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Date: 16 September 2014

Dear Councillor,

### **Audit-Sub Committee**

A Meeting of the **Audit-Sub Committee** will be held in the **Council Chamber**, on **Wednesday, 24 September 2014 at 16:00**. You are requested to attend.

Yours faithfully,

Chief Executive

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

**Labour Group**  
Councillors Dunn and Shepherd.



## **AGENDA**

### **Open to Public and Press**

- 1** Apologies
- 2** To receive the Open Minutes of the Meeting held on 18th June 2014.  
  
Open Minutes - 18th June 2014 **3 - 6**
- 3** To note any declarations of interest arising from any items on the Agenda
- 4** To receive any questions by members of the public pursuant to Council Procedure Rule No.10.
- 5** To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 6** AUDIT FINDINGS FOR SOUTH DERBYSHIRE. **7 - 44**
- 7** INTERNAL AUDIT PROGRESS REPORT. **45 - 61**
- 8** AUDIT COMMITTEE TRAINING PROGRAMME. **62 - 64**
- 9** LOCAL AUDIT AND ACCOUNTABILITY ACT. **65 - 71**

#### **Exclusion of the Public and Press:**

The Chairman may therefore move:-

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

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

AUDIT SUB-COMMITTEE

18<sup>th</sup> June 2014

**PRESENT:-**

**Conservative Group**

Councillor Harrison (Chairman) and Councillor Ford (Vice Chairman)

**Labour Group**

Councillor Dunn and Councillor Shepherd

AS/01. **MINUTES**

The Open Minutes of the Meeting held on 2<sup>nd</sup> April 2014 were approved as a true record.

AS/02. **INTERNAL AUDIT QUARTERLY PROGRESS REPORT**

The Sub-Committee considered the Internal Audit Quarterly Progress Report, prepared by the Audit Manager. This summarised the various reviews that had taken place. None of these, he explained, had received less than a 'reasonable' ranking in terms of their assurance rating. He also made it clear that the service was on track to deliver the further review work that had been identified. In addition, the Sub-Committee was informed that the report included no new 'significant additional risks' that would have to be addressed.

Members welcomed the report. During the subsequent discussion, a number of points were raised. These included the danger of data loss and the need to do more to back-up the information held on computer servers. The Director of Finance & Corporate Services made it clear that this issue was being addressed, with progress monitored as part of the Council's contractual arrangements with Northgate.

The Sub-Committee also discussed the Governance Review. It was explained that this review was likely to be carried out during the summer as part of a wider review of the constitution.

**RESOLVED:-**

***That the report be accepted. No specific issues be reported back to the Finance & Management Committee arising from it.***

AS/03. **EFFECTIVENESS OF INTERNAL AUDIT**

The Sub-Committee considered a report from the Director of Finance & Corporate Services on the effectiveness of the internal audit function. He made it clear that his assessment was based on the framework guidance developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) 'Better Governance Forum'. This had identified the key features for successful internal audit. Using this framework, he had reached the conclusion that the function was continuing to operate well and remains fit for purpose.

Members welcomed the report and the conclusion that the internal audit function continues to operate well.

**RESOLVED:-**

***To note the findings and conclusions that the internal audit function is considered fit for purpose.***

AS/04. **HEAD OF INTERNAL AUDIT'S ANNUAL AUDIT OPINION 2013/14**

The Sub-Committee was asked to note the annual audit opinion and annual internal audit report of the Head of Internal Audit for 2013/14. His key conclusion was that there is an acceptable level of internal control within the Council's systems and procedures. He also made it clear that no critical or significant risk recommendations were made within any of the audit reports issued during the year.

**RESOLVED:-**

***To note the annual audit opinion for 2013/14***

***To note the annual internal audit report for 2013/14***

AS/05. **LOCAL CODE OF CORPORATE GOVERNANCE**

The Sub-Committee considered a report by the Legal & Democratic Services Manager, giving her annual assessment of the Council's Local Code of Corporate Governance. This made it clear that the Council continues to operate effective governance arrangements. Members were also informed that the 'work plan' of actions, to address any issues where further improvements were needed, had been largely implemented, but that some tasks had been

carried forward into the 2014/15 local government year. These related to induction training for members and the development of neighbourhood plans for parish councils.

In terms of Member Development, it was confirmed that a new induction process would be formulated ahead of next year's local elections.

The Sub-Committee discussed briefly the need for defined member and officer roles and the arrangements for member training. In this context it was confirmed that refresher training on the audit function would be arranged for Sub Committee members.

**RESOLVED:-**

***To approve the annual assessment of the Council's Local Code of Corporate Governance for 2013/14***

***To approve the progress on the work plan for 2013/14***

AS/06. **ANNUAL GOVERNANCE STATEMENT 2013/14**

The Sub-Committee was asked to consider the proposed Annual Governance Statement (AGS) for 2013/14. The AGS, it was explained, was a statutory requirement, intended to record and publish the Council's governance arrangements. It had been produced in line with the guidance issued by CIPFA. A work plan had been produced for the coming year, to address some of the areas for development that had been identified. In this context, work would take place to expand 'Open Data' (or the information which the Government requires local councils to place on their websites) and to implement the data management policy. The aim of this policy was to ensure that data handled by the Council is kept securely and, when required, destroyed appropriately.

Members discussed the proposed Annual Governance Statement and especially the requirements of 'Open Data'. The point was made that as the Council does not earn income from car parking this fact should be made clear on our web site. Subject to this, members agreed to support the proposed statement.

The Sub-Committee queried whether the details of the Members Allowance payments for 2012/13 had been published in the press. This was confirmed. Members were also informed that the details of the allowance payments for the year to 31<sup>st</sup> March 2014 would be published shortly.

**RESOLVED:-**

***To recommend to Finance & Management Committee the Annual Governance Statement (AGS) for the year ended 31<sup>st</sup> March 2014 and its publication within the Statement of Accounts for 2013/14.***

***To authorise the Leader of the Council and Chief Executive Officer to sign the Annual Governance Statement.***

J. HARRISON

CHAIRMAN

The Meeting terminated at 4.45 p.m.

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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 6</b>
<b>DATE OF MEETING:</b>	<b>24th SEPTEMBER 2014</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE and CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:Kevin.stackhouse@south-derbys.gov.uk">Kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/final accounts 1314/external audit reports/governance covering page Sept 14
<b>SUBJECT:</b>	<b>THE AUDIT FINDINGS FOR SOUTH DERBYSHIRE DISTRICT COUNCIL</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 05</b>

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## **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 2013/14. 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 2013/14.
- 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 25<sup>th</sup> September 2014 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 will 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 to this Report. 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 2013/14.
- 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

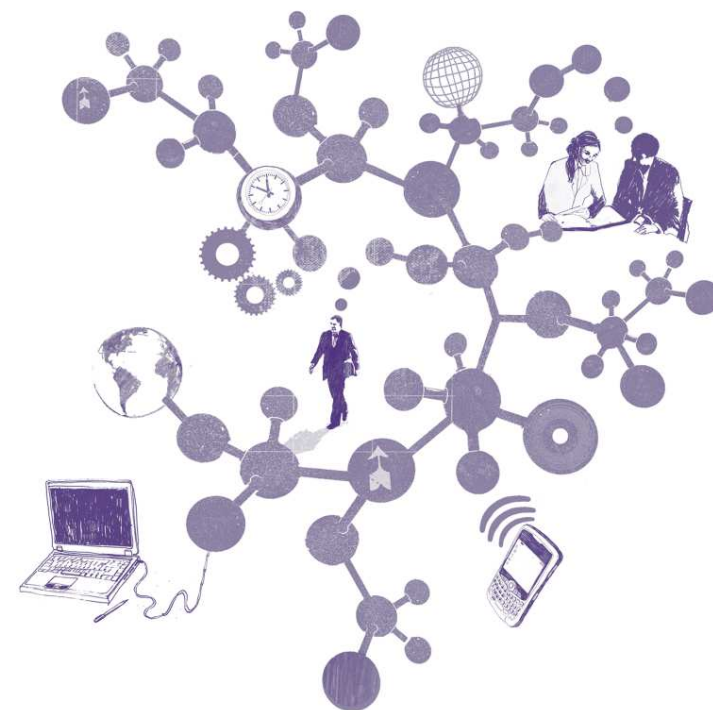
Year ended 31 March 2014

15 September 2014

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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.

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# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	4
2. Audit findings	7
3. Value for Money	21
4. Fees, non audit services and independence	24
5. Communication of audit matters	26

## **Appendices**

- A Action plan
- B Audit opinion

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# 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 2014. 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).

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, its 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 18 March 2014.

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

- valuation of property, plant and equipment
- 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 and
- Whole of Government Accounts

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 £2,164k.
- We identified a number of misclassification and disclosure changes during the course of the audit. Management have adjusted the financial statements for all these changes.
- The draft accounts and supporting working papers presented for audit, whilst adequate, were not to the same high standard as 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 2 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.

Further detail of our work on Value for Money is set out in section 3 of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

### **Controls**

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.

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

Further details are provided within section 2 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.

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## 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 findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Sub Committee on 2 April 2014. 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 2 April 2014.

## **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our 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 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><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<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><b>Operating expenses (completeness)</b></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"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• carried out detailed substantive testing of expenditure balances included in the financial statements</li> <li>• carried out specific work around the completeness of balances. This included tests to ensure that expenditure is not understated and cut off testing of a sample of transactions</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Employee remuneration (completeness)</b></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"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• carried out substantive testing of employee remuneration by analytical review and reviewing payroll monthly feeds to the General Ledger</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Welfare expenditure (valuation – gross)</b></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"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• reviewed the Benefits system reconciliation to ensure that information from the benefits system can be agreed to the ledger and financial statements</li> <li>• carried out procedures in accordance with the Audit Commission's HBCount methodology required to certify the housing benefit subsidy claim</li> <li>• carried out testing of a sample of council tax benefit granted under the new Council Tax reduction scheme</li> </ul>	<p>Our Housing Benefits testing has found errors in relation to the classification and overpayment of subsidy. The scope of the errors would not result in a material misstatement of the financial statements. As part of HBCount methodology we are carrying out further testing on the errors identified.</p>
<p><b>Housing Rent Revenue Account (completeness)</b></p>	<p>Revenue transactions not recorded</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• carried out detailed substantive testing of Housing Rent balances included in the financial statements</li> <li>• carried out specific work around the completeness of balances. This included cut off testing of a sample of transactions</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# 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><b>Revenue recognition</b></p>	<ul style="list-style-type: none"> <li>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</li> <li>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</li> <li>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.</li> </ul>	<p>The accounting policy is appropriate and has been adequately disclosed.</p>	<p style="text-align: center;">   <b>Green</b> </p>

**Assessment**

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



# Accounting policies, estimates & judgements

Accounting area	Summary of policy	Comments	Assessment
<p><b>Judgements and estimates</b></p>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– useful life of capital equipment</li> <li>– pension fund valuations and settlements</li> <li>– revaluations</li> <li>– impairments</li> <li>– provisions</li> </ul> </li> </ul>	<p>There was appropriate disclosure of key estimates and judgements</p>	<p style="text-align: center;">   <b>Green</b> </p>

**Assessment**

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

# Accounting policies, estimates & judgements

Accounting area	Summary of policy	Comments	Assessment
<p><b>Judgements and estimates - PPE</b></p>	<ul style="list-style-type: none"> <li>Page 68 of the draft accounts sets out the Council's rolling programme of asset revaluations. This ensures that all property, plant and equipment is revalued at least every five years.</li> </ul>	<p>The Code requires councils to value all items within a class of property, plant and equipment simultaneously. A rolling basis of revaluation is only permitted when:</p> <ul style="list-style-type: none"> <li>- the revaluation of the class of assets is completed within a 'short period'</li> <li>- the revaluations are kept up to date.</li> </ul> <p>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>However, the Council has assured itself that these valuations reflect current valuations at 31/3/2014 by undertaking a desktop review of all assets that had not been revalued in 2013/14.</p> <p>This approach is similar to many other authorities and whilst not compliant with the Code we are satisfied that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014.</p> <p>As a result, whilst we have accepted the approach for 31/3/2014 we have included a recommendation at Appendix A that this will be reviewed for 2014/15.</p>	<p style="text-align: center;"> Amber</p>
<p><b>Other accounting policies</b></p>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<p>Our review of accounting policies has highlighted that there was no accounting policy for NNDR and Council Tax revenue. These have been added.</p>	<p style="text-align: center;"> Amber</p>

**Assessment**

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

# 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.

There are no unadjusted misstatements. All adjustments identified during the audit have been made within the final set of financial statements.

# 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	1,022	Note 17 Payables	Misclassification of payables within note 17 between Central Government Departments, HRA and Any Other Bodies.
2 Misclassification	968	Bad debt provision Provisions Collection Fund receivables	Misclassification within the Balance Sheet between the bad debt provision (overstated by £968k), provisions (understated by £252k) and Collection Fund receivable (overstated by £761k).
3 Disclosure	N/A	Various	<p>There were a number of inconsistencies within the primary statements and between the primary statements and disclosure notes for example:</p> <ul style="list-style-type: none"> <li>• The Cash Flow Statement showed a net deficit on the provision of services of £2,153k. The Comprehensive Income and Expenditure Statement showed a surplus on the provision of services of £2,164k.</li> <li>• The Comprehensive Income and Expenditure Statements showed an actuarial surplus on the defined benefit pension scheme of £5,575k. Note 32 Defined Benefit Pension Scheme showed £3,122k.</li> <li>• The Balance Sheet long term payables was £69k. Note 17 long term payables was shown as £34k.</li> <li>• The Comprehensive Income and Expenditure Statement shows a surplus on provision of services for 2013/14 and 2012/13. Note 23 amounts reported for resource allocation decisions states a deficit on the provision of services for both years. The Movement in Reserves Statement also states deficit on provision of services.</li> </ul>



# Misclassifications & disclosure changes

Adjustment type	Value £'000	Account balance	Impact on the financial statements
4 Disclosure	N/A	Note 26 Officer's remuneration	<p>There were a number of misstatements in this disclosure note:</p> <ul style="list-style-type: none"> <li>• The officers disclosed in the bandings over £50,000 table are the same as those in the senior officers table. The disclosures in the bandings over £50,000 table should only relate to other officers. There was one other officer that had not been included in the table.</li> <li>• The senior officer's remuneration for 2012/13 was incorrectly disclosed for the Director of Finance and Corporate Services.</li> <li>• The Director of Operations salary information for 2012/13 has been incorrectly included as part of the Director of Housing and Environment information.</li> </ul>
5 Disclosure	1,482	Note 22 Adjustments between Accounting Basis and Funding Basis under Regulations	The analysis of the adjustments between accounting basis and funding basis under regulations does not include REFCUS.
6 Disclosure	N/A	Note 3 Critical Judgements and note 4 Assumptions made about the Future and Other Major Sources of Uncertainty	The provision for NNDR appeals provision was not mentioned as a critical judgement or source of uncertainty.
7 Disclosure	21	Balance Sheet	The balance Sheet did not add up for total reserves. As a result the total reserves did not agree to net assets.
8 Disclosure	10	External Audit Fees	Additional disclosure was required of fees for other services.


## Misclassifications & disclosure changes

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
9	Disclosure	N/A	Prior period adjustments Note 33	Additional disclosure was made of the prior period adjustments relating to IAS19 including a restated Comprehensive Income and Expenditure Statement. In addition, the draft prior year adjustment note relating to internal recharges was removed.
10	Disclosure	1,000	HRA Note 9	There was inconsistency between the note £86,713k and the PPE table £87,713k
11	Disclosure	3,122	Note 32 Defined Benefit Pension Schemes	The table for projected defined benefit cost for the period 31 March 2015 excluded interest cost on defined benefit obligation of £3,122k.
12	Disclosure	N/A	Comprehensive Income and Expenditure Statement and Note 7 Financing and Investment Income and Expenditure	The old IAS 19 terminology has been used for pensions such as 'Actuarial (surplus)/losses in CIES' rather than 'remeasurement of the net defined benefit liability'. Similarly, in Note 7, 'Pension interest cost and expected return on pension assets' rather than 'net interest on the net defined benefit liability'.
13	Disclosure	N/A	Note 35 Contingent Liabilities	Additional disclosure was required in relation to the contingent liability for NNDR appeals not yet received.



# 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. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A. We have reported minor deficiencies in ICT controls to management.

	Assessment	Issue and risk	Recommendations
1.	 amber	<ul style="list-style-type: none"> <li>The draft accounts and supporting working papers presented for audit, whilst adequate, were not to the same high standard as last year. Our audit has identified a number of misclassification and disclosure changes to the accounts.</li> </ul>	The Council should review its quality assurance arrangements for producing the financial statements.

## Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

# 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.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found a number of omissions in the financial statements (see misclassifications and disclosure changes above).</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>
7.	<b>Other matters</b>	<ul style="list-style-type: none"> <li>The auditors of the Derbyshire Pension Fund have reported system weaknesses relating to pension payments. Under and over payments have been identified as a result of a reconciliation exercise between AXISE (the pensions database) and SAP (the Fund's finance and payroll system). There is no automated interface between the two systems. The Fund's reconciliation identified around 2,450 cases where the pension amounts were different in the two systems and around 1,200 cases remain to be investigated. Of the cases reviewed so far, there have been 44 cases where the amounts paid were wrong, resulting in either under or over payments to the pensioner – 16 were under and 28 over payments. The largest single overpayment error to date is approximately £15k to one of the pensioners. There are only two errors greater than £3k. The total amount written off to date for overpayments is approximately £130k. All under payments identified to date have been corrected and arrears paid.</li> </ul>

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## 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 considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- 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 Council's Revenue Support Grant has reduced by almost 30% over the last three years and this equates to approximately £2.25m or 20% of its net revenue expenditure. For the period 2014/15 to 2018/19, mainstream resources are projected to reduce by approximately £0.8m (15%). There is an estimated budget deficit in the future, rising from £172,000 in 2015/16 to nearly £900,000 in 2018/19. The Council faces a financial challenge to identify savings in order to keep the financial position sustainable over the medium term.

### 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. There has been prudent financial management, together with a programme of efficiency savings from transformation in procurement and service delivery. These savings have helped to sustain the Council's financial position against a background of reducing resources.

## 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 2014.

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:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

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

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	The Council monitors its financial performance on a regular basis and has managed its cash flow effectively. The VFM profile tools collated by the Audit Commission show that the Council is performing in line with other district councils with regard to financial performance and spending on its residents.	<b>Green</b>
<b>Strategic financial planning</b>	The five year Medium Term Financial Plan has been updated to reflect the Council's changing financial environment. In order for a sustainable position to be achieved in the medium term and to maintain a minimum level of balances a savings requirement of £175,000 is required from 2014/15. A robust approach is taken to the management of strategic and financial risks.	<b>Green</b>
<b>Financial governance</b>	The Council has a Corporate Risk register in place which sets out the framework within which the Council manages its strategic risks to ensure that these do not adversely hinder progress towards achieving the Council's corporate priorities. Members are regularly updated on financial performance and risks.	<b>Green</b>
<b>Financial control</b>	The Council has effective financial control in place. This includes its budget planning, the monitoring of its financial position and its financial forecasting, including savings planning. Cash management is also effective. Due to the absence of the financial services manager and loss of a key member of the finance team during the year there was a lack of capacity in the finance team which has had an impact on the quality of the financial statements produced for audit. This is to be addressed through the recruitment of additional finance staff.	<b>Green</b>
<b>Prioritising resources</b>	The Medium Term Financial Plan takes account of changing national funding and assesses the impact of these changes on the Council's strategic priorities and financial targets, and also considers other income streams that could be increased to supplement the loss of government grant funding. The Council is continuously seeking to improve efficiency through changing the way that it works including shared services and working in partnership with neighbouring councils.	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	The Council has explored innovative ways of delivering services through working in partnership with groups such as Northgate Public Service. The partnership includes a risk-reward scheme where the cost of introducing new initiatives to transform services will only be paid out of cashable savings.	<b>Green</b>

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## 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	64,800	65,700
Grant certification		
• 2013/14	28,100	24,848
• 2012/13	0	3,500
<b>Total audit fees</b>	<b>92,900</b>	<b>94,048</b>

There is an additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for district authorities and is subject to agreement by the Audit Commission.

There is an additional fee of £3,500 for further testing of the 2012/13 Housing and Council Tax Subsidy Claim.

## Fees for other services

Service	Fees £
Review of Recharge of Central Support Services into the Housing Revenue Account	5,000
Atlas Implementation - benchmarking	5,000

## 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 Auditing Practices Board'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.

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## 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) 260, as well as other 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](http://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.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
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 and responsibility
1	The Council should review its approach to the revaluation of property, plant and equipment in 2014/15.	High	We will review the classification of assets and the frequency of valuations to meet the requirements of the Code. In liaison with the Valuation Officer, a local approach will be developed and reported back to this Committee ahead of the valuation process for the 2014/15 accounts.	December 2014 Corporate Asset Manager
2	The Council should review its quality assurance arrangements for producing the financial statements.	High	A review will be undertaken of the accountancy function and how resources are deployed during the year, in particular the role of Financial Accountant. The timetable for closing the accounts is to be brought forward and this will allow time for quality checking. A peer review will also be considered.	February 2015 Financial Services Manager

# 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

### Opinion on the Authority financial statements

We have audited the financial statements of South Derbyshire District Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and 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 2013/14.

This report is made solely to the members of South Derbyshire District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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, 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 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 2014 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 2013/14 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 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;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any 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.

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 audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, 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 2014.

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 2013, 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 2014.

**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.

Kyla Bellingall  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza  
20 Colmore Circus  
Birmingham  
B4 6AT

Date



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Email: [kevin.stackhouse@south-derbys.gov.uk](mailto:kevin.stackhouse@south-derbys.gov.uk)

Our Ref: KS/SH  
Your Ref:

Date: September 2014

Dear Sirs

**South Derbyshire District Council**  
**Financial Statements for the year ended 31 March 2014**

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 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards.

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 Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions 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.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

/continued ...

2.

- 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 by us 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 further material judgements that need to be disclosed.
- vii Except as stated 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 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 retirement 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 International Financial Reporting Standards and the Code.
- x All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure has been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii We have not adjusted the misstatements brought to our attention in the Audit Findings Report, as they are considered to be immaterial to the results of the Council and its financial position at the year-end. 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.

/continued ...

3.

### **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 information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - 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 information in relation to 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 entity of 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.

/continued ...

4.

**Approval**

The approval of this letter of representation was minuted by the Council's Audit Sub Committee at its meeting on 24 September 2014.

Signed on behalf of the Council

Name: Kevin Stackhouse

Position: Director of Finance and Corporate Services

Date: XX September 2014



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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 7</b>
<b>DATE OF MEETING:</b>	<b>24th SEPTEMBER 2014</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE and CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:kevin.stackhouse@south-derbys.gov.uk">kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/audit/internal audit/quarterly report cover
<b>SUBJECT:</b>	<b>INTERNAL AUDIT PROGRESS REPORT</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 02</b>

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## **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 1<sup>st</sup> June 2014 and 31st August 2014.

## **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: 24<sup>th</sup> September 2014



## 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.

## Contacts

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## Contents

## Page

Summary	3
Audit Coverage	4
Audit Performance	9
Recommendation Tracking	12



# 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 31<sup>st</sup> August 2014.

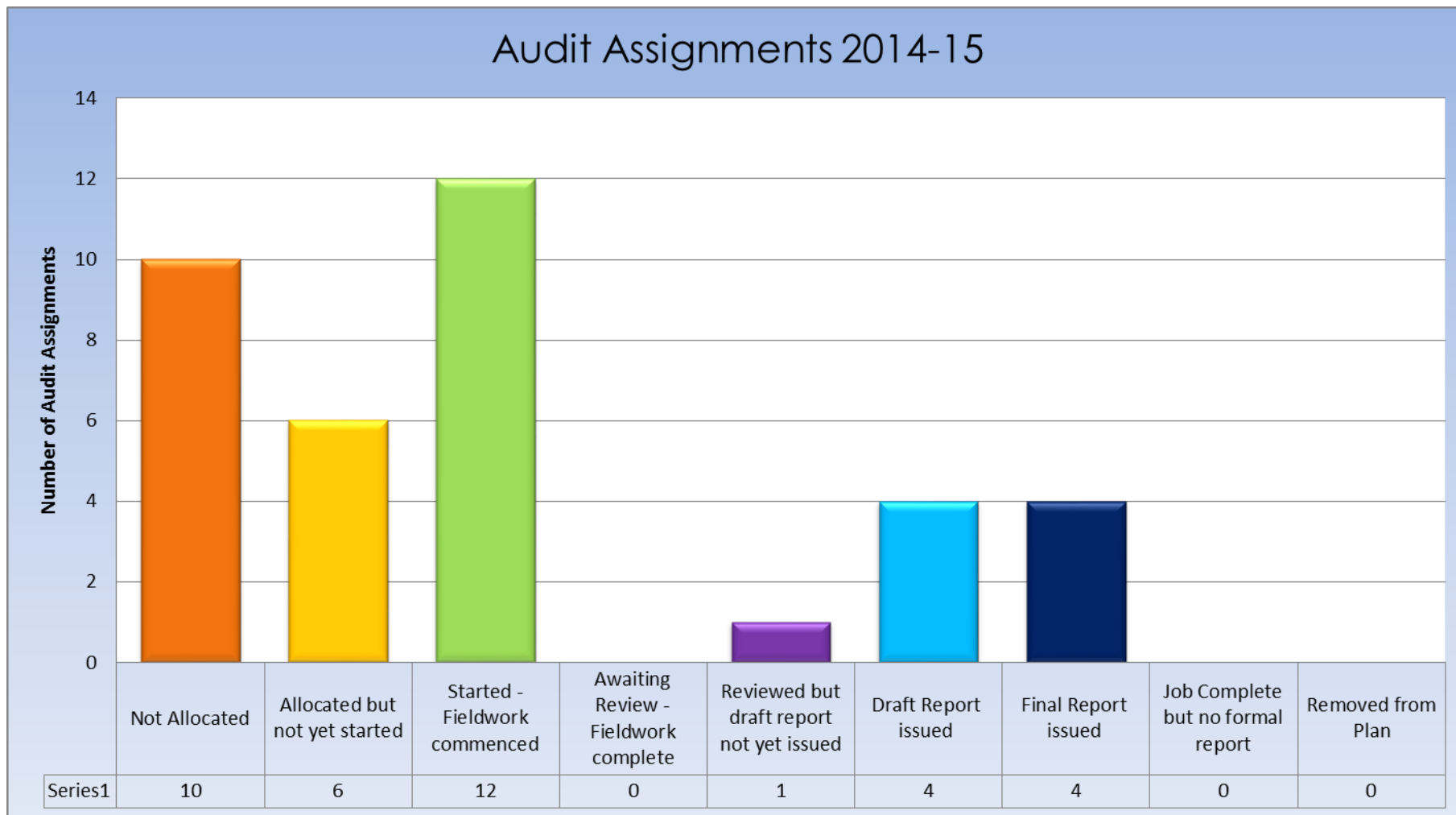
2014-15 Audit Plan Assignments	Type of Audit	Current Status	% Complete
Main Accounting System 2014-15	Key Financial System	Allocated	0%
PCI Compliance	Governance Review	In Progress	35%
Civica Security Assessment	IT Audit	In Progress	50%
CRM Security Assessment	IT Audit	In Progress	75%
Partnership Governance	Governance Review	Draft Report	95%
Safeguarding 2014-15	Systems/Risk Audit	In Progress	60%
Fixed Assets 2014-15	Key Financial System	Allocated	0%
Council House Sales	Systems/Risk Audit	Allocated	0%
Electoral Services	Systems/Risk Audit	In Progress	55%
Bereavement Services	Systems/Risk Audit	Reviewed	90%
Community Safety Partnership	Systems/Risk Audit	Final Report	100%
Economic Development	Systems/Risk Audit	Allocated	5%
Development Control	Systems/Risk Audit	In Progress	20%
Housing Repairs (Planned & Responsive Maintenance)	Systems/Risk Audit	Final Report	100%
Waste Management	Systems/Risk Audit	Allocated	5%
Fleet Management	Systems/Risk Audit	Draft Report	95%
Improvement Grants (Energy, Disabled Facilities etc.)	Systems/Risk Audit	In Progress	75%
Pollution Control	Systems/Risk Audit	In Progress	75%
Food Safety	Systems/Risk Audit	In Progress	75%
Licensing	Systems/Risk Audit	Draft Report	95%
Depot Health & Safety	Governance Review	In Progress	25%
B/Fwd - Creditors / Debtors 2013-14	Key Financial System	In Progress	75%
B/Fwd - Orchard IT Security	IT Audit	Final Report	100%
B/Fwd - Data Protection & Freedom of Information	Governance Review	In Progress	75%
B/Fwd - Business Continuity & Emergency Planning	Governance Review	Allocated	10%
B/Fwd - Tenants Arrears	Systems/Risk Audit	Final Report	100%
B/Fwd - Service Contracts	Procurement/Contract Audit	Draft Report	95%

Another 10 planned assignments (not shown above) have not been allocated yet.

# 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 1<sup>st</sup> June 2014 and 31<sup>st</sup> August 2014, the following audit assignments have been finalised since the last Progress Report was presented to this Committee:

- Community Safety Partnership
- Housing Repairs
- Orchard IT Security
- Tenants Arrears

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

#### Community Safety Partnership

Overall Control Assurance Rating: **Comprehensive**

This audit focused on the activities of the Safer South Derbyshire Partnership, paying particular attention to key projects, financial management and information sharing with the key partnering organisations.

From the 15 key controls evaluated in this audit review, 12 were considered to provide adequate control and 3 contained partial weaknesses. The report contained 4 recommendations, all 4 of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- Terms and conditions of the grant funding had not been consistently met and there was not a process for monitoring the projects or maintaining adequate documentary evidence on the grant files. (Low Risk)
- Two grant allocations were made to officers working for the Council (one officer working directly for the SSDP). Records did not clearly demonstrate that potential conflicts of interest had been appropriately managed. (Low Risk)

- The current arrangements for reporting back to the Council and other partner organisations had not been clearly documented. (Low Risk)
- The Terms of Reference for the key Boards, Groups and Committees were not reviewed and updated on a regular basis, and did not always reflect current membership of the group, or equivalent. (Low Risk)

All 4 issues raised within this report were accepted and action was agreed to be taken to address 3 of the issues by 31<sup>st</sup> December 2014 and the final issue being addressed by 31<sup>st</sup> March 2015.

#### Housing Repairs

Overall Control Assurance Rating: **Reasonable**

This audit focused on responsive repairs and planned maintenance carried out during 2013-14 and the beginning of 2014-15.

From the 45 key controls evaluated in this audit review, 40 were considered to provide adequate control and 5 contained weaknesses. The report contained 3 recommendations, 1 of which was considered a low risk, 1 a moderate risk and 1 a significant risk. The following issues were considered to be the key control weaknesses:

- The inspectors were struggling to keep up with the workload due to technological issues and an increasing caseload. (Moderate Risk)
- The process for raising invoices in respect of rechargeable repairs had failed to function correctly, leaving a substantial proportion of debts not raised in 2012-13, 2013-14 and 2014-15. (Significant Risk)
- Data cleansing within the Orchard system was not being carried out regularly to identify where the records for individual jobs had not been fully updated. (Low Risk)

## South Derbyshire District Council – Internal Audit Progress Report

All 3 issues made within this report were accepted. One issue was agreed to be addressed by the end of July 2014, a second by the end of August 2014 and the 1 remaining action was to be taken by 30<sup>th</sup> September 2014.

### Orchard IT Security

Overall Control Assurance Rating: **Reasonable**

This audit focused on reviewing the efficiency and effectiveness of the design, operation and existence of internal controls and operating procedures for the Orchard application and the server supporting it.

From the 33 key controls evaluated in this audit review, 21 were considered to provide adequate control and 12 contained weaknesses. The report contained 8 recommendations, 4 of which were considered a low risk and 4 a moderate risk. The following issues were considered to be the key control weaknesses:

- The policies and procedures that governed the overall management and administration requirements for the Orchard application had not been defined and documented. This made it hard to determine whether appropriate management and administration practices were being implemented. (Low Risk)
- New user and reset passwords were not created completely randomly. The reset password was often set to whatever the system administrator thought of first. (Low Risk)
- There were 7 shared accounts that could allow unauthorised access to data and amendments to system parameters. (Low Risk)
- Complex account passwords were not enforced because they were not required to contain a numeric character and only had to be 4 characters in length. (Moderate Risk)
- We found that the latest version of the Orchard application software had not been installed. (Low Risk)
- The SDDC-VM-ORCH-L Server was missing 7 security patches and 2 service packs. 5 of these missing patches were ranked as

important, 1 as moderate and 1 was not ranked. This opens the Server to an array of attacks and risks. (Moderate Risk)

- There were 7 accounts on the SDDC-VM-ORCH-L Orchard Server with administrative privileges. Excessive administrator accounts create a larger attack vector which could compromise the server. (Moderate Risk)
- There were 6 user accounts on the SDDC-VM-ORCH-L server supporting the Orchard application that had non expiring passwords. Four of these were administrative accounts. (Moderate Risk)

All 8 control issues raised within this report were accepted and positive action was agreed to be taken to address 4 issues by the end of September 2014, another 3 by the end of October 2014, and the final issue to be addressed by 28<sup>th</sup> November 2014.

### Tenants Arrears

Overall Control Assurance Rating: **Reasonable**

This audit focused on the controls in operation over rent arrears policies and procedures, rent arrears transactions and recovery and in addition how the Housing team's performance was monitored.

From the 17 key controls evaluated in this audit review, 13 were considered to provide adequate control and 4 contained weaknesses. The report contained 4 recommendations 3 of which were considered a low risk and 1 a moderate risk. The following issues were considered to be the key control weakness:

- The Council did not have a formal rent arrears policy. (Low Risk)
- The Business Support Team Leader had responsibility for setting up users and permissions, but was also a day- to-day user of the rent system. (Low Risk)
- The debt recovery agency (Medina) did not provide a list of the former tenant arrears they were trying to recover on behalf of the Council. (Low Risk)

## South Derbyshire District Council – Internal Audit Progress Report

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- The number of accounts with arrears had not been evenly allocated between the Housing Officers to ensure effective recovery. (Moderate Risk)

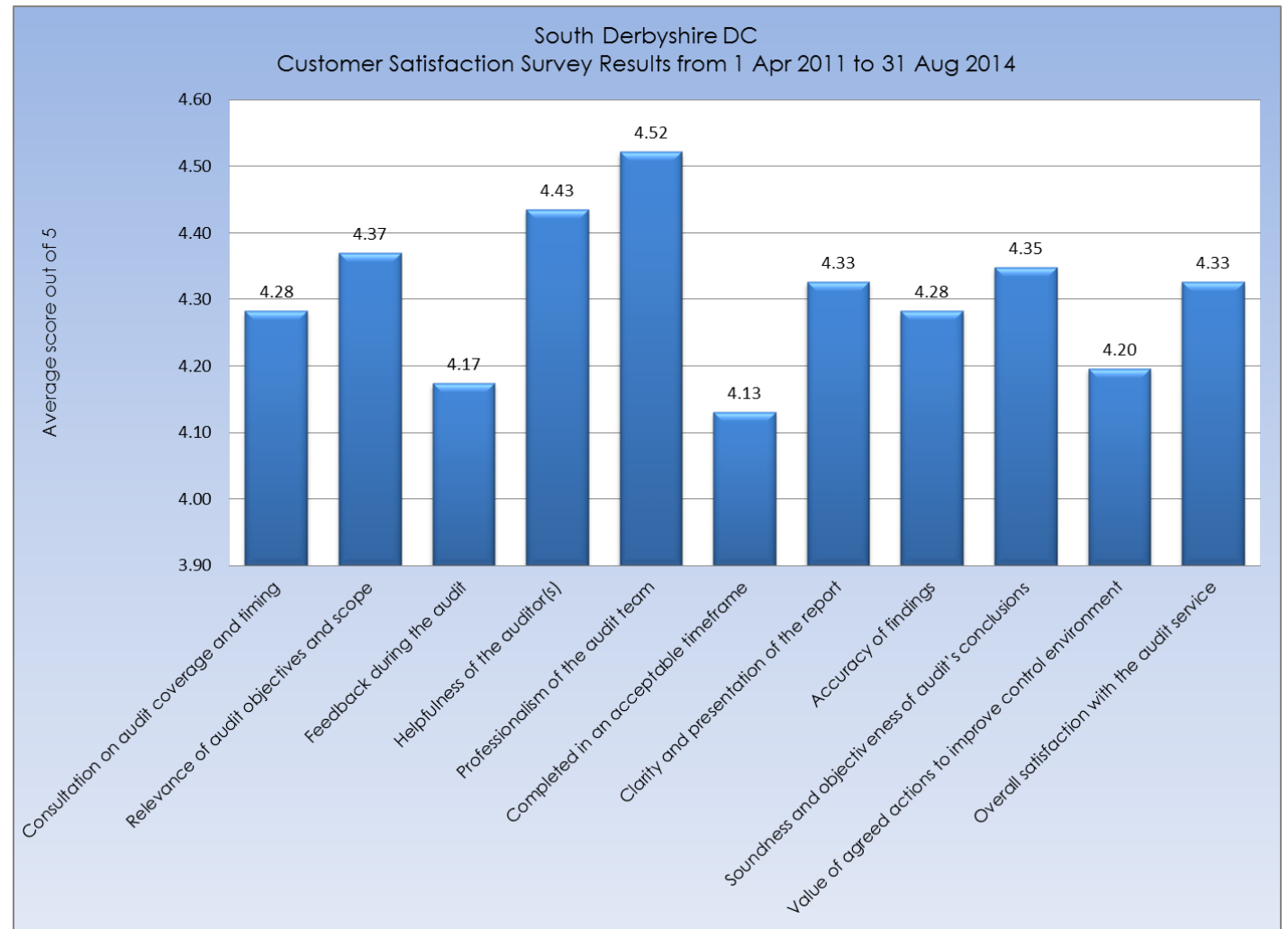
All 4 of the control issues raised within this report were accepted and positive action was agreed to be taken to address one by 31<sup>st</sup> August 2014, another by 30<sup>th</sup> September 2014, the moderate risk by 31<sup>st</sup> October 2014 and the final issue by 31<sup>st</sup> December 2014.

# South Derbyshire District Council – Internal Audit Progress Report

## Audit Performance

### Customer Satisfaction

The Audit Section sends out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent. The chart across summarises the average score for each question from the 46 responses received between 1<sup>st</sup> April 2011 and 31<sup>st</sup> August 2014. The overall average score from the surveys was 47.4 out of 55. The lowest score received from a survey was 40, whilst the highest was 55 which was achieved on 3 occasions.



# South Derbyshire District Council – Internal Audit Progress Report

## Audit Performance

### Customer Satisfaction

Since 1<sup>st</sup> April 2011, we have sent 58 Customer Satisfaction Surveys (CSS) to the recipients of audit services. Of the 58 sent we have received 46 responses.

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

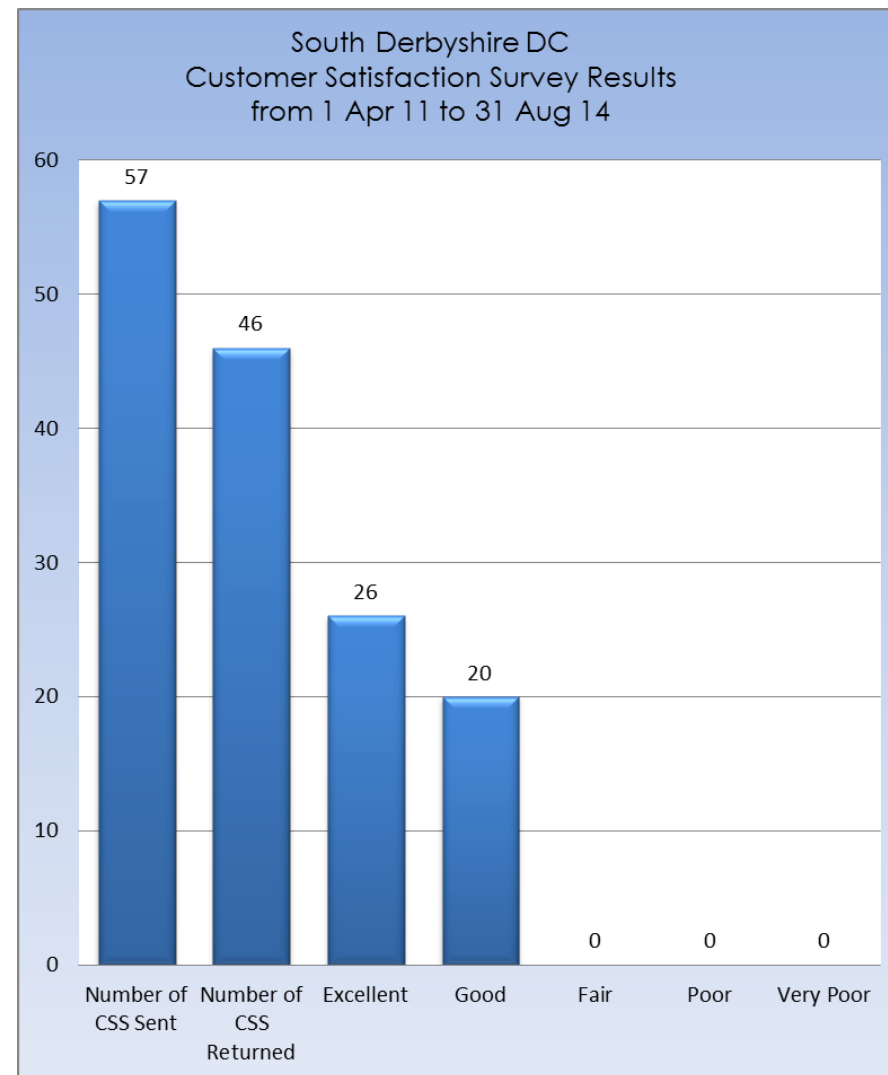
The following Customer Satisfaction Surveys have yet to be returned:

Job Name	CSS Sent	Officer
Data Quality 2013-14	04-Feb-14	Head of Policy and Communications
Main Accounting System 2013-14	12-Feb-14	Director of Finance & Corporate Services
Housing & Council Tax Benefit 2013-14	26-Feb-14	Client Services Manager
Orchard IT Security	27 Aug 14	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 26 of 46 responses categorised the audit service they received as excellent, another 20 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.



# South Derbyshire District Council – Internal Audit Progress Report

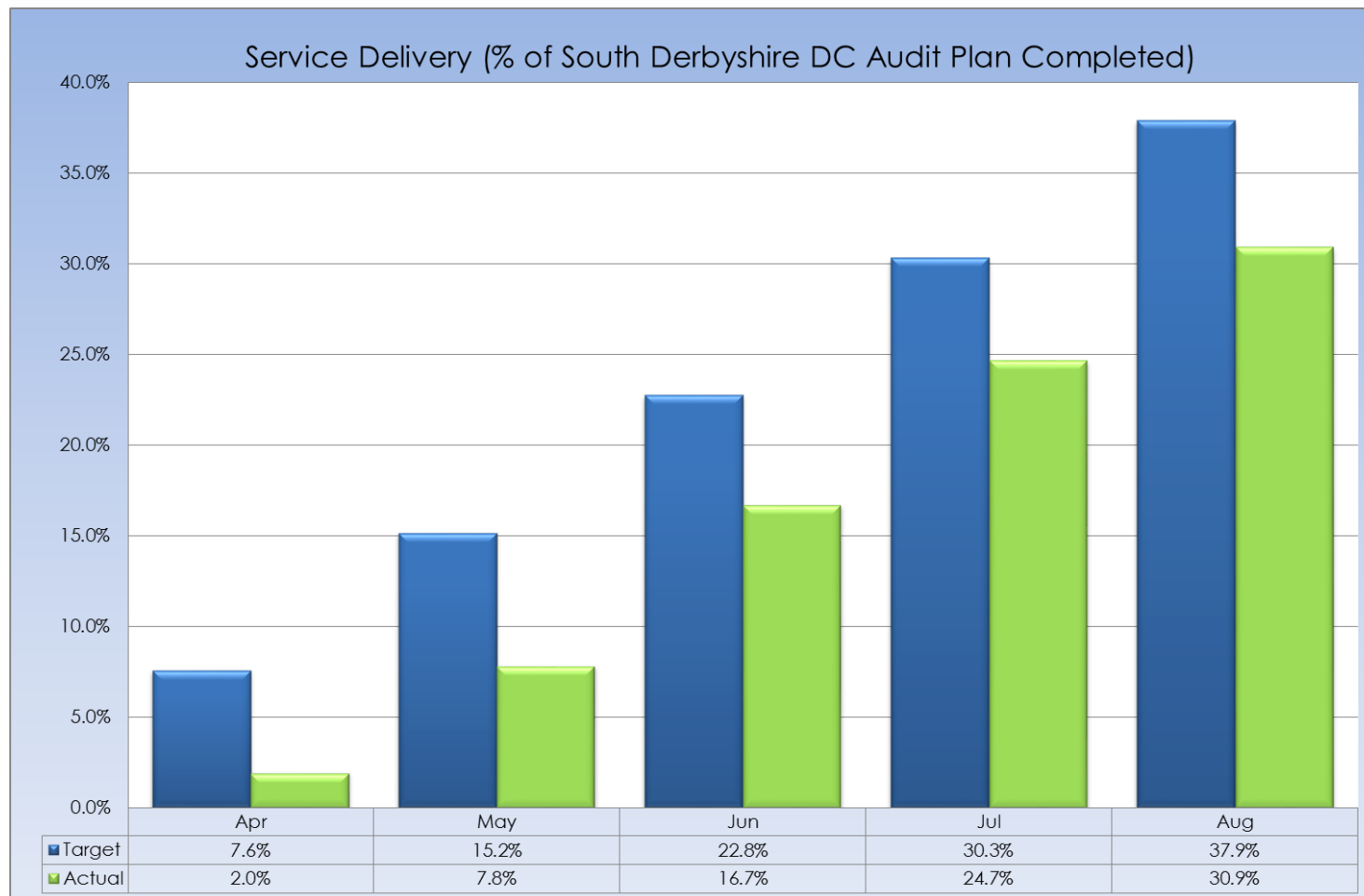
## Audit Performance

### Service Delivery (% of Audit Plan Completed)

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

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





# South Derbyshire District Council – Internal Audit Progress Report

## Recommendation Tracking

### Follow-up Process

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

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

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

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

### Implementation Status Details

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

	Implemented	Being implemented	Risk Accepted	Superseded	Due, but unable to obtain progress information	Hasn't reached agreed implementation dates	Total
Low Risk	177	9	3	5	0	13	<b>207</b>
Moderate Risk	43	1	0	3	0	6	<b>53</b>
Significant Risk	9	0	1	0	0	0	<b>10</b>
Critical Risk	0	0	0	0	0	0	<b>0</b>
	<b>229</b>	<b>10</b>	<b>4</b>	<b>8</b>	<b>0</b>	<b>19</b>	<b>270</b>

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

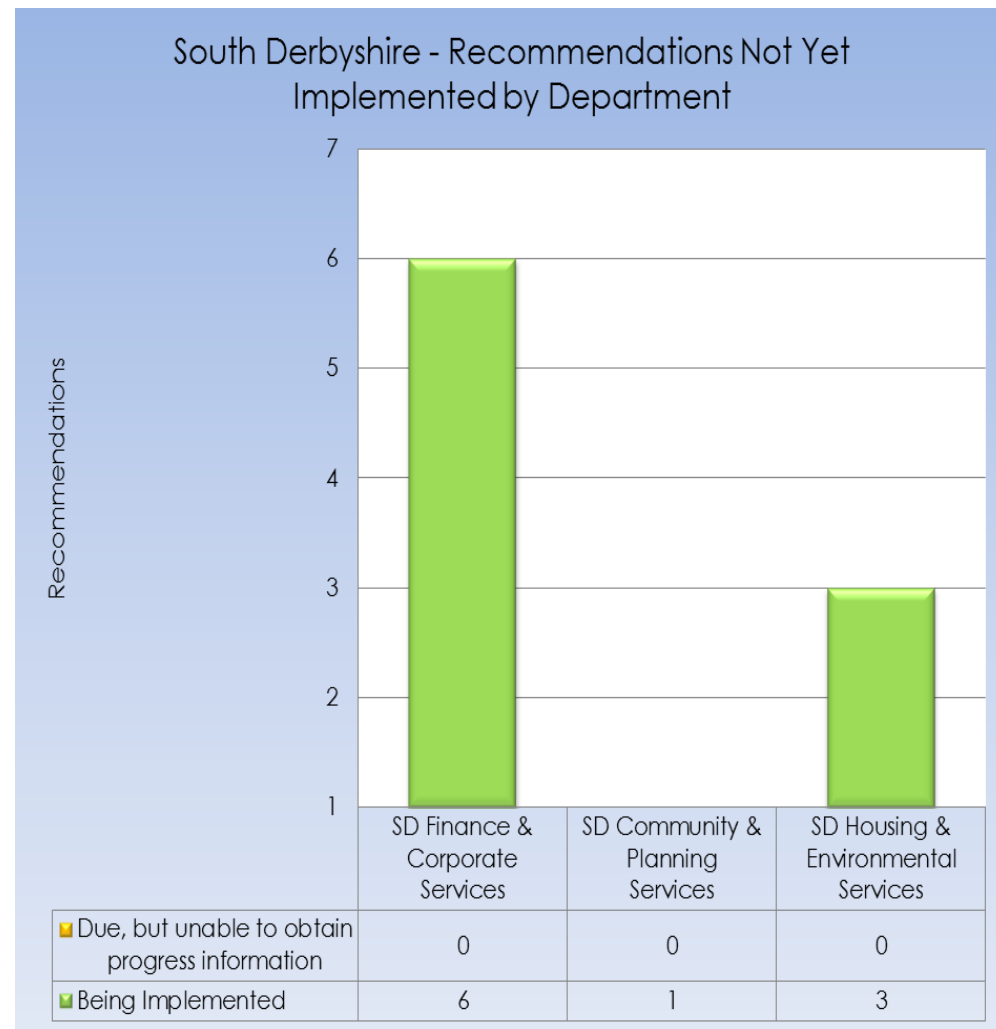
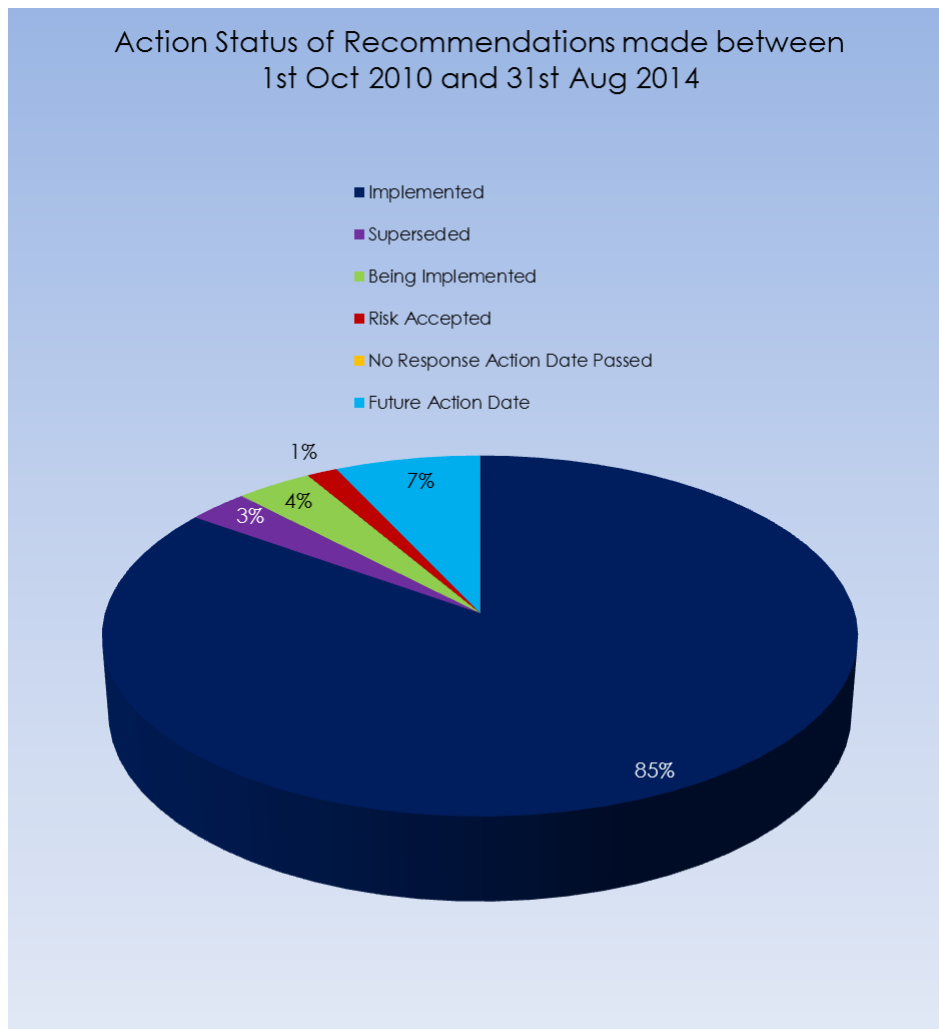
Recommendations Not Yet Implemented	Corporate Services	Community & Planning Services	Housing & Environmental Services	TOTALS
Being implemented	6	1	3	<b>10</b>
Due, but unable to obtain progress information	0	0	0	<b>0</b>
	<b>6</b>	<b>1</b>	<b>3</b>	<b>10</b>

Internal Audit has provided Committee with summary details of those recommendations still in the process of 'Being Implemented' and those that have passed their due date for implementation. We will provide full details of each recommendation where management has decided not to take any mitigating actions (shown in the 'Risk Accepted' category above). The 4 recommendations shown above, where management has chosen to accept the risk, have already been reported to this Committee.

# South Derbyshire District Council – Internal Audit Progress Report

## Recommendation Tracking

### Implementation Status Charts



# South Derbyshire District Council – Internal Audit Progress Report

## Recommendation Tracking

### Recommendations Not Yet Implemented

#### Corporate Services

##### Car Allowances

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

**Risk Rating** – Low Risk

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

**Original Action Date** 30 Jun 11      **Revised Action Date** 31 Mar 15

##### Legal & Democratic Services

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

**Risk Rating** – Low Risk

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

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

##### Corporate Governance

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

**Risk Rating** – Low Risk

**Status Update** – This will be included in a wider review of the whole Constitution to bring it up to date.

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

##### Data Quality 2013-14

**Control Issue** – There was a documented methodology in place for this performance indicator. However, this did not clearly describe the method and format of data collection, the exact requirements for calculating the performance figure or detail the data source of the 'total gross useable floor space' used in the calculation.

**Risk Rating** – Low Risk

**Status Update** – This relates to the recording and reporting of a National Indicator regarding energy consumption. Following the Audit, a review is being undertaken regarding the data recorded and submitted into this indicator by external organisations who manage facilities on the Council's behalf. This has proved to be more of an issue than anticipated. This will be corrected for the half yearly performance monitoring reports post September 2014

**Original Action Date** 1 Apr 14      **Revised Action Date** 30 Sep 14

## South Derbyshire District Council – Internal Audit Progress Report

**Control Issue** – Energy data had been incorrectly transferred to the Calculation Spreadsheet for 5 out of 18 entries sampled.

**Risk Rating** – **Low Risk**

**Status Update** – This relates to the recording and reporting of a National Indicator regarding energy consumption. Following the Audit, a review is being undertaken regarding the data recorded and submitted into this indicator by external organisations who manage facilities on the Council's behalf. This has proved to be more of an issue than anticipated. This will be corrected for the half yearly performance monitoring reports post September 2014

**Original Action Date** 1 Apr 14      **Revised Action Date** 30 Sep 14

**Control Issue** – The integrity of performance data had not been maintained throughout the process for calculating the performance figures.

**Risk Rating** – **Low Risk**

**Status Update** – This relates to the recording and reporting of a National Indicator regarding energy consumption. Following the Audit, a review is being undertaken regarding the data recorded and submitted into this indicator by external organisations who manage facilities on the Council's behalf. This has proved to be more of an issue than anticipated. This will be corrected for the half yearly performance monitoring reports post September 2014

**Original Action Date** 1 Apr 14      **Revised Action Date** 30 Sep 14

### 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** – Client & contractor and respective legal representatives are still in dialogue. Further requests have been made to follow up and finalise.

**Original Action Date** 25 Oct 13      **Revised Action Date** 31 Aug 14

### Housing & Environmental Services

#### Tenants Arrears

**Control Issue** - The debt recovery agency (Medina) did not provide a list of the former tenant arrears they were trying to recover on behalf of the Council.

**Risk Rating** – **Low Risk**

**Status Update** – We did use to receive this information. Monthly updates from Medina will be re-instigated shortly.

**Original Action Date** 31 Aug 14      **Revised Action Date** 30 Sep 14

#### Housing Allocations

**Control Issue** - The Homefinders guidance informed applicants who disagreed with the banding allocated to them, that there was a Right to a Review leaflet, but no such document existed.

**Risk Rating** – **Low Risk**

**Status Update** - The whole Homefinders policy is being relaunched and will include guidance on reviews. The expected publication date for the Homefinders guidance is 31 August 2014.

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

## South Derbyshire District Council – Internal Audit Progress Report

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**Control Issue** - Unsuccessful applicants are not notified of the reason why their bids for tenancies have failed. Without knowing why they have been unsuccessful, applicants may continue to bid for inappropriate properties.

**Risk Rating** – Low Risk

**Status Update** - Partially complete, as Homefinders now shows the number of bidders for recently advertised properties. The second phase, the publication of the number of each successful bidder will be published in a quarterly report. This is part of the new homefinders policy with an expected publication date of 31 August 2014.

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

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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 8</b>
<b>DATE OF MEETING:</b>	<b>24 September 2014</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>HEAD OF INTERNAL AUDIT PARTNERSHIP</b>	
<b>MEMBERS' CONTACT POINT:</b>	<b>HEAD OF INTERNAL AUDIT PARTNERSHIP</b> RICHARD BONEHAM <a href="mailto:richard.boneham@derby.gov.uk">richard.boneham@derby.gov.uk</a>	<b>DOC:</b>
<b>SUBJECT:</b>	<b>AUDIT COMMITTEE TRAINING PROGRAMME</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM 09</b>

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## **1.0 Recommendations**

- 1.1 To determine what training is required by the Audit Sub Committee and how that training should be delivered.

## **2.0 Purpose of Report**

- 2.1 This report provides proposals for training for Audit Sub Committee Members to ensure they are well informed to fulfil their role.

## **3.0 Detail**

- 3.1 A key requirement of an effective Audit Committee is a well-informed membership who has substantial experience of the key areas to be considered by the Committee. It is essential that a range of training is provided by way of assisting members to improve their knowledge and understanding of some of the issues they will be involved with in their role as a member of the Audit Sub Committee.
- 3.2 The objectives of training will be to ensure that the members of the Audit Sub Committee are able to fulfil the role required by the Terms of Reference.
- 3.3 The delivery mechanisms to be used will vary. The most effective way to achieve this is through a combination of relevant guidance material being supplied to members and appropriate briefings being circulated by the Head of the Audit Partnership. Some training may need to be delivered in a formal training environment, which may require time to be set aside outside the Committee framework. However, good practice suggests that there should also be an opportunity to build at least one training/development item into the agenda for each ordinary meeting of the Committee.

3.4 Appendix 1 provides a draft training and skills development programme. Members are invited to consider this programme and to suggest any further elements that they would like to see included.

3.5 New members of the Committee need to be provided with an understanding of the following areas:

- The Principles of Audit and the functions of the Audit Committee.
- The Role of the External Auditor.
- The Role and Function of Internal Audit.
- Introduction to the Authority's Annual Accounts.
- Introduction to the Authority's Governance framework.

#### **4.0 Financial Implications**

4.1 None

#### **5.0 Legal Implications**

5.1 None

#### **6.0 Corporate Implications**

6.1 None

#### **7.0 Community Implications**

7.1 None

#### **8.0 Background Papers**

8.1 None

### Potential Areas for Training for Audit Sub Committee Members

#### Audit

- Understanding the Internal Audit process.
- The role of the Head of Internal Audit
- The effectiveness of internal audit
- The challenge role of External Audit.
- Effective scrutiny of the compliance with audit recommendations.

#### Governance

- Understanding the Council's assurance framework
- The Authority's Financial and Contract Procedure Rules.
- How the Council deals with fraud and irregularities
- The council's approach to Business Continuity Management
- A guide to the management of risks
- Understanding the Council's key governance documents
- The importance of ethical governance
- Preventing procurement fraud

#### Information Governance

- Information and how it is managed
- Principles of Freedom of Information
- Data protection and preventing data security breaches

#### Audit Committee

- Audit Committee effectiveness

#### Financial Accounting

- Understanding the Statement of Accounts



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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 9</b>
<b>DATE OF MEETING:</b>	<b>24th SEPTEMBER 2014</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE &amp; CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:Kevin.stackhouse@south-derbys.gov.uk">Kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/live files/audit committee/audit and accountability act/audit committee sept 2014
<b>SUBJECT:</b>	<b>LOCAL AUDIT and ACCOUNTABILITY ACT 2014</b>	
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 04</b>

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## **1.0 Recommendations**

- 1.1 That the report is considered and noted.
- 1.2 That updates are provided to the Committee relating to developments on the options for the Council to appoint its external auditor from April 2017.
- 1.3 That any other emerging issues requiring an update are identified and are subject to a future report to the Committee.

## **2.0 Purpose of the Report**

- 2.1 To provide details of the provisions set out in the Local Audit and Accountability Act 2014 (*the Act*) and the effect that this will have on the Council's Audit, Accounting and overall governance arrangements.

## **3.0 Detail**

- 3.1 The Act became law earlier in the year. It has three components. These are:
  - Abolition of the Audit Commission and establishing new arrangements for the auditing of public bodies, including the local appointment of external auditors.
  - Providing the Secretary of State with further legal powers to enforce compliance with the Code of Recommended Practice on Local Authority Publicity.

- Extending the referendum provisions introduced in the Localism Act to include levying bodies when setting the limit by which Council Tax can be raised before a council needs to hold a referendum.

3.2 Many of the provisions in the Act are now enforceable. In addition, under the Act, secondary legislation has also been introduced to amend the existing Account and Audit Regulations.

3.3 These will bring forward the dates for publishing accounts, together with making changes to the procedure to enable the public to inspect accounting records and make representations. These regulations are currently in draft form.

3.4 In addition, the Openness of Local Government Bodies Regulations 2014, which came into force in August 2014, opens up council meetings to digital and social media.

### **Auditor Appointments in the Future**

3.5 The Audit Commission will be abolished on 31<sup>st</sup> March 2015 and will no longer be the body responsible for appointing external auditors for public authorities. A transitional body will manage existing contracts until their expiry in 2017 or to 2020 if the DCLG opts to extend some or all of the existing contracts.

3.6 Consequently from these dates, local councils will need to appoint their own auditors. They must do this by the 31<sup>st</sup> December in the year that proceeds the financial year which will be covered by the accounts to be audited.

3.7 The appointment can be for a period of between one and five years. There are two options under which the appointment can be made.

### **Option 1 Collective Procurement**

3.8 A council can opt into a sector led collective procurement exercise. In this case, an appointed body, approved by the Government, will procure and monitor auditors on a regional, national or some other geographical basis on behalf of councils who choose to opt in.

3.9 The Act requires that any decision to opt-in to collective procurement will need to be taken by Full Council. Council's that opt-in will do so for the duration of the "appointing period" (one to five years). The opportunity to opt-in will only occur at the formal invitation point.

3.10 The appointed body will be required to consult on and then set a scale of fees for audit, which opted-in councils will be required to pay.

3.11 The detailed framework for how this option will work in practice will be determined over the coming months.

## **Option 2 Independent Auditor Panels**

- 3.12 A council can establish a local independent auditor panel. This panel would assume the role of an appointed body under Option 1 and be responsible for considering and recommending an external auditor to Full Council. It would also monitor the relationship with the external auditor.
- 3.13 A panel could be the local Audit or Governance Committee if it can be demonstrated that this Committee is independent for this purpose.
- 3.14 The Act specifies that to demonstrate independence, a panel must consist of a majority of independent persons and be chaired by an independent person, i.e. not a council officer, Member or any person connected to them.
- 3.15 If a council uses the collective procurement option, there is no requirement to set up an Audit Panel.
- 3.16 With both options, the Secretary of State has reserve powers to act if a council fails to make an appointment by the required deadline.

### **Implications for the Council**

- 3.17 The Council's current external auditors (Grant Thornton) will finish their current contract term on 31<sup>st</sup> March 2015. As an interim measure, the Audit Commission have notified the Council that EY (previously known as Ernst and Young) have been appointed to audit the Council's accounts from 2015/16 for two years.
- 3.18 This will be confirmed by 31<sup>st</sup> December of this year and the appointment will then commence on 1<sup>st</sup> April 2015.
- 3.19 Therefore, the first year that the Council will need to appoint its own external auditors (using one of the above options) is for 2017/18, subject to any extension granted to EY.
- 3.20 Whatever date, there is likely to be a lead in time to enable the Council to approve the preferred option and to allow for a procurement exercise
- 3.21 Assuming 2017/18 becomes the earliest date, the appointment will start on 1<sup>st</sup> April 2017. Therefore, the Council will need to appoint by 31<sup>st</sup> December 2016, to meet the requirements of the Act.
- 3.22 Working back from these dates, an indicative timescale is considered to be:

Keep under review the two options in the Act	By April 2015
Analyse implications of the two options locally and recommend best option for the Council	By June 2015
Decision by Council on preferred option	By September 2015
Council undertakes due process using preferred option to recommend auditor to Full Council	By September 2016
Council appoints auditor	By December 2016
Auditor commences	April 2017

***Subject to extension with EY, in which case the timetable would be put back accordingly.***

3.23 As it currently stands, over the remainder of this financial year 2014/15, it is proposed that the two options are kept under review as issues are considered and agreed nationally. Organisations such as the LGA and CIPFA are expected to take a leading role in developing a framework and advising councils.

3.24 A decision on the preferred option may be required as early as September 2015. If the decision is to appoint an independent panel, sufficient time will need to be allowed to set up a panel, make appointments and undertake a procurement exercise.

### **Local Government Publicity Code**

3.25 The Act allows the Secretary of State to give directions and make orders requiring local councils to comply with the provisions in the Code of Recommended Practice on Local Authority Publicity. The Code was specified in the Local Government Act 1986 and has existed for many years.

3.26 The principles of the Code are not expected to change. The provisions in this Act will allow the Government to intervene if they feel that any council is not complying with the Code. The principles contained in the Code set out that publicity by local authorities should:

- Be lawful
- Be cost effective
- Be objective
- Be even-handed
- Be appropriate

- Have regard to equality and diversity
- Be issued with care during periods of heightened sensitivity

### **Public Meetings**

3.27 Under the Act, “the *Openness of Local Government Bodies Regulations*” which are now operative, require local councils to allow filming and the use of social media at council meetings. Effectively, it will allow any person to attend a public meeting for the purposes of reporting.

3.28 Reporting is defined in the regulations as:

- Filming, photographing or audio recording proceedings.
- Using any other means for enabling persons not present to see or hear proceedings of a meeting as it takes place or later.
- Reporting or providing commentary on proceedings of a meeting, orally or in writing.

3.29 The regulations will allow any person, with the aim of reporting, to use any communication methods, including the internet, to publish, post or otherwise share the results of their reporting activities during or after the meeting.

3.30 The regulations will not apply to exempt parts of a meeting, only business conducted in open session. They apply to all council and committee meetings, including sub and joint committees.

3.31 The regulations will also require a written record to be published regarding certain decisions delegated to officers where the decision:

- Grants permissions or licenses
- Affects the rights of individuals
- Awards contracts
- Materially affects the body’s financial position

3.32 It will be a criminal offence for non-compliance against the person who has custody of such decisions and who refuses to disclose or unintentionally obstructs the disclosure of appropriate documents.

### **Implications for the Council**

3.33 The Council will now need to review its procedures to ensure that compliance with the Regulations is achieved.

### **Referendum Provisions**

- 3.34 Any charge imposed by a levying body such as the Environment Agency, a local Drainage or Transport Board, is added to the relevant authority's Council Tax Bill and is effectively a further precept on local Council Tax Payers.
- 3.35 Currently, any increase in a levy from one year to the next, is not included in the calculation that determines whether a local referendum should be held if Council Tax increases by over 2%.
- 3.36 This Act now requires that a levy is included. However, currently it will only affect a very small number of shire districts as the main levying bodies exist in metropolitan areas and Greater London.
- 3.37 In principle however, the Environment Agency for example, could elect to place a levy on South Derbyshire residents; this could impact and affect any overall increase in Council Tax that the Council may wish to impose in the future.

### **Accounts and Audit Regulations**

- 3.38 The current 2011 regulations set out requirements on financial management, internal control, internal audit, the content of published accounts, together with procedures affecting the accounts and public rights to inspect the accounts.
- 3.39 New regulations under the Act will not change the principle of these requirements but will:
- Set an earlier timetable for the preparation and publication of the statement of accounts.
  - Streamline the procedures relating to the public's rights to inspect the accounting records and to put objections and questions to the auditor.
- 3.40 In addition, central government has acknowledged concerns from finance professionals regarding the growing complexity and length of local authority accounts. Consequently, they have committed to working with CIPFA to simplify the accounts and make them easier to understand.

### **Earlier Closure and Publication of the Accounts**

- 3.41 The proposal contained in the regulations is to bring forward the existing dates of 30<sup>th</sup> June (draft accounts submitted for audit) and 30<sup>th</sup> September (final publication) to 31<sup>st</sup> May and 31<sup>st</sup> July respectively. This will apply from the accounts for 2017/18.
- 3.42 This "period of notice" is intended to give councils time to make the necessary changes in their processes and external auditor's time to adjust their arrangements accordingly.

3.43 Given this, it is proposed that the Council uses the years 2014/15 and 2015/16 to implement the changes required to adhere to the new timetable and to go live with the revised deadlines from the accounts for 2016/17, a year earlier than the regulations.

3.44 However, this can only apply to the first deadline of 31<sup>st</sup> May (draft accounts stage) as the second deadline is dependent on the ability of the external auditor to complete their work in time. Therefore, officers will work with the auditors to achieve an earlier closedown ahead of 2017/18.

#### **4.0 Financial Implications**

4.1 None

#### **5.0 Corporate Implications**

5.1 Council procedures will need to be reviewed with some awareness raised regarding the recording of public meetings and publishing of delegated decisions.

#### **6.0 Community Implications**

6.1 The main objective of the Act and secondary legislation is greater transparency and openness. The Act is designed to allow local residents more flexibility to report on public meetings and for greater involvement in the accounts process, etc.

#### **7.0 Background Papers**

7.1 The Audit and Accountability Act 2014

<http://www.legislation.gov.uk/ukpga/2014/2/contents/enacted/data.htm>

7.2 The Local Audit Regulations (draft)

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/324239/Local\\_Audit\\_Consultation3.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/324239/Local_Audit_Consultation3.pdf)

7.3 Openness of Local Government Bodies Regulations

<http://www.legislation.gov.uk/ukdsi/2014/9780111113554>