relation to Going Concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial resilience.

Going concern considerations have been set out below and management has provided its response.

Going Concern Considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	This is demonstrated through the Corporate Plan, together with the Medium Term Financial Plan which sets out the sustainability of the Council's financial position.
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	Management is not aware of any such issues.
Are arrangements in place to report the going concern assessment to the Audit Sub-Committee?	No specific reports required but this is considered by the Committee as part of the annual financial statements report.
Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	Yes, the overview and summary information reflect the current and projected financial position.

Going Concern Considerations

Question	Management response
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The Corporate Plan and Medium Term Financial Plan take into account any statutory or policy changes as required.
Have there been any significant issues raised with the Audit Sub-Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No significant issues identified.
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	A review of financial information available has not highlighted any concerns
Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	All statutory and directors posts are filled with suitably qualified people by the Council, with no shortages identified.

Accounting estimates

Issue

Matters in relation to accounting estimates

Council's need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate. Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all material estimates that the council is using as part of its accounts preparation; these are detailed in Appendix A to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

Accounting estimates considerations have been set out below and management has provided its response.

Question	Management response
Are the management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgment?	There is nothing of significance.
Are the management arrangements for the accounting estimates, as detailed in Appendix 1 reasonable?	Yes. The Council follows relevant accounting standards as set out in the Accounting Code of Practice. No changes are proposed in the accounting estimates as detailed in the Appendix.
How is the Audit Sub-Committee provided with assurance that the arrangements for accounting estimates are adequate?	Through the annual financial statements report and any specific reports.

Related Parties

Issue

Matters in relation to Related Parties

Council's are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the council (i.e. subsidiaries);
- associates and/or joint ventures;
- an entity that has an interest in the council that gives it significant influence over the council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the council, or of any entity that is a related party of the council.

A disclosure is required if a transaction (or series of transactions) is material on either side i.e. if a transaction is immaterial from the council perspective but material from a related party viewpoint then the council must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related party considerations have been set out below and management has provided its response.

Question	Management response
What controls does the council have in place to identify, account for, and disclose related party transactions and relationships?	Management compile and review the registers of employee and member interests received through the annual declaration process. The declarations of interests for Members are all published on the Council web site for public access. The Chief Finance Officer, in conjunction with the Monitoring Officer, reviews declarations in financial systems to see if any transactions with any potential related parties have occurred and considers whether this requires disclosure in the financial statements. Page 50 of 74

Appendix A: Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	The council follows the requirements of the Local Government Code.	Notification from the Public Work Loans Body (PWLB) and correspondence with other counter bodies.	No	Take advice from finance professionals	No
Bad debt provision	A provision is estimated using a proportion basis of an aged debt listing	Review and reconciliation of bad debt reports completed by Revenue and Benefits Service Manager. Finance team will review these reports before making the final provision.	No	Consistent proportion used across aged debt. The degree of uncertainty used in the selection of the percentage rate to use is medium.	No
Property Plant and Equipment	The council follows the requirements of the Local Government Code.	Capital accountant will reconcile the fixed asset register based on external valuation and the requirements of the Local Government Code.	Yes- District Valuation Service	The life and condition of the asset	No
Pensions	The council follows the requirements of the Local Government Code.	Payroll data is reconciled before submission to the actuary.	Yes- Hymans Robertson	Rate of CPI inflation, increase in salaries, increase in pensions and discount rate on liabilities	No

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense line in the CI&ES in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties	Discussions are held between the finance team and the Director of Finance and Corporate Services to identify all known liabilities and whether provisions are required.	No	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income if it is virtually certain that reimbursement will be received by the council	No

A Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	<p>The Council will collate accruals of expenditure and income.</p> <p>Activity is accounted for in the financial year that it takes place not when money is paid or received.</p>	<p>Reconciliation of purchase orders raised to goods received notes completed by finance team.</p> <p>Backing evidence for accruals made by individual managers are retained and reviewed.</p>	No	<p>Accruals for income and expenditure are principally based on known values. Where accruals have had to be estimated the latest available information has been used.</p> <p>Degree of uncertainty is usually low, although alternative estimates may be considered.</p>	No



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REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 9
DATE OF MEETING:	18th FEBRUARY 2015	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE and CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/internal audit/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 between 1st December 2014 and 31st December 2015.

3.0 Detail

- 3.1 The detailed report is attached.

4.0 Financial Implications

- 4.1 None directly.

5.0 Corporate Implications

- 5.1 None directly.

6.0 Community Implications

- 6.1 None directly.

7.0 Background Papers

- 7.1 None

South Derbyshire District Council – Internal Audit Progress Report

Audit Sub-Committee: 18th February 2015



Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

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South Derbyshire District Council – Internal Audit Progress Report

Summary

Role of Internal Audit

The Internal Audit Service for South Derbyshire District Council is provided by the Central Midlands Audit Partnership (CMAP). The Partnership operates in accordance with standards of best practice applicable to Internal Audit (in particular, the Public Sector Internal Audit Standards – PSIAS). CMAP also adheres to the Internal Audit Charter.

The role of internal audit is to provide independent assurance that the organisation's risk management, governance and internal control processes are operating effectively.

Recommendation Ranking

To help management schedule their efforts to implement our recommendations or their alternative solutions, we have risk assessed each control weakness identified in our audits. For each recommendation a judgment was made on the likelihood of the risk occurring and the potential impact if the risk was to occur. From that risk assessment each recommendation has been given one of the following ratings:

- Critical risk.
- Significant risk.
- Moderate risk
- Low risk.

These ratings provide managers with an indication of the importance of recommendations as perceived by Audit; they do not form part of the risk management process; nor do they reflect the timeframe within which these recommendations can be addressed. These matters are still for management to determine.

Control Assurance Definitions

Summaries of all audit reports are to be reported to Audit Sub-Committee together with the management responses as part of Internal Audit's reports to Committee on progress made against the Audit Plan. All audit reviews will contain an overall opinion based on the adequacy of the level of internal control in existence at the time of the audit. This will be graded as either:

- **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.
- **Limited** - We are able to offer limited assurance in relation to the areas reviewed and 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.
- **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.
- **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.

This report rating will be determined by the number of control weaknesses identified in relation to those examined, weighted by the significance of the risks. Any audits that receive a None or Limited assurance assessment will be highlighted to the Audit Sub-Committee in Audit's progress reports.

South Derbyshire District Council – Internal Audit Progress Report

Audit Coverage

Progress on Audit Assignments

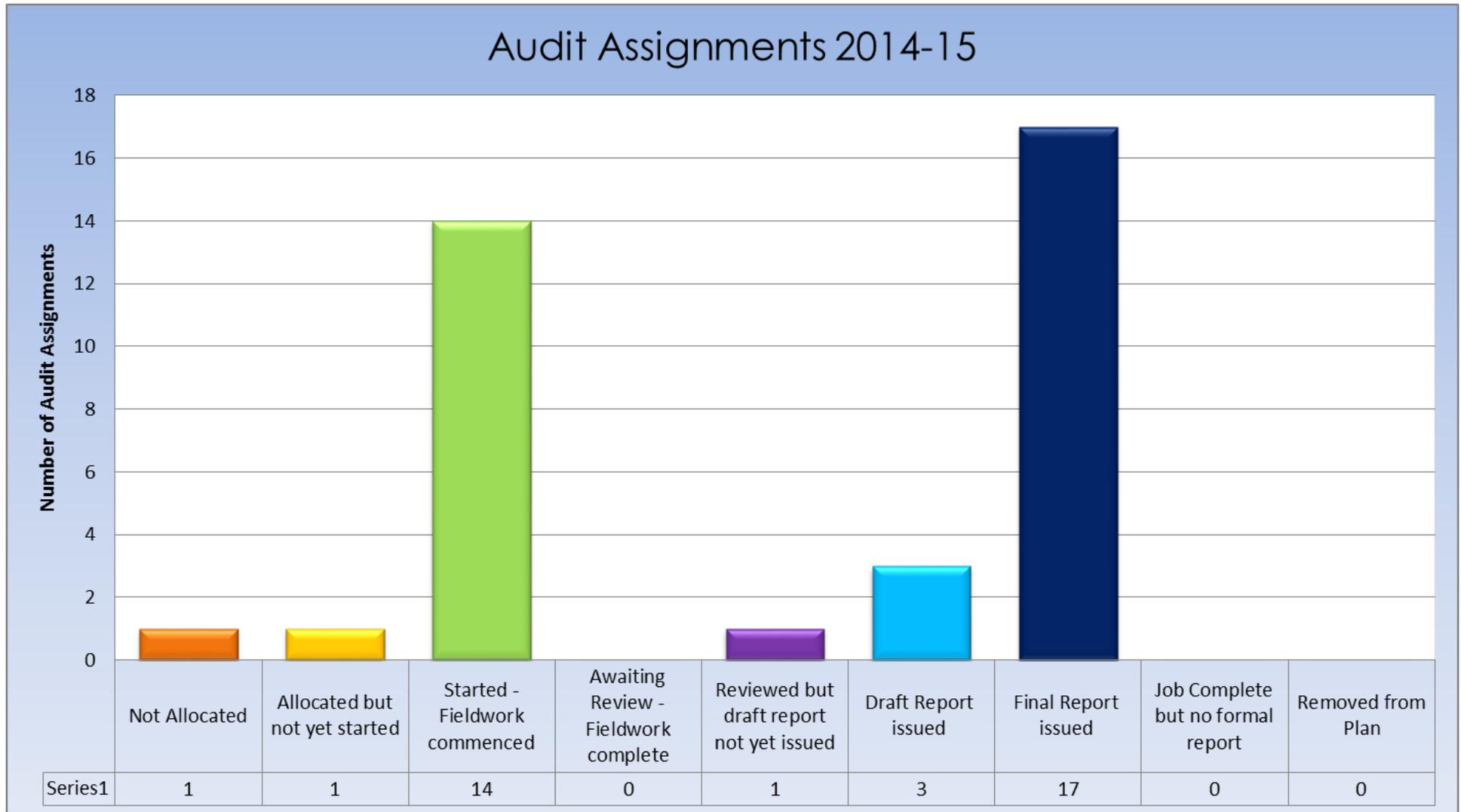
The following table provide Audit Sub-Committee with information on how audit assignments were progressing as at 31st January 2015.

2014-15 Audit Plan Assignments	Type of Audit	Current Status	% Complete
Main Accounting System 2014-15	Key Financial System	In Progress	75%
Treasury Management / Insurance 2014-15	Key Financial System	Not Allocated	0%
Council Tax / NNDR / Cashiering 2014-15	Key Financial System	In Progress	55%
Housing & Council Tax Benefit 2014-15	Key Financial System	In Progress	50%
Payroll / Officers Expenses & Allowances 2014-15	Key Financial System	In Progress	15%
Creditors / Debtors 2014-15	Key Financial System	In Progress	70%
Procurement - Transparency Code	Procurement/Contract Audit	In Progress	45%
PCI Compliance	Governance Review	Final Report	100%
Civica Security Assessment	IT Audit	In Progress	75%
Capacity Management	IT Audit	In Progress	60%
Risk Management 2014-15	Governance Review	In Progress	45%
Data Quality & Performance Management 2014-15	Governance Review	In Progress	25%
Fixed Assets 2014-15	Key Financial System	Allocated	15%
Electoral Services	Systems/Risk Audit	Draft Report	95%
Economic Development	Systems/Risk Audit	In Progress	20%
Section 106 Agreements	Systems/Risk Audit	Final Report	100%
Development Control	Systems/Risk Audit	Awaiting Review	80%
Waste Management	Systems/Risk Audit	In Progress	30%
Pollution Control	Systems/Risk Audit	Draft Report	95%
Depot Health & Safety	Governance Review	Final Report	100%
B/Fwd - Creditors / Debtors 2013-14	Key Financial System	Draft Report	95%
B/Fwd - Data Protection & Freedom of Information	Governance Review	In Progress	75%
B/Fwd - Business Continuity & Emergency Planning	Governance Review	In Progress	60%

South Derbyshire District Council – Internal Audit Progress Report

Audit Coverage

Progress on Audit Assignments Chart



South Derbyshire District Council – Internal Audit Progress Report

Audit Coverage

Completed Audit Assignments

Between 1st December 2014 and 31st January 2015, the following audit assignments have been finalised since the last Progress Report was presented to this Committee:

- PCI Compliance.
- Service Contracts.
- Depot Health & Safety.

The following paragraphs summarise the internal audit work completed in the period.

PCI Compliance

Overall Control Assurance Rating: **Comprehensive**

This audit focused on the level of Payment Card Industry Data Security Standards (PCI DSS) awareness within the Council and what arrangements were in place in terms of the structure and PCI responsibilities of staff. It also sought to establish what progress had been made with the PCI self-assessment and the relationship with the banks and Third Party Service Providers in terms of what assurances they could provide as to their own PCI compliance and information to support the Council's own self-assessment.

From the 14 key controls evaluated in this audit review, 8 were considered to provide adequate control and 6 contained weaknesses. The report contained 5 recommendations, all of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- The consequences of non-compliance with the PCI DSS had not been considered as part of the Council's risk management process. (Low Risk)
- The Council's ICT Section had not produced, or obtained from the Third Party Service Providers (TPSP), a diagram showing

current cardholder data flows or evidence to demonstrate that access points to cardholder data had been secured. (Low Risk)

- The Council had not received any correspondence from the Third Party Service Providers – Global Pay or Capita Business Services confirming their responsibilities for PCI compliance. (Low Risk)
- Reporting lines and responsibilities for ensuring PCI DSS compliance had not been defined within the Council. (Low Risk)
- The Third Party Service Provider, Global Payments, had not provided the Council with the results or any documentary evidence that penetration tests had been conducted. (Low Risk)

All 5 issues raised within this report were accepted. Positive action was agreed to address 2 of the issues raised by 31st January 2015 with action being taken to address the 3 other issues by the end of March 2015.

Section 106 Agreements

Overall Control Assurance Rating: **Comprehensive**

This audit focused on the process and procedures relating to setting up Section 106 agreements, examining the banking, allocation and management of income, ensuring the expenditure of funds is appropriate and to examine arrangements in place for non-financial contributions.

From the 30 key controls evaluated in this audit review, 28 were considered to provide adequate control and 2 contained weaknesses. The report contained 2 recommendations, both of which are considered a low risk. The following issues were considered to be the key control weaknesses:

- There was no process for ensuring that agreements were being monitored for early identification of payment trigger points and prompt action to collect funds due. (Low Risk)

South Derbyshire District Council – Internal Audit Progress Report

- Periodic reconciliations were not being done between the Land Charges records and the Planning Team's Section 106 agreement records to ensure that all agreements had been correctly registered as charges against the relevant land. (Low Risk)

Both issues were accepted and action was agreed to address one issue by 6th January 2015, with the remaining action to be taken by 1st April 2015.

Depot Health & Safety

Overall Control Assurance Rating: **Reasonable**

This audit focused on ensuring that the Council had established adequate procedures and effective controls in respect of Health and Safety at the Council's Depot facility.

From the 20 key controls evaluated in this audit review, 12 were considered to provide adequate control and 8 contained weaknesses. The report contained 5 recommendations, all of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- Procedural guidance/safety method statements had not been established for all duties undertaken by the Grounds Maintenance Operatives and signed records had not been kept to demonstrate when guidance had been issued and received. (Moderate Risk)
- A Code of Safe Working Practice for Grounds Maintenance had been prepared, but was not dated to evidence when it was produced, due for review or issued to operatives. In addition, the Code of Safe Working Practice for Street Cleansing was dated August 2004, making it nearly 11 years old. (Low Risk)
- Risk assessments for Waste and Cleansing had not been reviewed and updated since November 2012. (Low Risk)
- Limited Health and Safety training had been provided to Grounds Maintenance and Waste and Cleansing operatives during the last 3 years. (Moderate Risk)

- Not all managers had undergone Health and Safety training specifically geared towards managers and their responsibilities as the employer. (Low Risk)
- Risk management log sheets had not always been signed off by a Senior Officer to demonstrate that exposure levels had been monitored. Risk management log sheets were not being completed in respect of exposure to noise levels. (Low Risk)
- There was no documented timetable to demonstrate when equipment was due for testing the vibration and noise levels it produced, or when it was due for replacing. (Low Risk)
- The result of spot checks on refuse operatives working on site was not being documented. (Low Risk)
- Operatives based at the Council's Depot had very limited access to Health and Safety information. (Low Risk)

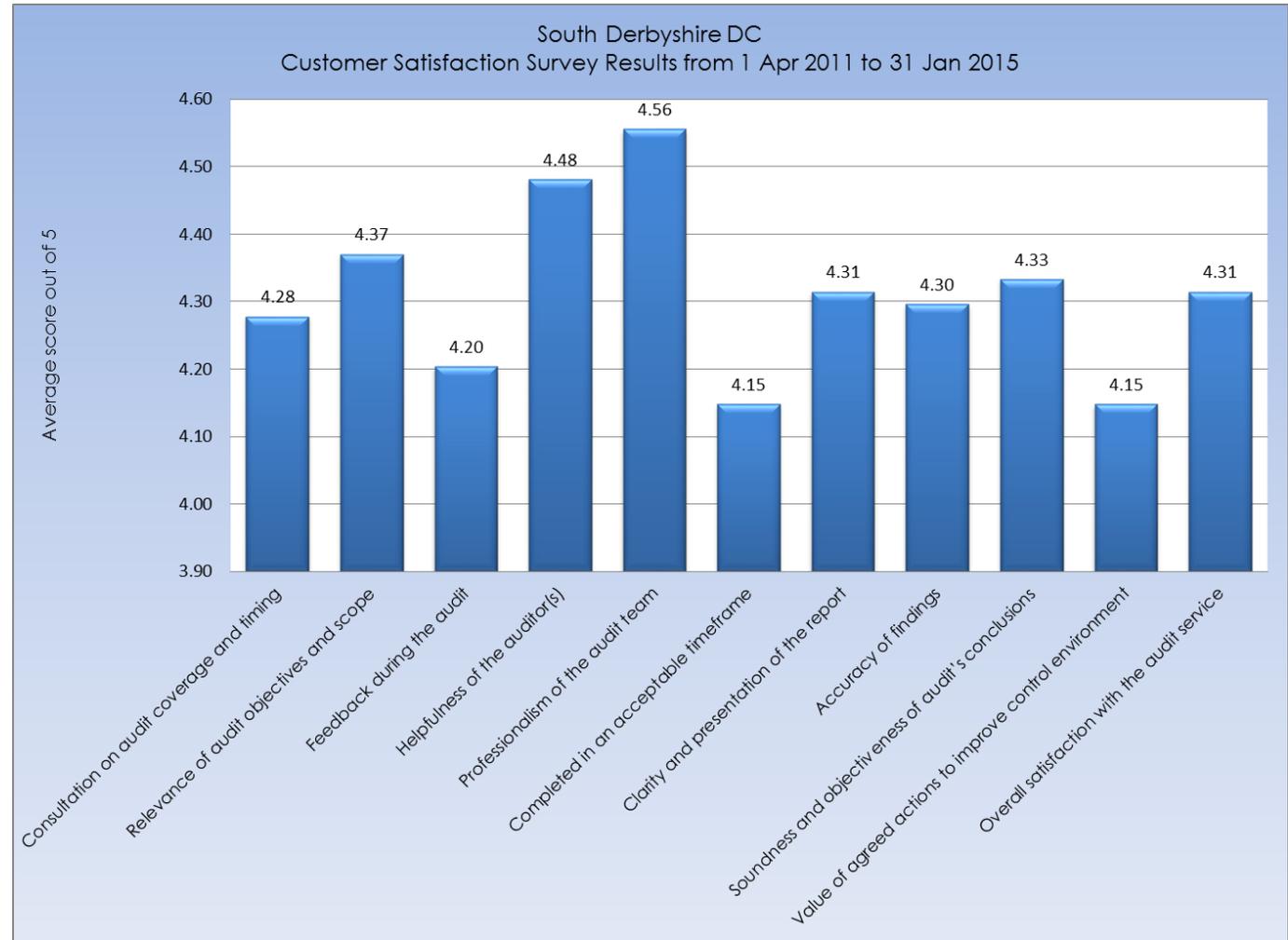
All 9 issues raised within this report were accepted. Positive action had already been taken to address 2 of the issues raised with action being taken to address another 4 issues by the 1st April 2015. Action was agreed to be taken to address the remaining 3 issues during the year with full implementation expected by 31st March 2016.

South Derbyshire District Council – Internal Audit Progress Report

Audit Performance

Customer Satisfaction

The Audit Section sends out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent. The chart across summarises the average score for each question from the 54 responses received between 1st April 2011 and 31st January 2015. The overall average score from the surveys was 47.4 out of 55. The lowest score received from a survey was 40, whilst the highest was 55 which was achieved on 3 occasions.



South Derbyshire District Council – Internal Audit Progress Report

Audit Performance

Customer Satisfaction

Since 1st April 2011, we have sent 68 Customer Satisfaction Surveys (CSS) to the recipients of audit services. Of the 68 sent we have received 54 responses.

Seven Customer Satisfaction Surveys have not been returned which have already been reported to this Committee and relate to assignments undertaken in previous plan years. Responses to these surveys will no longer be pursued as responses are unlikely to be reliable after this length of time.

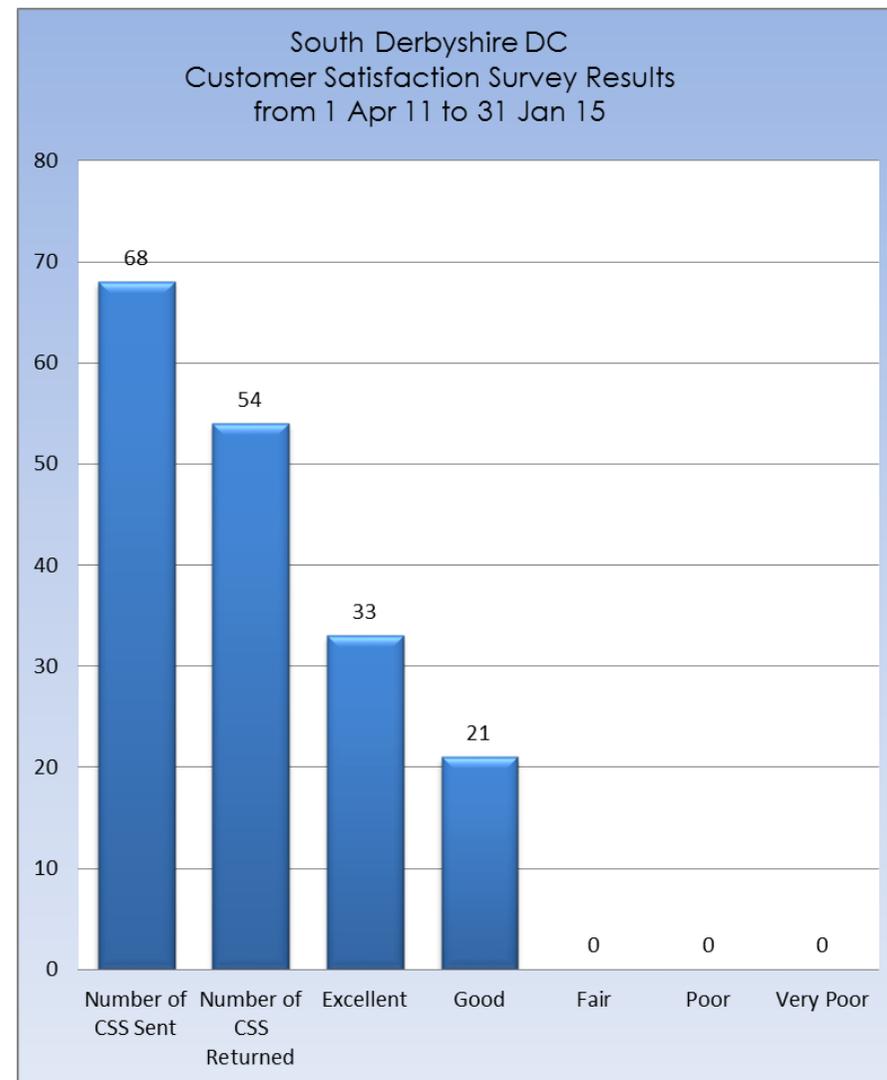
The following Customer Satisfaction Surveys have yet to be returned:

Job Name	CSS Sent	Officer
Data Quality 2013-14	04-Feb-14	Head of Policy and Communications
Main Accounting System 2013-14	12-Feb-14	Director of Finance & Corporate Services
Housing & Council Tax Benefit 2013-14	26-Feb-14	Client Services Manager
Licensing	12-Sep-14	Legal and Democratic Services Manager
Council House Sales	11-Nov-14	Performance and Policy Manager
PCI Compliance	5-Jan-15	Client Services Manager

The overall responses are graded as either:

- Excellent (scores 47 to 55)
- Good (scores 38 to 46)
- Fair (scores 29 to 37)
- Poor (scores 20 to 28)
- Very poor (scores 11 to 19)

Overall 33 of 54 responses categorised the audit service they received as excellent, another 21 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.



South Derbyshire District Council – Internal Audit Progress Report

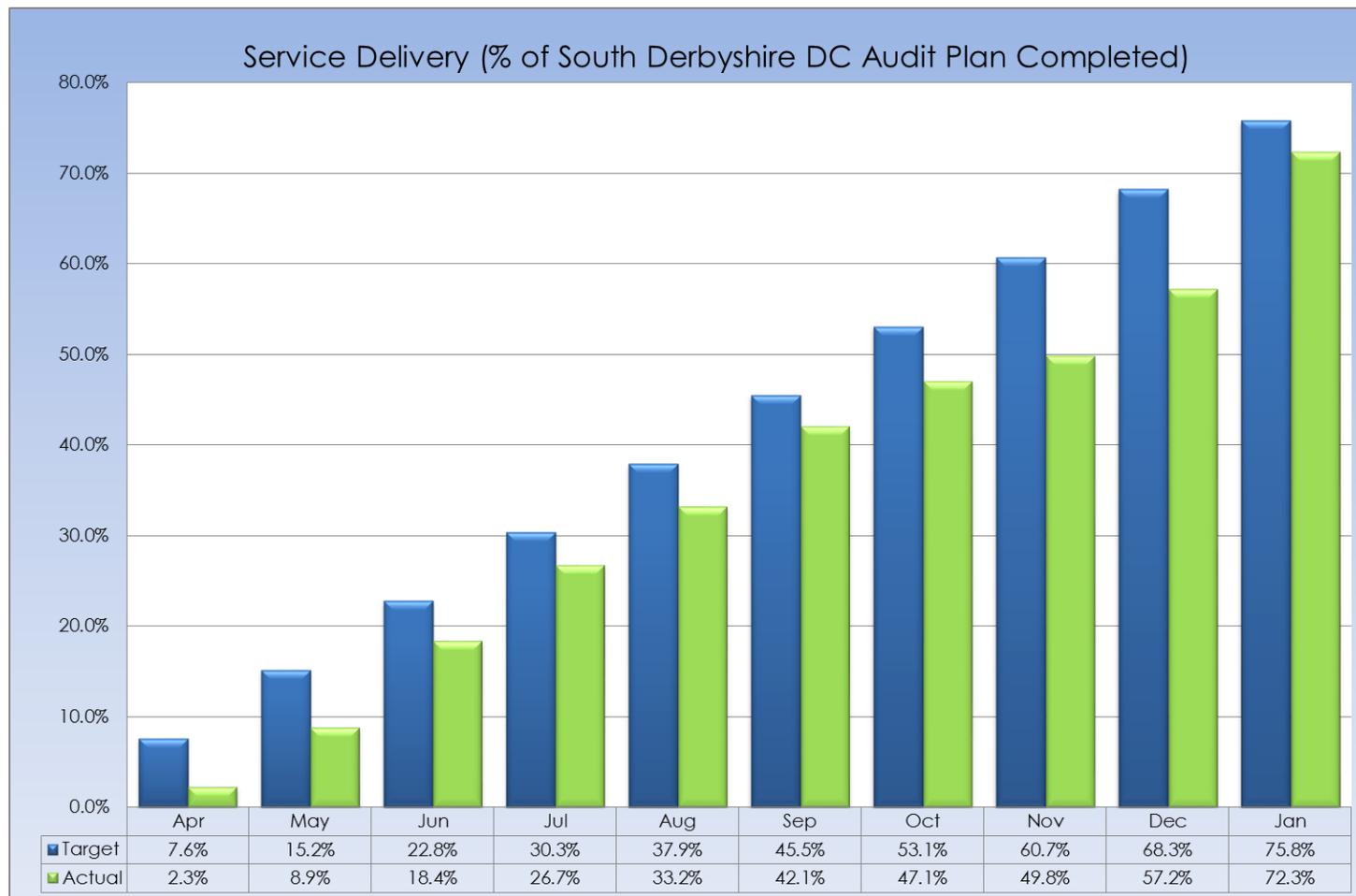
Audit Performance

Service Delivery (% of Audit Plan Completed)

At the end of each month, Audit staff provide the Audit Manager with an estimated percentage complete figure for each audit assignment they have been allocated. These figures are used to calculate how much of each Partner organisation's Audit Plans have been completed to date and how much of the Partnership's overall Audit Plan has been completed.

Shown across is the estimated percentage complete for South Derbyshire's 2014-15 Audit Plan (including incomplete jobs brought forward) after 10 months of the Audit Plan year.

The monthly target percentages are derived from equal monthly divisions of an annual target of 91% and do not take into account any variances in the productive days available each month.



South Derbyshire District Council – Internal Audit Progress Report

Recommendation Tracking

Follow-up Process

Internal Audit sends emails, automatically generated by our recommendations database, to officers responsible for action where their recommendations' action dates have been exceeded. We request an update on each recommendation's implementation status, which is fed back into the database, along with any revised implementation dates.

Prior to the Audit Sub-Committee meeting we will provide the relevant Senior Managers with details of each of the recommendations made to their divisions which have yet to be implemented. This is intended to give them an opportunity to provide Audit with an update position.

Each recommendation made by Internal Audit will be assigned one of the following "Action Status" categories as a result of our attempts to follow-up management's progress in the implementation of agreed actions. The following explanations are provided in respect of each "Action Status" category:

- **Blank** = Audit have been unable to ascertain any progress information from the responsible officer or it has yet to reach its agreed implementation date.
- **Implemented** = Audit has received assurances that the agreed actions have been implemented.
- **Superseded** = Audit has received information about changes to the system or processes that means that the original weaknesses no longer exist.
- **Risk Accepted** = Management has decided to accept the risk that Audit has identified and take no mitigating action.
- **Being Implemented** = Management is still committed to undertaking the agreed actions, but they have yet to be completed. (This category should result in a revised action date).

Implementation Status Details

The table below is intended to provide members with an overview of the current implementation status of all agreed actions to address the control weaknesses highlighted by audit recommendations that have passed their agreed implementation dates.

	Implemented	Being implemented	Risk Accepted	Superseded	Due, but unable to obtain progress information	Hasn't reached agreed implementation dates	Total
Low Risk	222	21	4	5	1	30	283
Moderate Risk	51	5	1	3	0	6	66
Significant Risk	7	0	0	0	0	0	7
Critical Risk	0	0	0	0	0	0	0
	280	26	5	8	1	36	356

The table below shows those recommendations not yet implemented by Dept.

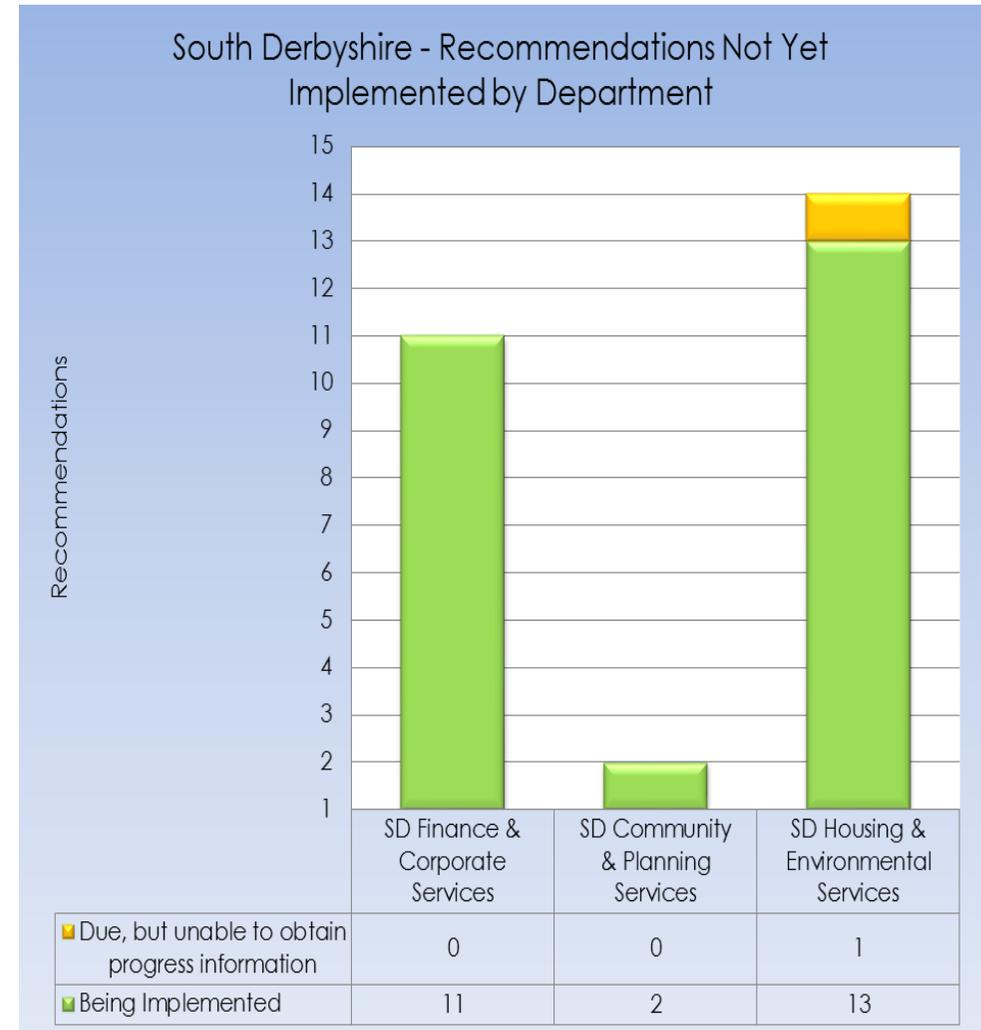
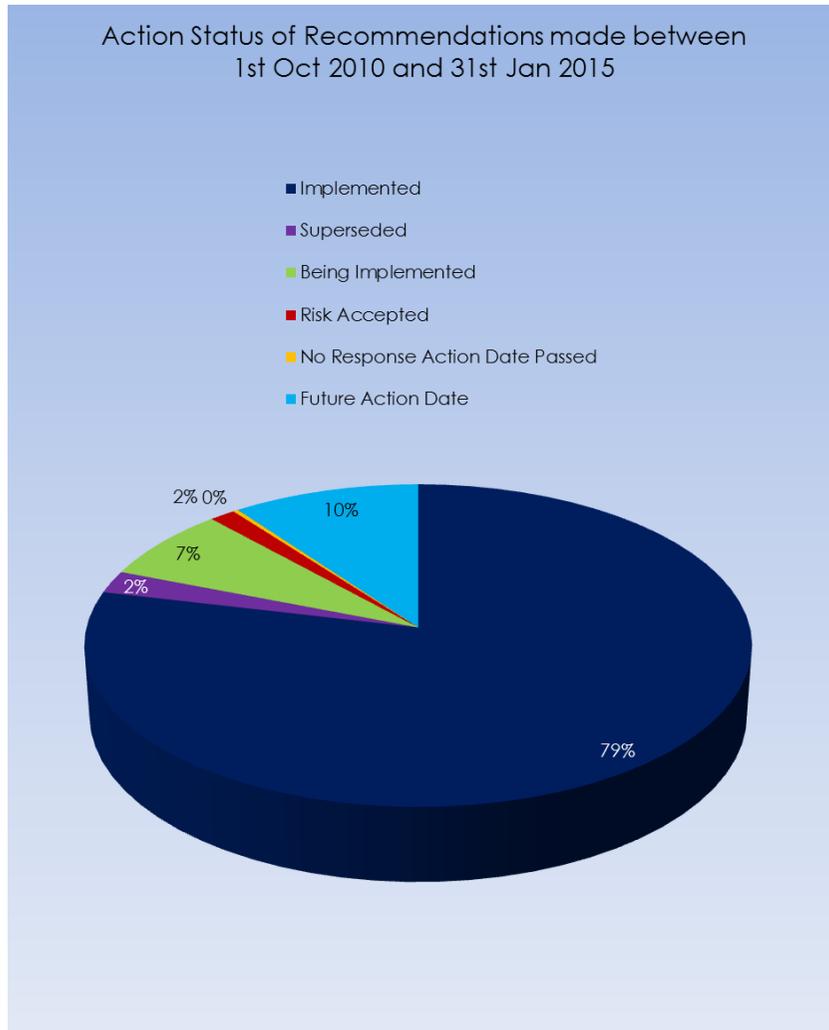
Recommendations Not Yet Implemented	Corporate Services	Community & Planning Services	Housing & Environmental Services	TOTALS
Being implemented	11	2	13	26
Due, but unable to obtain progress information	0	0	1	1
	11	2	14	27

Internal Audit has provided Committee with summary details of those recommendations still in the process of 'Being Implemented' and those that have passed their due date for implementation. We will provide full details of each recommendation where management has decided not to take any mitigating actions (shown in the 'Risk Accepted' category above). All 5 of the recommendations shown above, where management has chosen to accept the risk, have already been reported to this Committee.

South Derbyshire District Council – Internal Audit Progress Report

Recommendation Tracking

Implementation Status Charts



South Derbyshire District Council – Internal Audit Progress Report

Recommendation Tracking

Recommendations Not Yet Implemented

Corporate Services

Car Allowances

Control Issue - A neighbouring Authority has revised its car user allowance scheme and introduced a new scheme which has removed the essential user lump sum and pays one mileage rate to both types of user. This will enable the Authority to make significant savings in future years.

Risk Rating – Low Risk

Status Update - Following the Budget Round for 2013/14 and the Council Restructure, it was anticipated that the Single Status Steering Group would be reconvened in 2013. This item will be considered, as planned, as part of the pay and grading review. A revised review date of March 2014 was given, but no action was taken during the year. The Council has recently approved to review its approach during 2014/15.

Original Action Date 30 Jun 11 **Revised Action Date** 31 Mar 16

Legal & Democratic Services

Control Issue - Purchase orders were not being raised for goods and services required in respect of running the election.

Risk Rating – Low Risk

Status Update - Going forward we will now be raising purchase orders for all ordering. This was not undertaken for the County Council elections but will be undertaken going forward. The Elections process has recently been subject to an independent review commissioned by the Chief Executive. Changes to reporting lines have been made and a report will be considered by the Finance and Management Committee.

Original Action Date 30 Nov 12 **Revised Action Date** 31 Mar 15

Corporate Governance

Control Issue – The Member and Officer Relations protocol document did not include the responsibility of officers to provide training and development to Members and to respond in a timely manner to queries raised by Members. The document had not been reviewed since 2003.

Risk Rating – Low Risk

Status Update – This will be included in a wider review of the whole Constitution to bring it up to date. It was envisaged that this document would be brought up-to-date in advance of the May 2015 elections.

Original Action Date 1 Feb 14 **Revised Action Date** 31 May 15

Orchard IT Security

Control Issue – The policies and procedures that governed the overall management and administration requirements for the Orchard application had not been defined and documented. This made it hard to determine whether appropriate management and administration practices were being implemented.

Risk Rating – Low Risk

Status Update – This work is underway and will be finalised following the upgrade (recommendation 5) in February so that it can reflect the latest version of Orchard.

Original Action Date 28 Nov 14 **Revised Action Date** 31 Mar 15

South Derbyshire District Council – Internal Audit Progress Report

Control Issue – We found that the latest version of the Orchard application software had not been installed.

Risk Rating – **Low Risk**

Status Update – The upgrade is currently being installed and is due to go live on 16 Feb 15 subject to testing.

Original Action Date 31 Oct 14 **Revised Action Date** 28 Feb 15

PCI Compliance

Control Issue – The Council had not received any correspondence from the Third Party Service Providers – Global Pay or Capita Business Services confirming responsibilities for PCI compliance.

Risk Rating – **Low Risk**

Status Update – Financial Services Manager to speak to Client Services Manager (CSM) to get up to speed on PCI and her involvement/responsibility.

Original Action Date 31 Jan 15 **Revised Action Date** 31 Mar 15

Control Issue – The Third Party Service Provider, Global Payments, had not provided the Council with the results or any documentary evidence that penetration tests had been conducted.

Risk Rating – **Low Risk**

Status Update – Fraud & Assurance Manager to speak to Client Services Manager (CSM) to get up to speed on PCI and his involvement/responsibility.

Original Action Date 31 Jan 15 **Revised Action Date** 31 Mar 15

Council Tax / NNDR / Cashiering 2013-14

Control Issue – The error reports and zero liability bills highlighted by the Council Tax billing runs had not been corrected.

Risk Rating – **Low Risk**

Status Update – Another 6 months has been requested to address this. Majority, if not all, relate to old converted accounts which have a void liability date i.e. 1.4.05 – 1.4.05 and therefore bills will not get printed as Academy believes there is no liability, or are below minimum print level - < £1.

Original Action Date 31 Dec 14 **Revised Action Date** 30 Jun 15

CRM Security Assessment

Control Issue – Each CRM user did not have an individually assigned account. We identified 4 generic accounts that could not be traced to an individual user. This ultimately causes accountability issues as well as limiting separation of duties and effective access control.

Risk Rating – **Low Risk**

Status Update – 1 of the generic accounts (compass) is a system account and is used for logging in and processing LLPG updates into the system. The user cannot log into Windows. We have begun the process of reviewing the other accounts with the system supplier - We are expecting a resolution (or statement of the applicability of the accounts).

Original Action Date 31 Jan 15 **Revised Action Date** 23 Feb 15

South Derbyshire District Council – Internal Audit Progress Report

Control Issue – There were a number of shares on the CRM application server that were openly accessible to every user in the Network, and in some cases granted the Everyone group full control. Ultimately these could be accessed by malicious parties to affect the availability integrity and confidentiality of the CRM application.

Risk Rating – Low Risk

Status Update – These will be reviewed with the supplier, with a view to tightening the security.

Original Action Date 31 Jan 15 **Revised Action Date** 23 Feb 15

Control Issue – There were a number of accounts which still had access to the CRM application despite either leaving the Council altogether, or moving on to different departments and roles where they no longer required access to the System. Ultimately this poses a privacy violation to the personal data processed by the System.

Risk Rating – Low Risk

Status Update – We have spoken to the supplier and been advised that there may be some issues with removing accounts that are linked to open cases. In respect of that the supplier has agreed that they will provide support for fixing issues arising from account deletion.

Original Action Date 31 Jan 15 **Revised Action Date** 23 Feb 15

Community & Planning Services

Leisure Centres

Control Issue – The Leisure Management Contract was in draft form, despite Active Nation being in the third year of service delivery.

Risk Rating – Moderate Risk

Status Update – Revised and finalised documents were issued to Active Nation with a view to a formal signing. However, in the interim and further to VAT advice it came to light that a side agreement with a lease or licence relating to GBLC is required as well as an update to VAT related wording within the contract. Both parties are now working on drafting and

agreeing the wording and documentation. Formal signing now projected for end Feb 2015.

Original Action Date 25 Oct 13 **Revised Action Date** 28 Feb 15

Community Safety Partnership

Control Issue – The Terms of Reference for the key Boards, Groups and Committees were not reviewed and updated on a regular basis, and did not always reflect current membership of the group.

Risk Rating – Low Risk

Status Update – Strategic Group ToRs had been updated and approved. Other ToRs that required updating were VAL, ASB Tasking, Pub Watch and DAAG - no progress on these.

Original Action Date 31 Dec 14 **Revised Action Date** 15 Mar 15

Housing & Environmental Services

Tenants Arrears

Control Issue – The Council did not have a formal rent arrears policy.

Risk Rating – Low Risk

Status Update – The review has now been delayed till after the appointment of the new Housing Operations Manager who will then take on the responsibility to undertake this review in February/March 15.

Original Action Date 31 Dec 14 **Revised Action Date** 30 Apr 15

Control Issue – The number of accounts with arrears had not been evenly allocated between the Housing Officers to ensure effective recovery.

Risk Rating – Moderate Risk

Status Update – The review has now been delayed till after the appointment of the new Housing Operations Manager who will then take on the responsibility to undertake this review in February/March 15.

Original Action Date 31 Oct 14 **Revised Action Date** 30 Apr 15

South Derbyshire District Council – Internal Audit Progress Report

Housing Repairs 2014-15

Control Issue – The inspectors were struggling to keep up with the workload due to technological issues and an increasing caseload.

Risk Rating – **Low Risk**

Status Update – New server built by IT - handhelds delivered but not yet implemented.

Original Action Date 30 Sep 14 **Revised Action Date** 15 Jan 15

Vehicles, Plant & Equipment

Control Issue – There was not a formally approved replacement policy in place that set the criteria for assessing the replacement of vehicles, plant and equipment to ensure the chosen option achieved optimum value for money.

Risk Rating – **Low Risk**

Status Update – No vehicles to be purchased between now and the end of the financial year, the policy will be in place for 1 Apr 2015

Original Action Date 31 Dec 14 **Revised Action Date** 1 Apr 15

Control Issue – There was not an adequate information management system in place that provided up-to-date and accurate vehicle, plant and equipment data. The management information system in use was essentially the inventory record that audit testing revealed had not been appropriately updated.

Risk Rating – **Moderate Risk**

Status Update – The spreadsheet has been significantly improved but the view is to acquire a tracking system with fleet management functionality, revised target date to end of March 2015.

Original Action Date 30 Nov 14 **Revised Action Date** 31 Mar 15

Control Issue – There was not a formal record maintained that logged when and to who the vehicle keys were issued and returned.

Risk Rating – **Low Risk**

Status Update – An allocations board has been ordered to record all daily allocation of vehicles against an individual and all keys will be returned at the end of shift to the supervisor. Except where vehicles are in the workshop for repair.

Original Action Date 31 Dec 14 **Revised Action Date** 16 Feb 15

Service Contracts

Control Issue – Contract Procedure Rules did not reflect the intended control procedures (i.e. pre-qualification questionnaire) for all expenditure with suppliers over £25K.

Risk Rating – **Low Risk**

Status Update – The Contract procedure rules are being drafted to reflect the EU Procurement Directives (which are still to be enacted in the UK). It will not be possible to finalise the Strategy until the UK Government enacts the EU Directives and the details can be confirmed. - Anticipated March 2015.

Original Action Date 30 Nov 14 **Revised Action Date** 31 Mar 15

Improvement Grants

Control Issue – There was no requirement within the office procedures for officers to declare any interests in respect of processing Empty Property Grants.

Risk Rating – **Low Risk**

Status Update – Since the review no further Empty Property Grants have been issued and there are none currently pending. We are currently reviewing the procedure and anticipate issuing a new procedure by the end of February 2015.

Original Action Date 31 Jan 15 **Revised Action Date** 28 Feb 15

South Derbyshire District Council – Internal Audit Progress Report

Control Issue – Checks were not being undertaken to confirm if the applicant had been in receipt of a previous grant award.

Risk Rating – Low Risk

Status Update – Since the review no further Empty Property Grants have been issued and there are none currently pending. We are currently reviewing the procedure and anticipate issuing a new procedure by the end of February 2015.

Original Action Date 31 Jan 15 **Revised Action Date** 28 Feb 15

Control Issue – There was no formal/ approved protocol to inform officers wishing to make a decision outside of grant conditions for Empty Property grants.

Risk Rating – Low Risk

Status Update – We discussed this item following issue of the draft report and it was confirmed that a Protocol was in place. However, the procedure will be amended to reflect the comment regarding 'such decisions should be documented and approved by the Strategic Housing Manager'.

Original Action Date 31 Jan 15 **Revised Action Date** 28 Feb 15

Control Issue – Information provided to the applicant within a grant approval letter did not correspond with the requirements of the Empty Property Grants office procedures.

Risk Rating – Low Risk

Status Update – Since the review no further Empty Property Grants have been issued and there are none currently pending. We are currently reviewing the procedure and anticipate issuing a new procedure by the end of February 2015.

Original Action Date 31 Jan 15 **Revised Action Date** 28 Feb 15

Control Issue – Delays to works had not been approved by the Strategic Housing Manager and retained on the grant file.

Risk Rating – Low Risk

Status Update – No Response.

Original Action Date 31 Jan 15 **Revised Action Date** ?

Control Issue – There was no evidence on file that building regulation implications had been considered as part of the grant process, as per the Empty Property Grant office procedures.

Risk Rating – Low Risk

Status Update – Since the review no further Empty Property Grants have been issued and there are none currently pending. We are currently reviewing the procedure and anticipate issuing a new procedure by the end of February 2015.

Original Action Date 31 Jan 15 **Revised Action Date** 28 Feb 15

Control Issue – With respect to Empty Property Grants, the Land Charges Section was not being notified to record a charge against the property in a timely manner.

Risk Rating – Low Risk

Status Update – Since the review no further Empty Property Grants have been issued and there are none currently pending. We are currently reviewing the procedure and anticipate issuing a new procedure by the end of February 2015.

Original Action Date 31 Jan 15 **Revised Action Date** 28 Feb 15
