



F. McArdle
Chief Executive

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Date: 24 September 2015

Dear Councillor,

Audit-Sub Committee

A Meeting of the **Audit-Sub Committee** will be held in the **Council Chamber**, on **Wednesday, 30 September 2015 at 16:00**. You are requested to attend.

Yours faithfully,

Chief Executive

To:- **Conservative Group**
Councillor Grant (Chairman), Councillor Ford (Vice-Chairman) and Councillor Stanton.

Labour Group
Councillors Dunn and Shepherd.



AGENDA

Open to Public and Press

- 1** Apologies
- 2** To note any declarations of interest arising from any items on the Agenda
- 3** To receive any questions by members of the public pursuant to Council Procedure Rule No.10.
- 4** To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 5** THE AUDIT FINDINGS FOR SOUTH DERBYSHIRE DISTRICT COUNCIL **3 - 45**
- 6** INTERNAL AUDIT PROGRESS REPORT **46 - 69**

Exclusion of the Public and Press:

- 7** 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.
- 8** To receive any Exempt questions by Members of the Council pursuant to Council procedure Rule No. 11.

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 5
DATE OF MEETING:	30th SEPTEMBER 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/accounts/final accounts 1415/audit opinion/audit findings cover sept 15
SUBJECT:	THE AUDIT FINDINGS FOR SOUTH DERBYSHIRE DISTRICT COUNCIL	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 05

1.0 Recommendations

- 1.1 That the report of the External Auditor is considered and approved.
- 1.2 That the Action Plan in Appendix A to the report is approved.

2.0 Purpose of Report

- 2.1 For Grant Thornton as the Council's appointed auditors, to present their statutory annual report on the Council's accounts and financial statements for 2014/15. This satisfies their obligation to report their findings to management and those charged with governance under International Auditing Standard (ISA) 260.

3.0 Detail

- 3.1 Grant Thornton's Report is attached. Audit Managers of Grant Thornton will attend the meeting and present the report to the Committee.
- 3.2 In summary, the report provides details on, together with any issues arising from, the Audit of the Council's annual accounts, financial statements and its internal control framework for 2014/15.
- 3.3 Consequently, the report provides an opinion on those accounts. Following consideration at this Committee, the accounts and financial statements themselves will be presented to the Finance and Management Committee on 24th September 2015 for formal adoption and publication.

Value for Money Assessment

- 3.4 In addition, the report assesses overall value for money arrangements at the Council. Consequently, the Auditors also provide an opinion on whether, overall, the Council provides value for money on a pure “yes or no” basis. This takes into account the Council’s performance on securing efficiency savings and its resilience to financial pressures.

Letter of Representation

- 3.5 At the end of the Audit, the Council is required to provide a Letter of Representation. This is also attached. It requires the Council’s Chief Finance (Section 151) Officer to provide assurances about the status of the accounts and financial statements.
- 3.6 It also confirms that the appropriate law, regulations and codes of practice have been complied with and that no irregularities exist that could have a material effect on the financial statements.
- 3.7 Essentially, it confirms that there are no material issues or transactions known, other than those already reported and disclosed that could materially affect the accounts for 2014/15.
- 3.8 Following this and subject to any issues raised, the Director of Finance will officially sign the letter to finalise this particular part of Audit work for the year.

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

None

The Audit Findings for South Derbyshire District Council

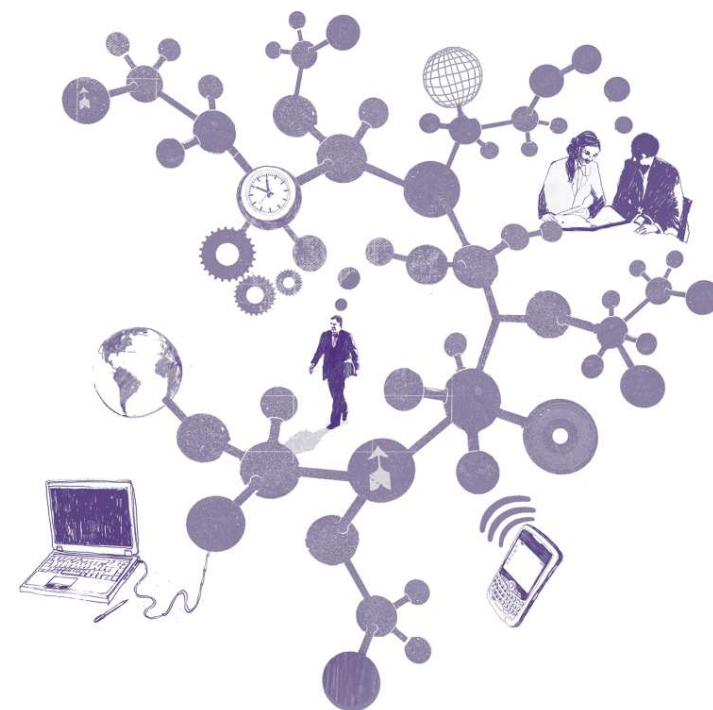
Year ended 31 March 2015

September 2015

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South Derbyshire District Council
Civic Offices
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11 September 2015

Dear Mr McArdle

Audit Findings for South Derbyshire District Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of South Derbyshire District Council, the Audit - Sub Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents will be discussed with the Audit - Sub Committee.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Phil Jones

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- A Action plan
- B Audit opinion

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of South Derbyshire District Council's (the Council) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 6 March 2015.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- We have not identified any adjustments affecting the Council's reported surplus on provision of services of £6,414k.
- We identified a number of misclassification and disclosure changes during the course of the audit. Management have adjusted the financial statements for these changes.
- The supporting working papers presented for audit were of a higher standard than last year.
- We have also identified a number of adjustments to improve the presentation of the financial statements.

Further details are set out in section two of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

We however set out our concerns in this section relating to the 'efficiency dividend.' The detail relating to this matter is described in the section headed, Significant matters discussed with management. The Council took a decision which in our view did not demonstrate a robust consideration of the wider cost-benefits to the community it serves, particularly in light of the pressures which will impact on the Council's long-term financial sustainability.

Further detail of our work on Value for Money is set out in section three of this report.

Whole of Government Accounts (WGA)

We have completed our work on the Whole of Government Accounts and have no issues which we wish to highlight for your attention.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance and Corporate Services.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance and Corporate Services and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit – Sub Committee on 1 April 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 1 April 2015.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at South Derbyshire District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including South Derbyshire District Council, mean that all forms of fraud are seen as unacceptable. <p>As part of our work we have completed;</p> <ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses (completeness)</p>	<p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • performed detailed substantive testing of the expenditure balances included in the financial statements • carried out specific work around the completeness of balances 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Employee remuneration (completeness)</p>	<p>Employee remuneration accrual understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • performed detailed substantive testing of employee remuneration balances included in the financial statements • carried out specific work around the completeness of balances 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Welfare expenditure (valuation gross)</p>	<p>Welfare benefit expenditure improperly computed</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • reviewed the benefits system reconciliation to ensure that information from the benefits system can be agreed to the ledger and financial statements • carried out procedures in accordance with the HBCount methodology required to certify the housing benefit subsidy claim 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Significant matters discussed with management


	Significant matter	Commentary
1.	<p>Payment of an Efficiency Dividend</p>	<p>The Council has distributed an 'efficiency dividend' of £250k to council tax payers in 2015/16, amounting to £6.20 per council tax payer. The Council set the 2015/16 budget at its meeting on 19 February 2015 but determined late in the process that a further report should be considered by the Council at the earliest opportunity in response to the current level of the General Fund Reserve (GFR). A further report was presented to Council on March 2nd which presented a number of options for utilising a proportion of the unallocated GFR. The options included for instance: supplementing current capital projects, investing in IT as well as providing an 'efficiency dividend' to council tax payers. The report of March 2nd by the Director of Finance & Corporate Services, set out the Council's projected medium-term financial position, which argued that if the Council made use of £250k of general reserves, it would still retain a reserve of £1.75m by 2020, on the assumption that around £2.5m of reserves would be required to support the budget in the years 2017/18-2019/20.</p> <p>Whilst the Council's level of general reserves is reasonably healthy compared to similar councils, it is important to note that the forward projections of the Council's medium-term financial position are necessarily based on current assumptions which could clearly change over time in response to changes in both the external economic environment and Governments' spending intentions.</p> <p>It is moreover unclear why these proposals were not built into all other budget discussions considered by the Council before 19 February, not least as the decision which the Council reached at its meeting on March 2nd resulted in additional costs to the Council of £46k, due to the need to amend software and other routines to enable council tax bills to be sent out, showing the discount per household, which amounted to £6.20 per council tax payer. We have discussed with management our concerns about the way in which this decision was reached, which we set out below:</p> <ul style="list-style-type: none"> • <i>Governance</i>: this was a last minute decision reached outside the normal budget setting process. Furthermore, it was not a priority for the Council or part of the Corporate Plan. The imminence of all-out local council elections in May 2015 should also have alerted the Council to the dangers that this action might be perceived as inconsistent with the spirit of good governance. • <i>Value for money</i>: this decision resulted in the Council incurring £46k in additional costs to provide a discount to each council tax payer of £6.20 each, a benefit which appears relatively small. The lack of proportionality between benefit and cost is underlined by the fact that the few councils we are aware of who have done something similar achieved a better cost-benefit balance. In addition the rationale for such a decision was better justified; for instance one council dispensed an efficiency dividend in response to a one-off unplanned windfall. • <i>Affordability</i>: whilst General Reserves are reasonably healthy the Council also needs to be prudent in retaining sufficient financial resources to meet its medium term requirements, given that there are considerable long-term uncertainties about Government funding levels and economic conditions. <p style="text-align: center;">Page 16 of 69</p>

Significant matters discussed with management continued

	Significant matter	Commentary
		<ul style="list-style-type: none"> • <i>Legality</i> – the Council has relied upon the general power of competence under Section 1 ('Section 1') of the Localism Act 2011 to provide the vires for the decision. Other councils who have undertaken similar initiatives have also relied upon this power and have secured legal opinions which are supportive of the use of the power. The Council relied upon the legal advice of its solicitor, and also taking account of the legal advice produced elsewhere in relation to similar decisions. • Should the Council contemplate repeating this initiative at any future stage, we would recommend that it should consider any such decision in light of all of the factors outlined above (governance, value for money, affordability), but in particular we would recommend that a contemporaneous legal opinion be sought as to its potential lawfulness, focusing on the particular decision and circumstances in play relevant at that time. <p>Management response</p> <ul style="list-style-type: none"> • Noted

Accounting policies, estimates & judgements




In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<ul style="list-style-type: none"> Revenue from the sales of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or services potential associated with the transaction will flow to the Council Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurances that the Council will comply with the conditions attached to the payments, and grants or contributions will be received. 	<p>The accounting policy is appropriate and has been adequately disclosed.</p>	<p style="text-align: center;">  (green) </p>

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient
- Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Estimates and judgements	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – useful life of capital equipment – pension fund valuations and settlements – revaluations – impairments – provisions 	There was appropriate disclosure of key estimates and judgements.	 (green)
Going concern	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Directors' assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.	 (green)
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 (green)

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, Estimates & Judgements– review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<p>Estimates and judgements - Property, Plant & Equipment</p> <p>In previous years the Council carried out a rolling programme of revaluations. This approach was similar to many other authorities and we were satisfied that you had satisfied yourselves that the carrying amount of Property, Plant and Equipment (based on these valuations) did not differ materially from the fair value at 31 March 2014.</p> <p>However, in our view this rolling programme did not meet the Code's requirement to value items within a class of property , plant and equipment simultaneously, as this Code requirement, which is based on IAS 16 Property, Plant and Equipment, only permits a class of assets to be revalued on a rolling basis provided that:</p> <ul style="list-style-type: none"> • the revaluation of the class of assets is completed within a 'short period' • the revaluations are kept up to date. <p>In our view, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p>	<p>Page 59 of the accounts sets out the authority's valuation of property, plant and equipment. This shows that the Council revalued substantially all assets except for vehicles, plant and equipment as at 31 March 2015. Appropriate action has been taken to address the issue.</p>

Assessment
 ✓ Action completed
 X Not yet addressed

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit - Sub Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> As noted above, the Council has relied upon the general power of competence under Section 1 of the Localism Act 2011 for the payment of the Efficiency Dividend.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council. In particular, representations will be requested from management in respect for not amending the financial statements for the items identified on page 21.
4.	Disclosures	<ul style="list-style-type: none"> Our review found a number of errors and omissions in the disclosure notes (see misclassifications and disclosure changes below).
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmation from PWLB for loans. We requested from management permission to send confirmation requests to four banks and four local authorities for bank and short term investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses and Welfare Expenditure as set out on pages 10 and 11 above.

The controls were found to be operating effectively and we have no matters to report to the Audit – Sub Committee. We have not repeated the weaknesses identified from our systems work and reported in our Audit Plan.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<ul style="list-style-type: none"> The Council should review its quality assurance arrangements for producing the financial statements. 	<ul style="list-style-type: none"> Quality assurance arrangements have been put in place for 2014/15. The supporting working papers presented for audit were of a higher standard than last year.

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management.

All of the adjustments were either misclassifications or disclosure changes and these have been processed by management.

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit - Sub Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1 Vehicles, plant and equipment – the cost and depreciation charge at 1 April 2014 are £1,216k higher than the fixed asset register.			The net book value is correctly stated
Overall impact	£0	£0	

Impact of uncorrected misstatements in the prior year

There are no uncorrected misstatements in the prior year. All adjustments identified during the audit were made within the final set of financial statements.

Extrapolated misstatements

Our testing of operating expenses identified one payment of £8,765 that had been incorrectly posted to 2014/15. This related to the financial year 2015/16. We carried out additional testing and extrapolated the error to ensure that operating expenses was not materially misstated. The extrapolated error of £69,481 was not material and we have not asked management to amend the accounts for this misstatement.

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	213	Receivables	Debtor amounts with Derbyshire County Council have been reclassified from other entities and individuals to other Local Authorities.
2 Misclassification	61	Receivables	Debtor amounts relating to a schools contribution towards a leisure centre have been reclassified from other Local Authorities to other entities and individuals.
3 Disclosure	1,200	Financial Instruments	The disclosure note incorrectly included creditors with central government bodies.
4 Disclosure	252	Financial Instruments	The disclosure note incorrectly included debtors with central government bodies.
5 Disclosure	2,500	Financial Instruments	The disclosure note incorrectly excluded accruals.
6 Disclosure	1,836	Financial Instruments	The disclosure note incorrectly included assets held for sale.
7 Disclosure		Collection Fund	The Business Rates precepts was understated by £100k , income was understated by £86k, and surplus overstated by £14k.

Misclassifications & disclosure changes continued

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
8	Disclosure		Financial Instruments	The financial instrument disclosure notes were enhanced to include: <ul style="list-style-type: none"> • Fair value disclosures • Maturity analysis of financial liabilities • Interest income, expenses, gains and losses.
9	Disclosure	48	Capital Expenditure and Capital Financing	The disclosure note was amended to be consistent with the Property, Plant and Equipment disclosure note.
10	Disclosure		Property, plant and equipment	The disclosure note was amended to correctly disclosure revaluations, impairments, and depreciation written out as required by the Code.
11	Disclosure		Capital Adjustment Account	The disclosure note was enhanced to include details of the movements during the year as required by the Code.
12	Disclosure		Revaluation Reserve	The disclosure note was enhanced to include details of the movements during the year as required by the Code.
13	Disclosure		Earmarked Reserves	The disclosure note was enhanced to include details of the movements during the year as required by the Code.
14	Disclosure		Movement in Reserves Statement	Amendments were made to correctly disclose the transfers to/from Earmarked Reserves
15	Disclosure		Capital accounting	There were a number of inconsistencies between the Capital Adjustment Account, Capital Expenditure and Capital Financing, and Adjustments between Accounting Basis and Funding Basis under Regulations. The largest adjustment was £1.2m relating to revenue expenditure funded from capital under statute. The disclosure notes were also enhanced to include additional adjustments as required by the Code.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted that the Council has adequate arrangements for securing financial resilience. The Council has a good track record in managing its budget. The Medium Term Financial Plan shows a projected budget surplus for 2015/16 and 2016/17. A deficit is then forecast from 2017/18 of £526k increasing to £1.1m by 2019/20. The General Reserve is healthy but is expected to reduce from £5m in 2015/16 to £2.1m by 2019/20. The Council faces a financial challenge to identify savings in order to keep the financial position sustainable over the medium term.

We however set out here our concerns in this section relating to the 'efficiency dividend.' The detail relating to this matter is described in the section headed, Significant matters discussed with management. The Council took a decision which in our view did not demonstrate a robust consideration of the wider cost-benefits to the community it serves, particularly in light of the pressures which will impact on the Council's long-term financial sustainability.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the Council has sound arrangements in place for challenging economy, efficiency and effectiveness. Our work highlighted that the Council's approach to delivering corporate and directorate cost savings continues to be robust.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	The Council has a good track record in managing its budget and its level of reserves are healthy. The Council monitors its financial performance on a regular basis. There are some workforce issues to address including implementing job evaluation. The Council is relatively late in the process of implementing job evaluation and has only recently appointed a consultant to assist with the exercise. The Council does not have a Financial Services Manager and has had to use temporary staff over recent months.	Amber
Strategic financial planning	The Medium Term Financial Plan shows a projected budget surplus for 2015/16 and 2016/17. A deficit is then forecast from 2017/18 of £526k increasing to £1.1m by 2019/20. The General Reserve is healthy but is expected to reduce from £5m in 2015/16 to £2.1m by 2019/20. There are a number of uncertainties including the level of future funding for the Council and further cost pressures including the cost of implementing job evaluation.	Amber
Financial governance	As noted above in significant matters discussed with management, the Council has given an 'efficiency dividend' of £250k. This was a last minute decision and not carried out as part of the normal budget setting process. The Council incurred £250k plus £46k in costs to give Council Tax payers a credit of only £6.20 each. Whilst the general reserves are healthy the Council should be cautious until the funding position for local authorities is more certain and to maintain the flexibility to meet additional spending pressures.	Amber
Financial control	The Council has effective financial control in place. This includes its budget planning, the monitoring of its financial position and its financial forecasting. During the year there was a lack of capacity in the finance team. This is primarily because the Council has not yet replaced the Financial Services Manager.	Green
Prioritising resources	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.	Green
Improving efficiency & productivity	The Council's approach to delivering corporate and directorate cost savings continues to be robust. It continues to explore innovative ways of delivering services through working in partnership with groups such as Northgate Public Service. There remains uncertainty around some of the key assumptions in the Medium Term Financial Plan and the Council faces a financial challenge to identify savings in order to keep the financial position sustainable over the medium term.	Amber

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission, and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
Workforce	<p>The Council is relatively late in the process of implementing job evaluation and there are uncertainties around the cost of implementation. The job evaluation exercise should be completed as soon as possible so that the Council can assess the potential additional costs.</p> <p>The Council does not have a Financial Services Manager and is relying on the support from temporary staff. The lack of capacity in the finance department increases the risks to the Council. It should ensure that appropriate arrangements are in place to recruit the necessary resources to improve the capacity of the finance team.</p>	Amber
Strategic Financial Planning	<p>A deficit is forecast from 2017/18 of £526k increasing to £1.1m by 2019/20. The General Reserve is healthy but is expected to reduce from £5m in 2015/16 to £2.1m by 2019/20. There are a number of uncertainties including the level of future funding for the Council, increased demand for services and further cost pressures. The Council should continue to regularly monitor and update the Medium Term Financial Plan.</p>	Amber
Financial Governance	<p>The Council made a decision to give an 'Efficiency Dividend' of £250k and incurred costs of £46k. This has raised a number of questions. The Council took a decision which in our view did not demonstrate a robust consideration of the wider cost - benefits to the community it serves. It should give greater consideration of these issues before making similar decisions in the future.</p>	Amber
Improving Efficiency and Productivity	<p>There remains uncertainty around some of the key assumptions in the Medium Term Financial Plan and the Council faces a financial challenge to identify savings in order to keep the financial position sustainable over the medium term. The Council should continue to monitor the key assumptions in the Medium Term Financial Plan.</p>	Amber

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Fees, non-audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	65,700	65,700
Grant certification on behalf of Audit Commission	24,440	24,440
Total audit fees	90,140	90,140

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Fees for other services

Service	Fees £
Audit related services	Nil
Non audit related services	
Benchmarking in connection with the existing service contracts	10,000

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The job evaluation exercise should be completed as soon as possible so that the Council can assess the potential additional costs.	High	This has now commenced and is due to be completed by April 2016.	
2	The Council should ensure that appropriate arrangements are in place to recruit the necessary resources to improve the capacity of the finance team.	Medium	A restructure of the Financial Services Unit was approved by the Finance and Management Committee on 3rd September 2015. Recruitment to 2 vacant posts, including the Financial Services Manager, has now commenced	
3	The Council should continue to regularly monitor and update the Medium Term Financial Plan. In particular, it should continue to monitor the key assumptions in the Plan.	High	This will be completed in accordance with usual practice. A full review of the MTFP will continue to be completed following the annual out-turn and as part of the annual budgets setting process. General updates will be provided in quarterly monitoring reports.	
4	The Council should give more robust consideration to the wider cost-benefits to the community it serves, before making similar decisions to the efficiency dividend in the future.	High	Noted	

Priority
High, Medium or Low

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH DERBYSHIRE DISTRICT COUNCIL

We have audited the financial statements of South Derbyshire District Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of South Derbyshire District Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and Corporate Services and auditor

As explained more fully in the Statement of the Director of Finance and Corporate Services Responsibilities, the Director of Finance and Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of South Derbyshire District Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We are required to report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, South Derbyshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the financial statements of South Derbyshire District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Phil Jones
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

Date



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Our Ref: u/ks/accounts/annual accounts1415/audit opinion/letter of representation 201415

Date: 23rd September 2015

Dear Sirs

South Derbyshire District Council
Financial Statements for the year ended 31 March 2015

This representation letter is provided in connection with the audit of the financial statements of South Derbyshire District Council for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ("the Code"); which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii Except as disclosed in the financial statements:
 - a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the Council has been assigned, pledged or mortgaged
 - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report.

- xii *We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for the one misstatement brought to our attention for the reasons noted on the schedule and at the end of this Letter, as the overall impact on the Council's Balance Sheet is zero.*

The financial statements are free of material misstatements, including omissions.

- xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv We have provided you with:
 - a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b additional information that you have requested from us for the purpose of your audit; and
 - c unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvi We have communicated to you all deficiencies in internal control of which management are aware.
- xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
 - a management;
 - b employees who have significant roles in internal control; or
 - c others where the fraud could have a material effect on the financial statements.
- xx We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxiv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Approval

The approval of this letter of representation was minuted by the Council's Audit-Sub Committee at its meeting on 23 September 2015.

Yours faithfully

Name: Kevin Stackhouse

Position: Director of Finance and Corporate Services

Date: 23rd September 2015

Signed on behalf of the Council

Note: Unadjusted Misstatements

Vehicles, plant and equipment

The cost and depreciation charge at 1 April 2014 are £1,216k higher than the fixed asset register. However, the net book value is correctly stated.



REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 6
DATE OF MEETING:	30th SEPTEMBER 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 reports/quarterly report cover
SUBJECT:	INTERNAL AUDIT PROGRESS REPORT	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 02

1.0 Recommendations

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

2.0 Purpose of Report

- 2.1 To provide an update on progress against the approved Internal Audit Plan. This details the performance and activity of Internal Audit between 1st June and 31st August 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: 23rd September 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 August 2015.

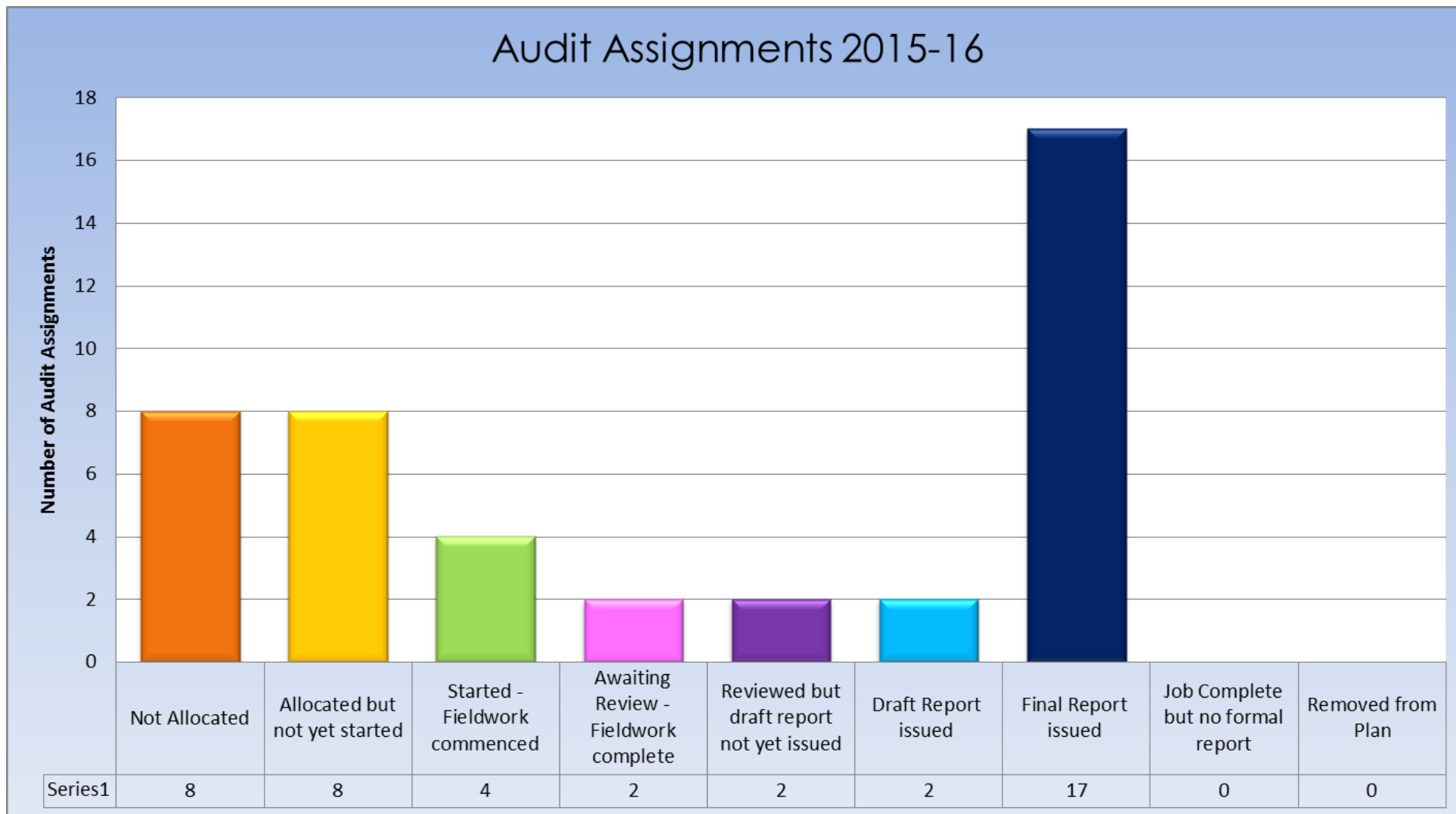
Audit Plan Assignments	Type of Audit	Current Status	% Complete
Main Accounting System (MTPF) 2015-16	Key Financial System	Allocated	5%
Treasury Management / Insurance 2015-16	Key Financial System	Allocated	0%
Payroll / Officers Expenses & Allowances 2015-16	Key Financial System	Allocated	0%
People Management	Systems/Risk Audit	Awaiting Review	80%
Change & Configuration Management	IT Audit	In Progress	65%
Corporate Governance	Governance Review	Allocated	5%
Declarations of Interest	Governance Review	Reviewed	90%
Data Quality & Performance Management 2015-16	Governance Review	In Progress	20%
Commercial Rents	Systems/Risk Audit	Final Report	100%
Land Sales	Systems/Risk Audit	Allocated	5%
Development Control	Systems/Risk Audit	In Progress	5%
Rosliston Forestry Centre	Systems/Risk Audit	Allocated	5%
Rechargeable Repairs	Systems/Risk Audit	Final Report	100%
Rent Accounting	Systems/Risk Audit	In Progress	45%
Income & Tenancy Management	Systems/Risk Audit	Allocated	10%
Sheltered Housing	Systems/Risk Audit	Draft Report	95%
Grounds Maintenance	Systems/Risk Audit	Draft Report	95%
Street Cleansing	Systems/Risk Audit	Awaiting Review	80%
Warden Controlled Services	Systems/Risk Audit	Allocated	5%
Insurance 2014-15	Key Financial System	Final Report	100%
Payroll / Officers Expenses & Allowances 2014-15	Key Financial System	Final Report	100%
Capacity Management	IT Audit	Final Report	100%
Electoral Services	Systems/Risk Audit	Final Report	100%
Planning & Building Control Fees	Systems/Risk Audit	Final Report	100%
Waste Management (Collection, Trade, Recycling)	Systems/Risk Audit	Final Report	100%
Data Protection & Freedom of Information	Governance Review	Final Report	100%
Cash Office Discrepancy	Investigation	Reviewed	90%

Another 8 planned assignments (not shown above) have yet to be allocated. Also, 8 assignments brought forward from the 2014-15 Audit Plan (not shown above) have been finalised and have already been reported to this Sub-Committee.

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 June 2015 and 31st August 2015, the following audit assignments have been finalised since the last Progress Report was presented to this Committee (the overall control assurance rating is shown in brackets):

- Commercial Rents (**Comprehensive**).
- Rechargeable Repairs (**Reasonable**).
- Insurance (**Comprehensive**).
- Officers Expenses & Allowances (**Reasonable**).
- Capacity Management (**Limited**).
- Elections (**Reasonable**).
- Planning & Building Control Fees (**Comprehensive**).
- Waste Management (**Comprehensive**).
- Data Protection & Freedom of Information (**Reasonable**).

The audit assignment relating to Capacity Management attracted a 'Limited' control assurance rating and as such is brought to the Sub-Committee's attention.

In recent months, the organisation has demonstrated a higher appetite for risk which has resulted in Management taking decisions not to take mitigating actions to address certain control weaknesses we have identified. Internal Audit acknowledges Management's responsibility to only take appropriate and proportionate actions to mitigate risks. Accordingly, we no longer intend to provide full details of any Low risk recommendations where management has decided not to take any mitigating actions. These will still be highlighted to this Committee in the assignment summaries provided in these Progress reports. However, we will continue to provide full details of any Moderate, Significant or Critical risk issues where management has decided not to take any mitigating actions.

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

Commercial Rents

Overall Control Assurance Rating: **Comprehensive**

This audit focused on the adequacy of the processes in place to ensure the commercial property database was complete, formal agreements are in place and the rental charges are collected completely and properly accounted for.

From the 24 key controls evaluated in this audit review, 18 were considered to provide adequate control and 6 contained weaknesses. The report contained 4 recommendations, which were all considered a low risk. The following issues were considered to be the key control weaknesses:

- Information management reports were not being routinely produced from the CIPFA Property Asset Manager database for the purposes of monitoring and analytical review. (**Low Risk – Risk Accepted**)
- Rental reviews were not being performed until the end of the lease agreement. Nor were they being properly documented and approved. We also found that not all lease agreements contained a specific clause on rent reviews. (**Low Risk**)
- A high proportion of commercial property leases had expired and were 'holding over' (31 of 73). Procedures did not readily identify and prioritise leases for renewal. (**Low Risk**)
- Two commercial properties, from a sample of 20 lease agreements, had not been listed on the Council's insurance portfolio document. Checks were not being undertaken to verify all commercial properties were appropriately covered. (**Low Risk**)

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All 4 of the control issues raised within this report were accepted and positive actions were agreed to address 3 of them by 30th September 2015. In respect of the remaining low risk issue, Management has decided not to take any mitigating action and has chosen to accept the risk.

Rechargeable Repairs

Overall Control Assurance Rating: **Reasonable**

This audit focused on the systems of internal control for recouping money from Council tenants for rechargeable repairs, to provide assurance that systems were operating effectively and providing an acceptable level of control, in order to satisfy the requirements of the Audit Sub-Committee and External Audit.

From the 31 key controls evaluated in this audit review, 22 were considered to provide adequate control and 9 contained weaknesses. The report contained 7 recommendations, all of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- The Repairs Policy and other Council policies and procedures within the Housing & Environmental Services directorate had not been reviewed and/or updated within an acceptable timeframe. (Low Risk)
- Suitable evidence was not being retained to support the invoice requests to recover the costs of rechargeable repairs. (Low Risk)
- Invoices were being raised for rechargeable repairs prior to the works being undertaken and signed-off, so any additional costs incurred while conducting the works were not included. (Low Risk)
- Although the Housing Administration Officer had been actively chasing information required to facilitate the invoicing of rechargeable repairs, records had not been maintained on the Orchard system to evidence the problems encountered and the actions taken. (Low Risk)

- An invoice for rechargeable repairs had been raised for an incorrect value, due to the 10% Administration fee not being added. (Low Risk)
- Management information concerning rechargeable repairs was not being reported within the Council to flag monies owing from tenants/previous tenants. (Low Risk)
- The Sundry Debtor Credit Control Policy had not been reviewed and/or updated since September 2009. (Low Risk)

The 7 control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Positive action in respect of 4 recommendations were due to be undertaken by 31st August 2015, another recommendation is due to be implemented by 30th September 2015, a further recommendation is due to be addressed by 30th November 2015 and the remaining recommendation is due to be implemented by 31st December 2015.

Insurance

Overall Control Assurance Rating: **Comprehensive**

This audit focused on the Council's insurance arrangements, the policies in place, the claims made and the premiums recharged.

From the 17 key controls evaluated in this audit review, 15 were considered to provide adequate control and 2 contained weaknesses. The report contained 3 recommendations, all of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- There were three examples of claims where the supporting information had not been retained or could not be located on the Finance network, although each had received settlement payments. (Low Risk)
- A Claims Update worksheet was being maintained by the Finance Officer, and a note was entered on the sheet where progress had been made on a claim. However, some of these updates had not been dated so it was not possible to clarify when these had taken place. (Low Risk)

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- The Council's main website did not provide any guidance or claim forms for use by members of the public. (Low Risk)

All 3 issues raised within this report were accepted. Positive action was agreed to address one of the issues raised by 1st June 2015, another by 1st July 2015 with action being taken to address the remaining issue by the end of October 2015.

Officers Expenses & Allowances

Overall Control Assurance Rating: **Reasonable**

This audit focused on ensuring that robust systems were in place regarding the payment of expenses and allowances claimed for reimbursement by officers at the Council.

From the 13 key controls evaluated in this audit review, 6 were considered to provide adequate control and 7 contained weaknesses. The report contained 7 recommendations, which were all considered a low risk. The following issues were considered to be the key control weaknesses:

- Although it required officers to certify that their vehicle was insured for business use, the Claim for Payment of Car Allowance forms did not provide for the officer to confirm that their vehicle met all the necessary requirements in respect of the MOT certificate, road tax and condition of vehicle. (Low Risk)
- Not all mileage claim forms had been submitted to the Council's Financial Services Section and not all expense claim forms submitted by officers for reimbursement were supported by a valid receipt to substantiate the expenditure incurred. (Low Risk)
- The Council's Expenses Policy and Guidance on Claiming Expenses did not accurately reflect current practices, especially in relation to payments for rail travel. (Low Risk)
- There was no screen prompt to remind employees to deduct home to office mileage. Reliance was instead placed on employees remembering to deduct the relevant amount and Line Managers remembering to ensure the mileage amounts being claimed were accurate. (Low Risk)

- Not all expense claim forms had been subject to an arithmetical check to ensure the amounts claimed were accurate. (Low Risk)
- Expense claims were identified which had not been claimed in accordance with Council policy. (Low Risk)
- Purchases made and received by an officer allocated a corporate Barclaycard had not been reviewed by a second officer or approved for payment. (Low Risk)

All 7 issues raised within this report were accepted. Action was agreed to be taken to address 4 of the issues raised by 30th September 2015 with action being taken to address a further 2 issues by 31st October 2015. The remaining issue was agreed to be addressed by 29th January 2016.

Capacity Management

Overall Control Assurance Rating: **Limited**

This audit focused on the Council's capacity management policies and procedures. Capacity management is an IT service management process, which aims to ensure that IT capacity meets current and future requirements of the Council, in a cost-effective manner. At an IT capacity management level, capacity management is further broken down into 2 sub-processes, including service capacity management, and component capacity management. This audit did not focus on the 3rd sub-process of capacity management, which is business capacity managed, as that extends beyond the scope of IT.

From the 19 key controls evaluated in this audit review, 1 was considered to provide adequate control and 18 contained weaknesses. The report contained 7 recommendations, 3 of which were considered a low risk and 4 were considered a moderate risk. The following issues were considered to be the key control weaknesses:

- There were no formally documented policies and procedures specific to capacity management. Lack of formal policies and procedures can ultimately lead to unnecessary purchasing of additional IT capacity, running out of IT capacity affecting service availability, and ineffective capacity acquisition cycles affecting the progress of IT projects and developments. (Moderate Risk)

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- The Council had not established capacity management plans for all critical IT services. Without establishing capacity plans for critical IT services, there is a risk that the Council could run out of capacity resources leading to service outages of critical IT services, or unacceptable performance, impacting service delivery. (Moderate Risk)
- There were a number of virtual and host servers with dangerous storage utilisation and memory utilisation statistics. Allowing production systems to exceed high risk capacity thresholds without following capacity plans can lead to performance, availability and reliability issues for business critical IT services. (Moderate Risk)
- The Council had not deployed capacity or performance monitoring tools and alerting procedures for network devices and IT service components, which could lead to serious capacity and performance related issues or trends being missed, leading to service outages or performance issues, impacting on Council service delivery. (Low Risk)
- No detailed capacity reports and reporting procedures had been defined or produced. Well defined and formatted capacity reports demonstrate the value the capacity team is having on service performance, availability and up time, and can allow the Council to identify risks and trends specific to the utilisation of capacity within the IT infrastructure. (Low Risk)
- The Council had not implemented a central CMIS (capacity management information system), for storing utilisation data, capacity data, capacity plans or capacity reports. Lack of a CMIS can impact on incident resolution times specific to capacity and performance incidents, ineffective process integration, and an inability able to make effective and accurate decisions and reports on capacity related issues. (Moderate Risk)
- Responsibility for the operational aspects of capacity management did not appear to have been formally assigned to dedicated roles or IT officers in other roles. Failure to assign responsibility for key capacity management operational roles

such as capacity service owner, capacity analyst, capacity data management and capacity planning, inevitably leads to ineffective and incomplete capacity management procedures. (Low Risk)

All 7 of the issues raised were accepted. Positive actions were agreed to address the 4 moderate risk issues by 27th February 2016, 26th March 2016, 30th October 2015 and 29th January 2016 respectively and 1 low risk issue by 27th February 2016, with the remaining 2 low risk issues by 26th November 2016.

Elections

Overall Control Assurance Rating: **Reasonable**

This audit focused on ensuring that payments to staff were in accordance with the duties allocated to them and paid at an approved rate of pay. The audit also sought to ensure that appropriate arrangements had been put in place for the expenditure incurred in respect of the May 2014 European Election.

From the 23 key controls evaluated in this audit review, 11 were considered to provide adequate control and 12 contained weaknesses. The report contained 12 recommendations, all of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- Not all staff had signed acceptance of appointment forms in respect of the duties that they had been reimbursed for. (Low Risk)
- Rates of pay for reimbursement to staff undertaking election duties had not been formally documented or agreed. (Low Risk)
- Not all staff awarded reimbursement of mileage incurred during the election day had completed and signed an official claim form. (Low Risk)
- The Acting Elections Officer/Deputy Local Returning Officer had administered and authorised payments to staff including her own payment. (Low Risk)
- Clerical fees paid to staff were not adequately documented and approved to justify the amounts paid. (Low Risk)

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- The Local Returning Officer had been paid their fee in full rather than in the staged payments stipulated by the Cabinet Office. (Low Risk)
- Not all the election duties undertaken by the close family and friends of the Local Returning Officer or their Deputy had been clearly documented. (Low Risk)
- A formal letter of appointment had not been prepared and approved to appoint the Deputy Local Returning Officer to their role. (Low Risk)
- Not all narratives on supplier invoices were sufficiently clear in order to determine that the cost had been incurred in respect of the European Election. (Low Risk)
- Documents to support election expenditure were being collated and stored by the Elections Office, the Accountancy Team and an officer external to the Council. This made the system for the collation of election information disjointed and prone to errors. (Low Risk)
- The Council had not opened a separate bank account in respect of election expenditure and monetary advances received. (Low Risk - Risk Accepted)
- Not all invoices relating to election expenditure had been checked for validity and numerical accuracy. (Low Risk)

All 12 issues raised within this report have been accepted. Positive action had already been taken to address 11 of the issues raised during the May 2015 election process. One recommendation was not implemented regarding the operation of a separate elections bank account. The Council has accepted the issue raised, but instead opted to control election transactions within the Council's financial system, but with separate cost codes.

Planning & Building Control Fees

Overall Control Assurance Rating: **Comprehensive**

This audit focused on ensuring that robust systems and procedures were in place in respect of the collection and banking of Planning application income and Building Control fees. The audit also sought to

ensure that refunds were processed for legitimate reasons and were approved for payment by an authorised officer.

From the 23 key controls evaluated in this audit review, 19 were considered to provide adequate control and 4 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 Council's website continued to display the planning application fees from November 2012 rather than the July 2014 amended fees. (Low Risk)
- Regular reconciliations between the Council's Financial Information system and the planning system were not being undertaken. (Low Risk - Risk Accepted)
- Income received via the planning portal was not readily identifiable within the Council's Financial Information system. (Low Risk)
- Invoices raised in respect of inspection fees, had not been raised in a timely manner as per the billing timeframe specified in the Council's Sundry Debtor Credit Control Policy. (Low Risk)
- Regular reconciliations between the Financial Information system and the building regulation system were being undertaken but were not formally documented and signed by the officers undertaking the reconciliation process (Low Risk)

All 5 issues raised within this report were accepted. Positive action had already been taken to address 1 issue raised with action being taken to address 2 further issues by the end of July 2015. One action has been rectified due to a change of staff so is no longer an issue. With the remaining low risk control issue the Council has accepted the issue raised, but has opted to accept the risk identified. This decision was taken on the basis that the section has limited resources to undertake a formal reconciliation process.

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Waste Management

Overall Control Assurance Rating: **Comprehensive**

This audit focused on the accuracy of information within the Council's recycling credits claims submitted to Derbyshire County Council, and sought to ensure adequate controls were in place in respect of the Council's stock of green bins. An exercise was also undertaken to attempt to obtain commercial waste information from the Council's local competitors.

From the 14 key controls evaluated in this audit review, 12 were considered to provide adequate control and 2 contained weaknesses. The report contained 2 recommendations, both of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- Whilst we were informed that the figures recorded in the recycling credits applications were subject to a check for accuracy by a second officer, there was no evidence to confirm that this check had been undertaken. (Low Risk)
- The results of bin stock checks, undertaken in December 2014 and January 2015, identified significant differences when compared with the weekly bin stock records. In addition, stock checks were not being signed off to evidence that the results had been reviewed, compared with the bin stock records and any differences investigated where necessary. (Low Risk)

Both issues raised within this report were accepted and positive action had already been taken to address both the issues raised.

Data Protection & Freedom of Information

Overall Control Assurance Rating: **Reasonable**

This audit focused on the Council's Freedom of Information (FOI) policies and procedures, and Data Protection Act (DPA) policies and procedures.

With regard to Data Protection, we focused upon Principle 5 of the DPA – retention; ensuring personal data processed for any purpose or

purposes was not being kept for longer than is necessary for that purpose or those purposes. We also focused on Principle 7 – security; ensuring appropriate technical and organisational measures had been taken against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data.

We could not provide any assurance that IT media (i.e. SATA/SAS hard drives, backup tapes, USB drives, servers, network appliances etc) was being disposed of in a secure manner and in line with the Council's media sanitisation standards, or whether management were reviewing compliance against data retention and security policies, as evidence requested in relation to these controls was not provided within audit testing deadlines.

From the 25 key controls evaluated in this audit review, 15 were considered to provide adequate control and 10 contained weaknesses. The report contained 8 recommendations, 6 of which were considered a low risk and 2 were considered a moderate risk. The following issues were considered to be the key control weaknesses:

- The Council had not documented an FOI policy. Failure to define a FOI policy may lead to information not being made available resulting in regulatory or reputational damage to the Council. (Moderate Risk)
- The Council's publication scheme was dated December 2011, and contained a number of broken hyperlinks. Failure to maintain the publication scheme can lead to non-compliance issues and reputational damage to the Council. (Low Risk)
- The Council had not assigned Information Asset Owners (IAO's) for all information assets stored on the Council's IT environment. Failure to define Information Asset Owners can lead to personal information being accessible by unauthorised users, leading to privacy violations and data security breaches. (Low Risk)
- The Council was not maintaining an information asset inventory. It is not practical to effectively protect personal and sensitive data if the Council does not have an inventory of all information assets. Failure to define an information asset inventory leads to

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poor data governance which could lead to sensitive data being accessible by unauthorised parties. (Low Risk)

- The Council's mobility assets (i.e. smartphones and tablets) were not all centrally managed by a mobile device management application. This can lead to unsecure devices being in operation processing personal and sensitive data, which could become vulnerable to unauthorised disclosure if lost or stolen. (Moderate Risk)
- The ActiveSync policy "SDDC ActiveSync Policy" was configured to allow smartphone devices that do not meet security requirements to synchronise with their corporate email account. This makes personal or sensitive information susceptible to unauthorised disclosure if the device was lost or stolen. (Low Risk)
- There were no formal review and verification procedures in operation for ensuring that access to directories on the Council's file servers was restricted to authorised users only. This can lead to inappropriate access provision to personal or sensitive data leading to privacy violations. (Low Risk)
- There were a number of Laptops in operation without full disc encryption, and there was no central monitoring application in operation to provide assurance that all Laptop devices had full disc encryption. This makes any personal or sensitive data stored locally on the Laptop's drive highly prone to unauthorised access if the device was lost or stolen. (Low Risk)
- There were no technical controls that prevented writing of data out to unencrypted removable storage devices such as USB drives. Failure to enforce such technical controls makes any data written to unencrypted removable media highly prone to unauthorised access if lost or stolen, making the Council susceptible to data protection penalties. (Moderate Risk)

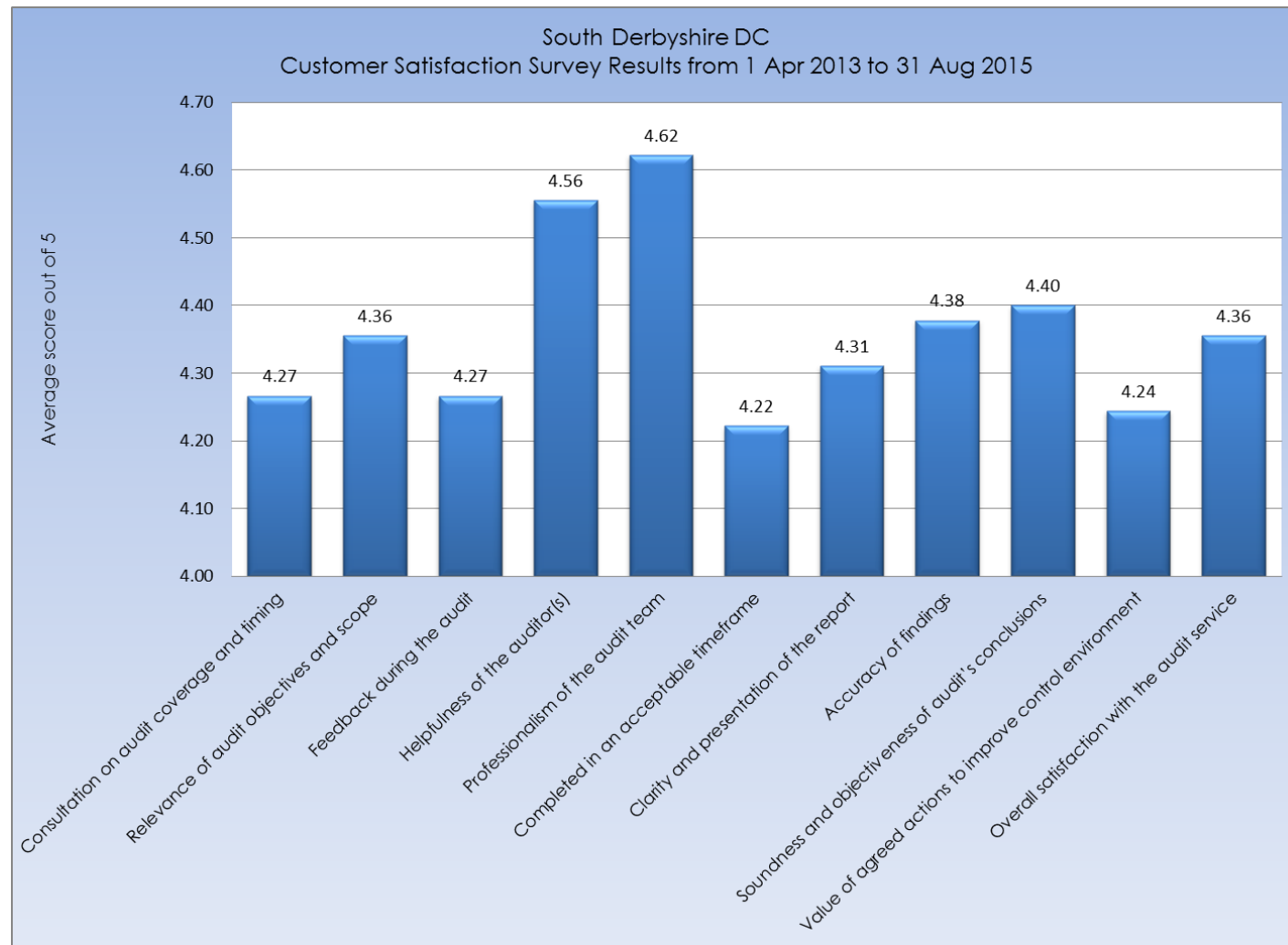
All 8 of the issues raised were accepted. Positive actions were agreed to address the 2 moderate risk issues by 29th October 2016 and 29th January 2016 respectively. The 6 low risk issues were agreed to be addressed between December 2015 and October 2016.

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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 45 responses received between 1st April 2013 and 31st August 2015. The overall average score from the surveys was 48.0 out of 55. The lowest score received from a survey was 40, whilst the highest was 55 which was achieved on 3 occasions.



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Audit Performance

Customer Satisfaction

Since 1st April 2013, we have sent 68 Customer Satisfaction Surveys (CSS) to the recipients of audit services. Of the 68 sent we have received 45 responses.

Sixteen 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.

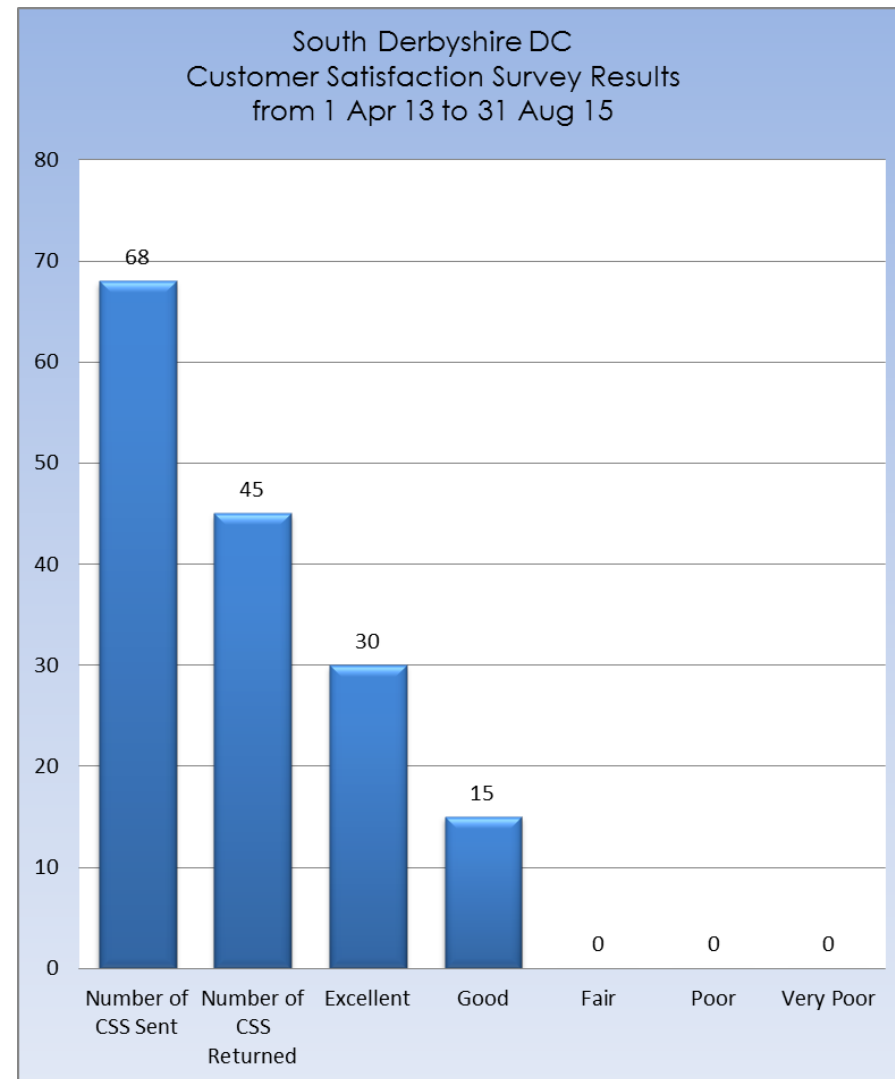
The following Customer Satisfaction Surveys have yet to be returned:

Job Name	CSS Sent	Officer
Insurance 2014-15	03-Jun-15	Director of Finance & Corporate Services
Electoral Services	03-Jun-15	Chief Executive
Planning & Building Control Fees	07-Jul-15	Planning Services Manager
Commercial Rents	24-Jul-15	Corporate Asset Manager
Rechargeable Repairs	27-Jul-15	Housing Asset Manager
Data Protection & Freedom of Information	20-Aug-15	Director of Finance & Corporate Services
Capacity Management	20-Aug-15	Director of Finance & Corporate Services

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 30 of 45 responses categorised the audit service they received as excellent, another 15 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.



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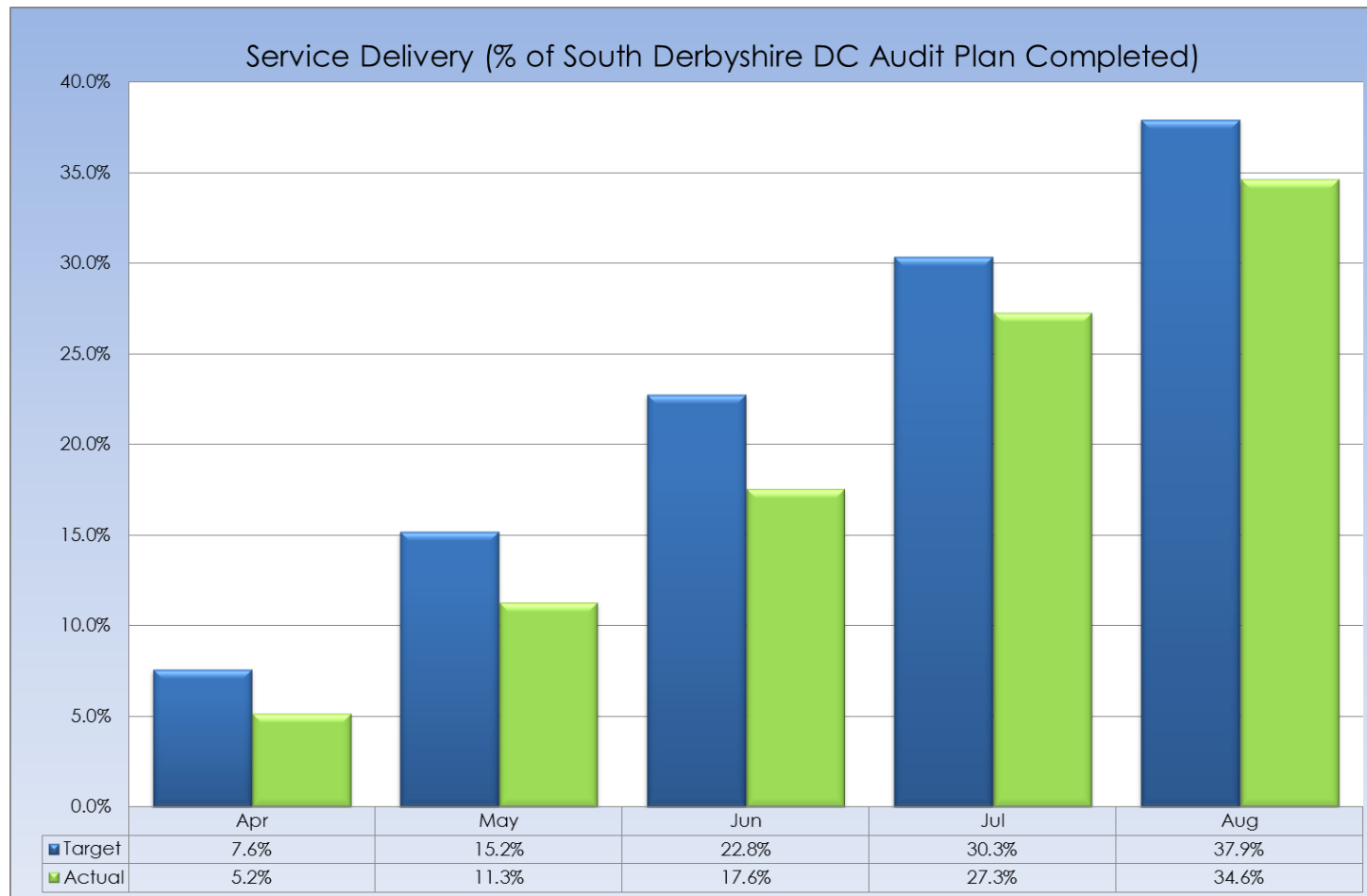
Audit Performance

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 2015-16 Audit Plan (including incomplete jobs brought forward) after 5 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.



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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	306	25	8	6	2	44	391
Moderate Risk	73	4	1	4	0	10	92
Significant Risk	7	0	0	0	0	0	7
Critical Risk	0	0	0	0	0	0	0
	386	29	9	10	2	54	490

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

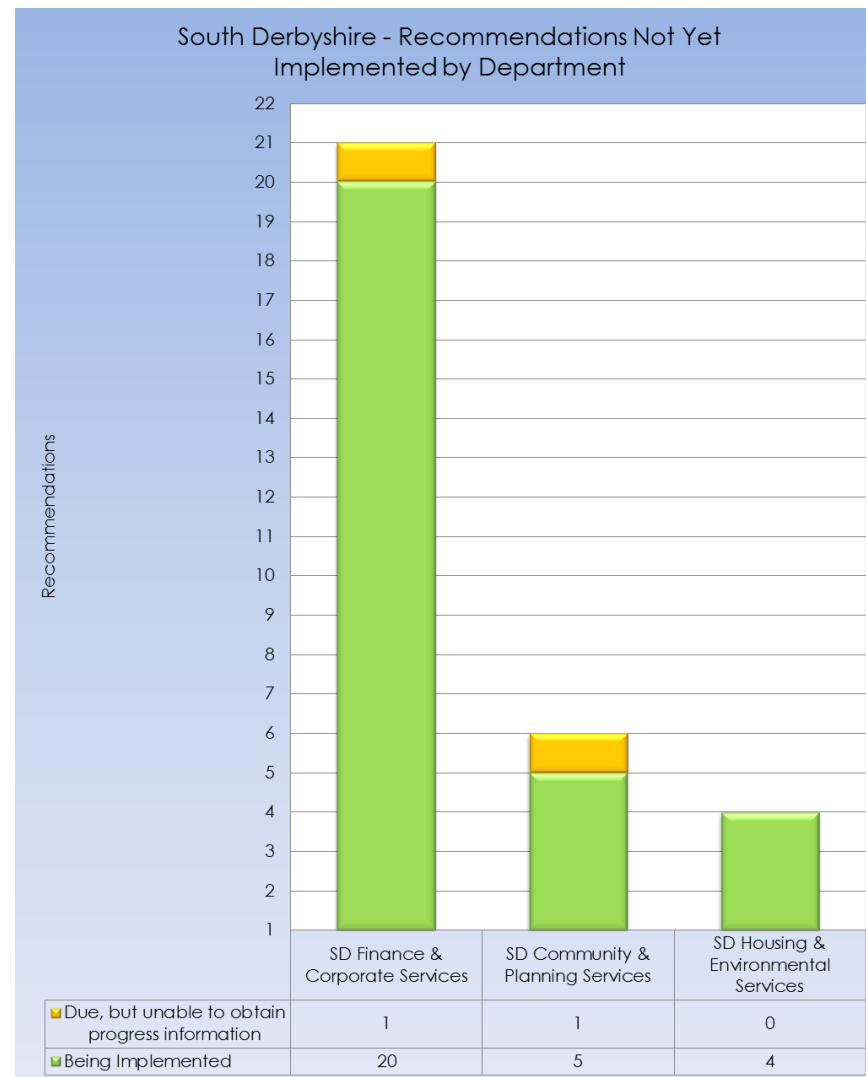
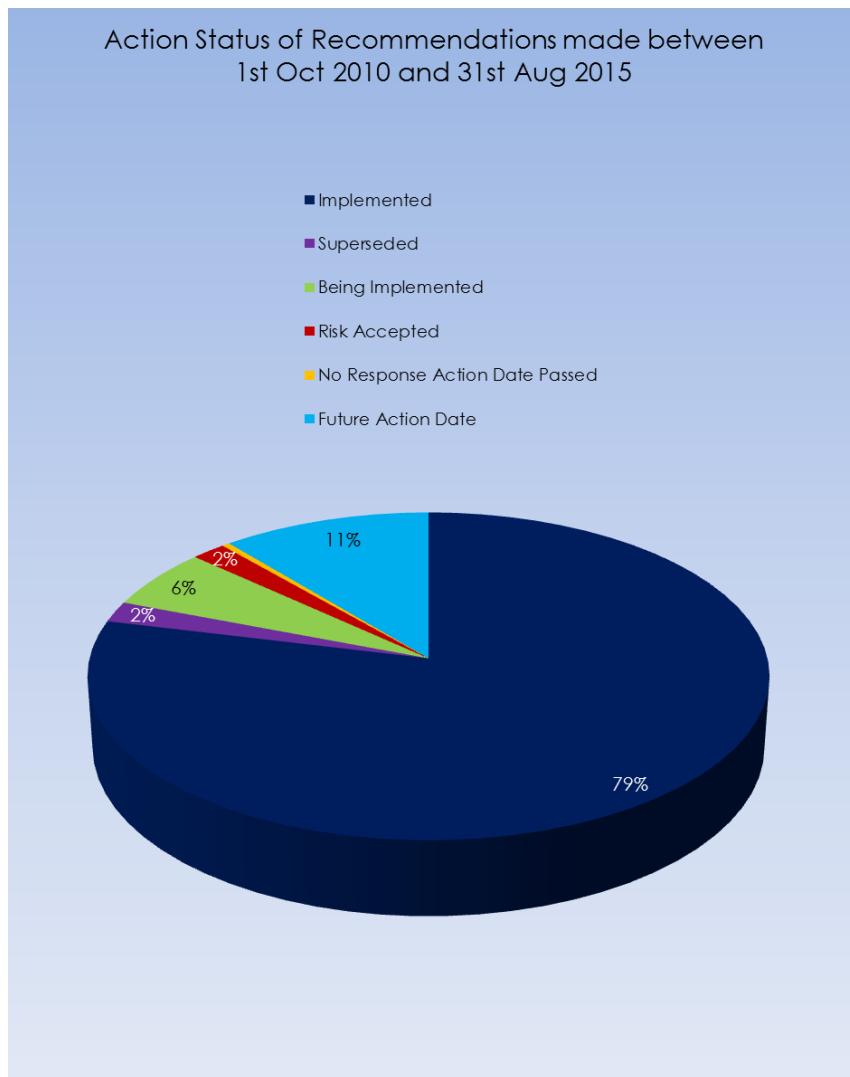
Recommendations Not Yet Implemented	Corporate Services	Community & Planning Services	Housing & Environmental Services	TOTALS
Being Implemented	20	5	4	29
Due, but unable to obtain progress information	1	1	0	2
	21	6	4	31

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. As stated earlier in this report, we will now only provide full details of each moderate, significant or critical risk issue where management has decided not to take any mitigating actions (shown in the 'Risk Accepted' category above). The moderate and 4 of the low risk accepted issues shown above have already been reported to this Committee. Another 3 low risk accepted issues are included in summary earlier in this report. The remaining low risk accepted issue relates to the Creditors / Debtors 2014-15 audit assignment, where management had originally agreed to take action, but on reflection, management has now decided to accept the risks associated with the control weakness.

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Recommendation Tracking

Implementation Status Charts



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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 - This will be considered as part of the pay and grading review in 2015/16.

Original Action Date 30 Jun 11 **Revised Action Date** 1 Apr 16

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. However, this window was missed and the Monitoring Officer expects that this will be completed once the next committee cycle commences. Date to be confirmed.

Original Action Date 1 Feb 14 **Revised Action Date** 30 Sep 15

Data Quality & Performance Management 2014-15

Control Issue – There was no documented methodology for producing the Speed of Planning Applications performance figures.

Risk Rating – Low Risk

Status Update – Progress has been delayed due to holidays, this will have been completed by 30 Sep 2015.

Original Action Date 1 Jul 15 **Revised Action Date** 30 Sep 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** 31 Dec 15

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Council Tax / NNDR / Cashiering 2014-15

Control Issue – Unpaid Direct Debits were processed on the system using the same transaction code as indemnity guarantees, plus other returned items, leading to problems in reconciling to the general ledger.

Risk Rating – Low Risk

Status Update – Setting up another code in Academy is OK, but because AIM also has to be updated, IT will need to be involved.

Original Action Date 30 Jun 15 **Revised Action Date** 1 Nov 15

Housing & Council Tax Benefits 2014-15

Control Issue – The activities of the Fraud Investigation Unit were not given a high profile in reports to Members. Their activities were included in general financial matter reports.

Risk Rating – Low Risk

Status Update – Date moved on - ongoing reporting requirements issue being taken to committee in October - to await the outcome of the committee report as to how this is to be implemented. NB - when benefit fraud moves to DWP the situation will change.

Original Action Date 30 Jun 15 **Revised Action Date** 1 Nov 15

Partnership Governance

Control Issue – Key financial rules and procedures documents had not been issued to Aurora.

Risk Rating – Low Risk

Status Update – Will be on agenda for the next Executive Meeting but this won't be until towards year end.

Original Action Date 31 Mar 15 **Revised Action Date** 10 Jan 16

Civica Security Assessment

Control Issue – There was no formal process in operation for restricting user access to data based on a need-to-know basis. Civica users in different departments could access other department's personal and sensitive information without there always being a justified requirement.

Risk Rating – Low Risk

Status Update – No Response Received.

Original Action Date 31 Aug 15 **Revised Action Date**

CRM Security Assessment

Control Issue – The CRM databases were housed on a SQL Server 2005 SP2 system. Support for SQL Server 2005 SP2 ended in 2007. Unsupported database software is exposed to newly discovered security vulnerabilities or functionality bugs, which could be exploited to jeopardise the confidentiality, availability and integrity of the CRM user data.

Risk Rating – Low Risk

Status Update – These matters are being addressed through the replacement of a server and an upgrade to the CRM system which is due to be implemented by September 2015 to meet PSN requirements.

Original Action Date 30 Apr 15 **Revised Action Date** 30 Sep 15

Procurement - Transparency Code

Control Issue - The contractual information required by the Code was not being published for contracts and other legally enforceable agreements in line with the data publishing requirements.

Risk Rating – Low Risk

Status Update - The Head of Procurement has advised that this is taking longer than expected to implement. In process of completing a change control note for sign-off before the required changes can be implemented.

Original Action Date 01-Apr-15 **Revised Action Date** 1 Nov 15

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Control Issue - The Council were not publishing the required data for the contracts where invitations to tender had been invited in the previous quarter, as required by the Local Government Transparency Code 2014.

Risk Rating – Low Risk

Status Update - The Head of Procurement has advised that this is taking longer than expected to implement. In process of completing a change control note for sign-off before the required changes can be implemented.

Original Action Date 01-Apr-15 **Revised Action Date** 1 Nov 15

Control Issue - Transparency data for invitations to tender and contracts and other legally enforceable agreements with values exceeding £5,000 had either, not been published in the first instance by the required deadline or within the required timescales for subsequent reporting.

Risk Rating – Low Risk

Status Update - In process of completing a change control note for sign-off before the required changes can be implemented.

Original Action Date 01-Jul-15 **Revised Action Date** 1 Nov 15

Control Issue - Contracts and other legally enforceable agreements valued at between £5,000 and £25,000 were not being routinely published in line the requirements of the Local Government Transparency Code 2014.

Risk Rating – Low Risk

Status Update - In process of completing a change control note for sign-off before the required changes can be implemented.

Original Action Date 01-Jul-15 **Revised Action Date** 1 Nov 15

Creditors / Debtors 2013-14

Control Issue – As the Sundry Debtor Credit Control policy and procedure wasn't dated or subject to version control, we could not determine whether it had been subject to annual review. Also, we were unable to determine whether the minimum amount on which court action is taken and the minimum invoice amount had been subject to annual review.

Risk Rating – Low Risk

Status Update – The Director of Finance and Corporate Services has agreed a revised implementation date of 30th September 2015.

Original Action Date 1 Apr 15 **Revised Action Date** 30 Sep 15

Business Continuity

Control Issue – Contrary to the SLA, the Business Continuity Management Team had not received regular refresher training and a training log was not being maintained to enable gaps in training needs to be identified.

Risk Rating – Low Risk

Status Update – Training element including in a BC exercise held on 21/7/15. Next RLG meeting to confirm training dates.

Original Action Date 30 Apr 15 **Revised Action Date** 1 Oct 15

Control Issue – We found there was no Business Continuity testing policy in place.

Risk Rating – Moderate Risk

Status Update – Policy developed, revised and to be included in the next BC plan update. The revised policy is also to be ratified by at the next RLG meeting.

Original Action Date 30 Jun 15 **Revised Action Date** 30 Sep 15

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Control Issue – Business Continuity Plan Testing did not verify that intervals established in the Business Impact Assessment could be achieved.

Risk Rating – **Low Risk**

Status Update – BIAs will be reviewed when a new template is finalised in September 15. The period to March 16 will capture revised BIA data and result in a new priority list both included in a plan update. This will be examined by exercise later in 2016.

Original Action Date 30 Jun 15 **Revised Action Date** 31 Mar 16

PCI Compliance

Control Issue – There were a number of configurations and maintenance issues exposing the SQL Server to serious performance and reliability issues. This could ultimately impact on the performance and availability of the Councils CRM application which would affect service delivery.

Risk Rating – **Moderate Risk**

Status Update – These matters are being addressed through the replacement of a server and an upgrade to the CRM system which is due to be implemented by September 2015 to meet PSN requirements.

Original Action Date 30 Apr 15 **Revised Action Date** 30 Sep 15

Control Issue – Reporting lines and responsibilities for ensuring PCI DSS compliance had not been defined within the Council.

Risk Rating – **Low Risk**

Status Update – In June 2015, the Council approved resources for the Client Unit to enable, in principle, the appointment of a new Compliance and Data Policy Officer. The details of this will be reported to the Finance Committee in October 2015. Following the transfer of the Council's Fraud and Assurance Manager to the DWP in December 2015, 2 new posts will be created to cover Corporate Fraud, Data and IT Security, together with Compliance.

Original Action Date 31 Mar 15 **Revised Action Date** 31 Mar 16

Control Issue – The consequences of non-compliance with the PCI DSS had not been considered as part of the Council's risk management process.

Risk Rating – **Low Risk**

Status Update – In June 2015, the Council approved resources for the Client Unit to enable, in principle, the appointment of a new Compliance and Data Policy Officer. The details of this will be reported to the Finance Committee in October 2015. Following the transfer of the Council's Fraud and Assurance Manager to the DWP in December 2015, 2 new posts will be created to cover Corporate Fraud, Data and IT Security, together with Compliance.

Original Action Date 31 Mar 15 **Revised Action Date** 31 Mar 16

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 – In June 2015, the Council approved resources for the Client Unit to enable, in principle, the appointment of a new Compliance and Data Policy Officer. The details of this will be reported to the Finance Committee in October 2015. Following the transfer of the Council's Fraud and Assurance Manager to the DWP in December 2015, 2 new posts will be created to cover Corporate Fraud, Data and IT Security, together with Compliance.

Original Action Date 31 Jan 15 **Revised Action Date** 31 Mar 16

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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. The Council was receiving external legal support from Geldards and the leisure contract was part of that work programme. However, the contract remains unsigned. The Council's legal officer was awaiting response from Active Nation and various interim chase ups had been made..

Original Action Date 25 Oct 13 **Revised Action Date** 30 Oct 15

Section 106 Agreements

Control Issue – 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.

Risk Rating – **Low Risk**

Status Update – Some progress made on this recommendation but completion of the reconciliation programme not yet complete, due to staffing changes in both teams and a new software implementation for Section 106's taking priority..

Original Action Date 1 Apr 15 **Revised Action Date** 31 Jan 16

Planning & Building Control Fees

Control Issue – Income received via the planning portal was not readily identifiable within the Council's Financial Information system.

Risk Rating – **Low Risk**

Status Update – No Response Received.

Original Action Date 31 Jul 15 **Revised Action Date**

Bereavement Services

Control Issue – The Council's website did offer the option of extending the exclusive rights of burial for a further 25 years at the end of a 50 year term, but it was not clear as to what the procedure or cost would be should the request be made.

Risk Rating – **Low Risk**

Status Update – Unprecedented requirements on the service have lead to a delay in tackling the outstanding recommendations. A policy decision from members would be required as to a charge being set as not one currently listed in the Fees & Charges structure. We will include a charge in this year's budget setting, website has been updated and policy and charges will be updated once formalised.

Original Action Date 31 Mar 15 **Revised Action Date** 31 Mar 16

Control Issue – Although there were some procedural guidelines and checklists in place, the documents were fragmented and the checklists were not always being properly completed.

Risk Rating – **Low Risk**

Status Update – Unprecedented requirements on the service have lead to a delay in tackling the outstanding recommendations.

Original Action Date 31 Mar 15 **Revised Action Date** 30 Sep 15

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Control Issue – The Interment and memorial application forms and the Council's burial webpage did not clearly advise customers on the methods available to them for making a payment.

Risk Rating – **Low Risk**

Status Update – Unprecedented requirements on the service have lead to a delay in tackling the outstanding recommendations.

Original Action Date 31 Mar 15 **Revised Action Date** 30 Sep 15

Housing & Environmental Services

Tenants Arrears

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

Risk Rating – **Low Risk**

Status Update – In the process of reviewing all of our policies and procedures. With the introduction of Universal credit in September, we are looking to complete the rents policy after this date.

Original Action Date 31 Dec 14 **Revised Action Date** 30 Sep 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 vfm.

Risk Rating – **Low Risk**

Status Update – Due to changing priorities, workload and staffing issues a new action date has been agreed with the Director of Housing and Environmental Services. The new plan is for a draft strategy to be completed by 1st July 2015, to be taken to Committee on 12th August 2015.

Original Action Date 31 Dec 14 **Revised Action Date** 12 Aug 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 – Due to changing priorities, workload and staffing issues a new action date has been agreed with the Director of Housing and Environmental Services. The new plan is for a draft strategy to be completed by 1st July 2015, to be taken to Committee on 12th August 2015.

Original Action Date 30 Nov 14 **Revised Action Date** 12 Aug 15

Control Issue – The Council did not have a formally approved Vehicle, Plant and Equipment Management Strategy in place that set out its aims and objectives and its policy on the management of these assets.

Risk Rating – **Low Risk**

Status Update – Due to changing priorities, workload and staffing issues a new action date has been agreed with the Director of Housing and Environmental Services. The new plan is for a draft strategy to be completed by 1st July 2015, to be taken to Committee on 12th August 2015.

Original Action Date 1 Apr 15 **Revised Action Date** 12 Aug 15
