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Date: 9 February 2016

Dear Councillor,

Audit-Sub Committee

A Meeting of the **Audit-Sub Committee** will be held in the **Council Chamber**, on **Wednesday, 17 February 2016 at 16:00**. You are requested to attend.

Yours faithfully,



Chief Executive

To:- **Conservative Group**

Councillor Grant (Chairman), Councillor Ford (Vice-Chairman) and Councillor Mrs Wyatt.

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 16th December 2015

Audit Sub-Committee 16th December 2015 Open Minutes **3 - 5**
- 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** LOCAL GOVERNMENT SECTOR UPDATE QUARTER 1 2016 **6 - 18**
- 7** EXTERNAL AUDIT PLAN FOR THE YEAR ENDING 31ST MARCH 2016 **19 - 37**
- 8** INTERNAL AUDIT PROGRESS REPORT **38 - 56**

Exclusion of the Public and Press:

- 9** 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

16th December 2015

PRESENT:-

Conservative Group

Councillor Grant (Chairman) and Councillor Mrs Wyatt.

Labour Group

Councillors Dunn and Shepherd.

AS/20 **APOLOGIES**

Apologies for absence from the Meeting were received on behalf of Councillor Ford (Conservative Group)

AS/21 **MINUTES**

The Open Minutes of the Meetings held on 17th June 2015, 23rd September 2015 and 30th September 2015 were taken as read, approved as a true record and signed by the Chairman.

AS/22 **DECLARATIONS OF INTEREST**

The Committee was informed that no declarations of interest had been received.

AS/23 **TO RECEIVE ANY QUESTIONS FROM MEMBERS OF THE PUBLIC PURSUANT TO COUNCIL PROCEDURE RULE NO.10**

The Committee was informed that no questions from members of the public had been received.

AS/24 **TO RECEIVE ANY QUESTIONS FROM MEMBERS OF THE COUNCIL PURSUANT TO COUNCIL PROCEDURE RULE NO.11**

The Committee was informed that no questions from Members of the Council had been received.

MATTERS DELEGATED TO SUB-COMMITTEE

AS/25 **ERNST & YOUNG: EXTERNAL AUDITOR COMMITTEE UPDATE BRIEFING**

The representative from the Council's new external auditors, Ernst & Young, introduced the report to Members, confirming that planning work will commence in the New Year, for presentation to the next meeting of the Sub-Committee.

Councillor Dunn raised a query relating to the Right to Buy Scheme, responded to by the Director of Finance and Management and Councillor Shepherd expressed a view that the four questions referred to on page eight of the auditor's report should be borne in mind for future reference by the Sub-Committee.

RESOLVED:-

That the briefing document be noted.

AS/26 **LOCAL CODE OF CORPORATE GOVERNANCE – REVIEW OF WORK PLAN 2015/16**

The Monitoring Officer presented this report to Members.

RESOLVED:-

That progress on the Action Plan for 2015/16 be considered and noted.

AS/27 **INTERNAL AUDIT PROGRESS REPORT**

The Audit Manager delivered the report, highlighting various aspects of its contents, in particular the item showing as 'Not Accepted' under Declarations of Interest. The Monitoring Officer and Audit Manager explained the legal perspective and transparency / good governance principles respectively. Councillor Dunn referred to the difficulties Members face when considering declarations, either on the Declaration of Pecuniary Interests form or at committee meetings.

The Chairman expressed his concern at the number of outstanding recommendations detailed in the report and queried the monitoring process. Councillor Shepherd suggested the issue be added to the Corporate Management Team meeting agenda.

RESOLVED:-

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

1.2 That outstanding audit recommendations be added as an item to the Corporate Management Team meeting agenda.

AS/28 **LOCAL GOVERNMENT ACT 1972 (AS AMENDED BY THE LOCAL GOVERNMENT [ACCESS TO INFORMATION] ACT 1985)**

RESOLVED:-

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

EXEMPT QUESTIONS BY MEMBERS OF THE COUNCIL PURSUANT TO COUNCIL PROCEDURE RULE NO.11

The Committee was informed that no questions from Members of the Council had been received.

The Meeting terminated at 4.35pm.

COUNCILLOR J GRANT

CHAIRMAN

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 6
DATE OF MEETING:	17th FEBRUARY 2016	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE and CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/EY/quarterly update cover
SUBJECT:	LOCAL GOVERNMENT SECTOR UPDATE QUARTER 1 2016	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 01

1.0 Recommendation

- 1.1 That the Committee consider the key questions raised by the Council's External Auditors contained in their Quarterly Sector Update.

2.0 Purpose of Report

- 2.1 To provide a quarterly report from the Council's External Auditors. This is aimed at briefing the Committee on the latest developments and audit matters affecting the Local Government Sector.

3.0 Detail

- 3.1 The quarterly update is attached.

4.0 Financial Implications

- 4.1 None.

5.0 Corporate Implications

- 5.1 None

6.0 Community Implications

- 6.1 None

7.0 Background Papers

- 7.1 None

Local government audit committee briefing

Contents at a glance

Government and economic news

Accounting, auditing and governance

Regulation news

Key questions for the audit committee

Find out more

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

It covers issues which may have an impact on your organisation, the local government sector and the audits that we undertake.

The public sector audit specialists in EY's national Government and Public Sector (GPS) team have extensive public sector knowledge which is supported by the wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only

technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authorities.

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



Government and economic news

EY Item Club forecast

In its latest quarterly forecast (Winter) the EY Item Club highlights that what it terms the UK consumer's "holiday" from inflation and austerity in 2015 is expected to continue well into 2016, aided by the sharp fall in oil and other commodity prices, and the Chancellor's change of heart on working tax credits.

Whilst the global situation is clearly fragile, the UK is seen to be well placed to ride out the storms. Growth is expected to increase from the revised 2.2% in 2015 to 2.6% this year, being supported by low inflation and interest rates. The CPI is forecast to increase by just 0.7% and they do not expect the Bank of England Monetary Policy Committee to increase bank rate until late in the year.

Looking further forward, the forecast is for inflation and austerity to return, with GDP growth of 2.3% in 2017 and 2.2% in 2018 and consumer spending growth dropping from 2.8% in 2016 of 2.1% in 2017 and 1.7% in 2018. Highlighted as impacting on this are the increasing taxes and levies on consumers and companies, and the roll-out of Universal Credit (which will claw back this Autumn's concessions to low earners). Inflation is expected to increase to 1.8% by 2018, remaining below the MPC target until 2019.

Continuing uncertainty over the EU Referendum could potentially hit business investment this year, as businesses wait to see the result, but momentum in the UK and other economies is seen as supporting capital spending this year.

Local Government Devolution

Towards the end of 2015, Birmingham and Liverpool each agreed devolution deals with Treasury which gives them control over infrastructure investment, transport and skills. This brings the total of devolution deals to 6:

- ▶ Birmingham
- ▶ Liverpool
- ▶ Greater Manchester
- ▶ Sheffield
- ▶ North East
- ▶ Tees Valley

Each area will need to elect a metro mayor, with elections expected to take place in 2017.

For Birmingham, £1.2bn of government investment is anticipated over the next 30 years, and for Liverpool the expectation is £30mn per year over the next three decades.

Read the government announcements in full at <https://www.gov.uk/government/news/historic-devolution-deal-to-power-the-midlands-engine> and <https://www.gov.uk/government/news/liverpool-devolution-deal-boosts-the-northern-powerhouse>.



Government and economic news

Spending Review 2015

Some headlines from the Spending Review 2015 include:

- ▶ The intention to be running a £10bn surplus by 2019/20.
- ▶ Tax credit taper rates and thresholds will remain unchanged.
- ▶ Council tax increases of 2% to support social care will be permitted. Local Police and Crime Commissioners will have the power to increase their share of council tax by 2% from April 2016.
- ▶ From 2020, local government will retain 100% of business rates collected. The system of top ups and tariffs redistributing revenues between local authorities will be retained. The uniform rate will be abolished; allowing local areas to cut business rates if they choose to do so in order to win new jobs and generate wealth.
- ▶ Police and schools funding will be protected in line with inflation.

Read more at:

<https://www.gov.uk/government/topical-events/autumn-statement-and-spending-review-2015>

The Government has also consulted on the 2016-17 settlement. Further details available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486730/Provisional_settlement_consultation_document.pdf.

Consultation: New Homes Bonus

In 2011 the New Homes Bonus was introduced to incentivise local authorities to encourage housing growth in their areas. Since 2011, £3.4bn has been allocated to support the delivery of 700,000 new homes and the return of 100,000 long term empty homes to use.

The Department for Communities and Local Government (DCLG) has released a consultation which seeks views on potential changes to the New Homes Bonus. The changes are intended to “better reflect authorities’ delivery of new housing”. Other proposed changes include introducing a reduction to the number of years in which current and future payments are made, from six years to four years.

See full details of the consultation as well as methods for responding at:

<https://www.gov.uk/government/consultations/new-homes-bonus-sharpening-the-incentive-technical-consultation>

The deadline for response is 10th March 2016.



Government and economic news

Local Authority Revenue Expenditure and Financing

During November 2015, statistics for 2014-15 on revenue expenditure and financing with local government were released by the Department for Communities and Local Government.

Some highlights include:

Total revenue expenditure by local authorities in England reduced by 0.5% in 2014-15, from £96.4bn in 2013-14 to £95.9bn, however, excluding spend on Education (30.7% of total net current expenditure) there was an increase of 1.5% from £60.5bn in 2013-14 to £61.5bn.

Net current expenditure on education saw the largest decrease, which was largely driven by schools achieving academy status and therefore receiving central expenditure, and by the reclassification of some services to Children and Families Social Care services (which saw a £1.2bn increase for this reason).

Local Authorities added £0.9bn to reserves in 2014-15 as compared to £2.4bn in 2013-14. This takes total reserves to £22.5bn and means that the last 15 years has seen a significant increase in the amount held by local authorities in non-ringfenced reserves. Communities Secretary Greg Clark has noted this increase and said:

“With local government accounting for a quarter of all public spending, it is right that they are called on to play their part in dealing with the deficit.

Today’s figures show how they are well placed to do so, with local authorities holding £22.5bn held in non-ringfenced reserves – up 170% in real terms over the last 15 years.

As we continue to secure our country’s economic future and cut the deficit, now is the time to make efficient use of their assets and resources to provide the services local people want to see.”

Public Finance has published an article available at <http://www.publicfinance.co.uk/news/2015/11/mounting-reserves-leave-councils-well-placed-make-cuts-says-clark>, and the full publication is available at <https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-in-england-2014-to-2015-final-outturn>

Response to flooding

The Bellwin scheme, which compensates eligible authorities for exceptional costs incurred in incidents like flooding, has been opened for councils affected by floods resulting from storms Desmond and Eva.

Authorities are eligible for costs under the scheme when they have spent more than 0.2% of their calculated annual revenue budgets on works.



Government and economic news

Bellwin allows eligible authorities to apply to have 100% of their costs above threshold reimbursed by the government.

Eligible authorities include:

- ▶ Councils
- ▶ Policing bodies
- ▶ Fire and rescue authorities
- ▶ National Park authorities

For more information see <https://www.gov.uk/government/news/north-west-england-floods-2015-government-response>.

Council Tax support

A review into the effectiveness of Council Tax support schemes across the country has been initiated, led by Member of Parliament, Eric Ollerenshaw, OBE.

Council Tax Benefit was reformed from 2013-14 to give councils the power to design their own schemes and align them to local needs. This review is intended to examine the implementation of this change and to consider whether or not this support should be part of the Universal Credit payments in the future.

Further details of the review are available at:

<https://www.gov.uk/government/news/launch-of-review-into-council-tax-support>.

Public sector exit payment recovery regulations

The government is consulting on draft regulations that will give effect to the powers enacted in the Small Business, Enterprise and Employment Act 2015. These regulations allow for the recovery of exit payments following the return of a high earner to the public sector within a year of their initial departure.

Changes made to the policy since the previous consultation include:

- ▶ The minimum earnings threshold for individuals subject to the recovery provisions has been lowered from £100,000 to £80,000
- ▶ The policy has been extended to include qualifying returns to any part of the public sector, rather than only to the same part of the public sector
- ▶ Introduction of a tapered recovery period for 12 months from the exit date
- ▶ Recovery will now include employer funded pension 'top up' payments made under the Local Government Pension Scheme.

Public sector organisations that are in scope and those that are proposed to be exempt are included in the draft regulations.

Following this consultation, the regulations will go through Parliamentary scrutiny, and the intention is that the policy will take effect from April 2016.

Read more at <https://www.gov.uk/government/news/government-calls-time-on-public-sector-parachute-payments-for-boomerang-bosses>.



Accounting, auditing and governance

Faster Close update

Since our think piece ‘accelerating your financial close arrangements’ in the summer – we have worked together with our clients to successfully deliver another round of financial statements audits.

We have seen again a number of our clients achieve the earlier 31 July deadline – three years ahead of schedule. Nationally, 5% of opinions were issued by 31 July for 2014-15.

At other clients, we have seen a shortening of the actual audit window as both preparers and auditors refine the operational timetable in readiness for 2017-18 audits.

The think piece set out some areas where preparers can hone their closedown plans and work with their auditors in the run up to the revised timetable. Discussions with clients around the country are showing encouraging signs that finance teams are already grasping the issue and working on solutions to enable them to prepare and submit draft financial statements and supporting working papers to the auditor by 31 May. Twenty-one percent of our clients have committed to this earlier target for the 2015-16 audits.

On our side, as a firm, we are reviewing how we can streamline our audit approach, to provide maximum ability to undertake early substantive testing across a Month 8-10 window, thereby reducing some pressure in the key June – July audit window. This may not work in all cases, because of the budget setting process, so other ways of streamlining the audit approach are also being developed.

In addition, we are addressing the resourcing challenge that this presents to audit firms, with a significant recruitment campaign to enable us to continue to deliver exceptional client service across the entire sector. This will require us to phase our audits, at both an interim and final audit stage to allow us greater flexibility in resource deployment and audit clients should be prepared to have bigger audit teams on site for shorter periods of time, as running all audits concurrently is not likely to be possible.

A key issue arising from our recent discussions is dealing with the governance processes at councils for receiving the auditor's report and approving the accounts. There are a wide range of approval processes in place at councils as a result of custom and practice over the years, and some are more streamlined than others.

Councils will need to review their governance processes for approving the accounts with a view to making it as simple as possible to ensure the maximum amount of the nine week window for audit can be used for audit procedures. Under the Account and Audit Regulations 2015, it is only the responsibility of the committee ‘charged with governance’ to approve the financial statements ahead of final certification by the s151 officer. Adding additional layers of approval through to Cabinet or Full Council slows down the governance process and potentially adds to the audit burden.

For 2014-15 audits, 8% of our clients had Audit Committee meetings scheduled before September for approval of the financial statements. For 2015-16, in several instances Audit Committee timetables have not yet been finalised, however, currently 7% of our client base has already confirmed that their Audit Committee timetable would enable accounts authorisation before September, with 4% scheduled before 31 July 2016.



Accounting, auditing and governance

An effective Audit Committee is one which can appropriately scrutinise the financial statements and the auditor's results report prepared under International Standard on Auditing (UK&I) 260, and challenge officers about accounting policies and estimates in order to be able to approve the financial statements on behalf of the council.

Given the lead time for amending corporate governance processes, officers should review the approval arrangements, and schemes of delegation from Full Council, ensuring that the Audit Committee operates as effectively as possible and to the remit as set out by CIPFA in its guidance 'Audit Committees: Practical Guidance for Local Authorities and Police (2013 edition)'.

We are encouraged by the response of our clients to this challenge and the acceptance that it is a joint responsibility to achieve the faster close, and we will continue to work with you as we both prepare for the advanced deadlines.

For further information, please speak to a member of your engagement team.

Value for Money guidance

The Local Audit & Accountability Act 2014 Section 20(1) requires that: 'In auditing the accounts of a relevant authority other than a health service body, a local auditor must, by examination of the accounts and otherwise, be satisfied ... (c) that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

The Act is implemented through the National Audit Office's 2015 Audit Code of Practice (the Code), which sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act.

Paragraph 3.14 sets out that 'the auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report as appropriate to audited bodies other than health service bodies, providing a conclusion that in all significant respects, the audited body has (or has not) put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period'.

To support the Code, the NAO issues guidance to auditors. This is undertaken by preparing and publishing Auditor Guidance Notes (AGNs) which are publically available on its website. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

AGN 03 – Auditors' work on Value for Money Arrangements was published in November 2015 following a consultation period. It confirms the requirement is for auditors to issue a conclusion in respect of the single overall criterion that:

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

To assist auditors the NAO provide three sub-criteria that are intended to guide auditors in reaching their overall judgement:

- ▶ Informed decision making
- ▶ Sustainable resource deployment
- ▶ Working with partners and other third parties

However, these are not separate and auditors are not required to reach a judgement against each one.

Underpinning these sub-criteria are the proper arrangements,



Accounting, auditing and governance

which are aligned to the scope of arrangements that are already required to be put in place and reported on through documents such as the annual governance statement.

Auditors are required to undertake a risk assessment to identify any significant risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.

The Code defines 'significant' as follows: **"a matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects."**

Where such a significant risk is identified, further audit work will be undertaken based on the auditor's professional judgement. If the auditor does not identify any significant risks, there is no requirement to carry out further work.

Full information on all of the above can be found within AGN 03. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

New arrangements for the exercise of public rights

The Accounts and Audit Regulations 2015 (the Regulations) set out new arrangements for the exercise of public rights from 2015-16 onwards. In respect of principal bodies, paragraph 9(1) requires the responsible financial officer to commence the period for the exercise of public rights and to notify the local auditor of the date on which that period was commenced. This is a change to previous arrangements where the local auditor notified the audited body of the appointed date on or after which local government electors could exercise their rights.

Paragraph 9(2) is clear that the final approval of the statement of accounts by the authority prior to publication cannot take place until after the conclusion of the period for the exercise of public rights. For 2015-16, the thirty working day period for the exercise of public rights must include the first ten working days of July, this means that authorities will not be able to approve their audited accounts or publish before 15 July 2016.

Paragraph 14(1) states that any rights of objection, inspection and questioning of the local auditor conferred by sections 26 and 27 of the Act may only be exercised within a single period of 30 working days. In effect this paragraph brings the period in which an elector can question the auditor into the inspection period, rather than immediately following the inspection period as per the previous regulations. As a result of this, auditors are unable to issue their audit reports until the 30 day period has been concluded.

Read the regulations in full at <http://www.legislation.gov.uk/uksi/2015/234/regulation/2/made>.

Consultation: HRA accounting

The Department for Communities and Local Government is consulting on directions to replace the Housing Revenue Account (Accounting Practices) Directions 2011, which will cease to have effect in relation to Housing Revenue Accounts of local housing authorities in England from 1 April 2016. DCLG describes the replacement directions as essentially technical changes in order to bring the accounting requirements in line with proper practices under international accounting standards. They specify information to be disclosed in the notes to the HRA.

See full details of the draft direction at:

<https://www.gov.uk/government/consultations/housing-revenue-account-accounting-practices-directions-2015>



Regulation news

Report on the results of auditors' work 2014-15

Public Sector Audit Appointments (PSAA) have published their first report showing the results of auditors' work for 2014-15 covering 509 principal bodies and 9,755 small bodies.

The report includes information on timeliness of reporting, as well as the outcomes of those reports.

- ▶ Auditors were able to issue an early opinion (by 31st July 2015) for 5% of principal bodies.
- ▶ The auditor was unable to issue an opinion by the statutory deadline of 30th September at 15 bodies (3%), compared to 2% in 2013-14.
- ▶ Consistent with 2013-14, no non-standard opinions were issued.
- ▶ 20 non-standard value for money opinions were issued, including 1 adverse conclusion, 18 except-for conclusions, and one report on matters arising.
- ▶ Ten value for money conclusions were outstanding at the time of publishing the report.

Read the report in full at:

<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>



Key questions for the audit committee

What questions should the Audit Committee ask itself?

Have we considered our responses to the key government consultations that affect us, including New Homes Bonus and HRA Accounting Directions?

Have we formulated a response to support the review of Local Council Tax Support Schemes? How effective have our council tax support arrangements been since 2013-14?

Are we monitoring our progress against the revised timetable for closing the accounts from 2017-18 onwards?

Have we considered amending governance arrangements to streamline the approval of the financial statements?



Find out more

Ey Item Club Summer 2015 forecast

For details of the EY Item Club's latest forecast, see <http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

Local Government Devolution

Read the government announcements in full at <https://www.gov.uk/government/news/historic-devolution-deal-to-power-the-midlands-engine> and <https://www.gov.uk/government/news/liverpool-devolution-deal-boosts-the-northern-powerhouse>.

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Read more at:

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Response to flooding

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Council Tax Support

Further details of the review are available at:

<https://www.gov.uk/government/news/launch-of-review-into-council-tax-support>.

Public Sector Exit Payment Recovery Regulations

Read more at <https://www.gov.uk/government/news/government-calls-time-on-public-sector-parachute-payments-for-boomerang-bosses>

Faster Close update

The original publication 'accelerating your financial close arrangements' can be accessed at [http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/\\$FILE/EY-accelerating-your-financial-close-arrangements.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/$FILE/EY-accelerating-your-financial-close-arrangements.pdf)

For more information, please contact a member of your engagement team.

Value for Money guidance

Full information on the new guidance can be found within AGN 03. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

New arrangements for the exercise of public rights

Read the regulations in full at <http://www.legislation.gov.uk/uksi/2015/234/regulation/2/made>

Consultation: HRA accounting

See full details of the draft direction at:

<https://www.gov.uk/government/consultations/housing-revenue-account-accounting-practices-directions-2015>

Report on the results of auditors' work 2014-15

Read the report in full at:

<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>

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REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	17th FEBRUARY 2016	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE & CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/EY/audit plan cover
SUBJECT:	EXTERNAL AUDIT PLAN FOR THE YEAR ENDING 31ST MARCH 2016	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 01

1.0 Recommendations

- 1.1 That the proposed Audit Plan for the year ending 31st March 2016 is considered and the proposed approach to undertaking audit work for the year is approved.

2.0 Purpose of Report

- 2.1 For Ernst and Young LLP, as the Council's appointed auditors, to present their Audit Plan and approach for the year ending 31st March 2016.

3.0 Detail

- 3.1 The Plan sets out where the External Auditors will focus their activities for the year ending March 2016. Predominantly, this will involve work in respect of the Council's Annual Accounts and Financial Statements, together with assessing the Council's arrangements for securing Value for Money.
- 3.2 This is a broad plan and details how the Auditors will approach their work in order to satisfy statutory requirements and to benefit the Council. It details the work and testing to be undertaken and identifies potential risk areas that will be followed up over the coming months.
- 3.3 The outcome will be reported to the Audit Sub-Committee in September, with the Annual Audit Letter being reported to Full Council in November 2016.

4.0 Financial Implications

- 4.1 The Audit Plan provides an estimate of the fees that will be charged to the Council and how they are calculated. These fees will be contained in the Council's budget allocation for External Audit.

5.0 Corporate Implications

5.1 None directly.

6.0 Community Implications

6.1 None directly.

7.0 Background Papers

None

South Derbyshire District Council

Year ending 31 March 2016

Audit Plan

17 February 2016

Ernst & Young LLP



Building a better
working world

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

17 February 2016

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

We welcome the opportunity to discuss this Audit Plan with you on 17 February 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Steve Clark
For and behalf of Ernst & Young LLP
Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the [PSAA website](http://www.psaa.co.uk) (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

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

- ▶ Our audit opinion on whether the financial statements of South Derbyshire District Council give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended;
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness;

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

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

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

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

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

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<p>We will</p> <ul style="list-style-type: none"> ▶ Review and test revenue and expenditure recognition policies ▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias ▶ Develop a testing strategy to test material revenue and expenditure streams ▶ Review and test revenue cut-off at the period end date
Risk of management override	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ▶ Reviewing accounting estimates for evidence of management bias, and ▶ Evaluating the business rationale for significant unusual transactions
Other financial statement risks	
PPE valuation	
<p>The Council has a large and complex asset base that makes a significant proportion of its balance sheet.</p>	<p>We will</p> <ul style="list-style-type: none"> ▶ test the revaluation cycle, including instructions and completeness of information provided to the valuer ▶ review the classification of assets and ensure the correct valuation methodology has been applied ▶ Consider the approach adopted by the valuer and their findings, making use of our valuation experts as appropriate.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

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

For 2015-16 this is based on the overall evaluation criterion:

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

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

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

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

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

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

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our initial risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risks which we view as relevant to our value for money conclusion:

Significant value for money risks	Our audit approach
Securing financial resilience	
In its latest medium term financial plan, the Council has identified that it will experience budget deficits from 2017/18 to 2020/21 and that the general fund will fall below the £1m minimum level in 2019/20 and 2020/21. The Council does not have projected general fund reserves to cover the expected deficits to 2020/21. The Council will need to review its financial plans going forward and achieve savings of £1.5m.	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ► The Council's plans to address the identified deficit and progress in developing and implementing savings plans.

Where our detailed planning and risk assessment identifies any additional risks, we will communicate those to the Audit Committee.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

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

We report whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

- ▶ Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require;
- 2. **Arrangements for securing economy, efficiency and effectiveness (value for money)**

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

4.2 Audit process overview

Processes

A key consideration in our audit planning process is the effectiveness of entity level controls; including the extent to which the Council assesses risk, implements controls in order to minimise risk and performs ongoing testing and monitoring of the effectiveness of the controls implemented. Good entity controls are underpinned by an effective IT environment. Our IT audit specialists will assess the Council's IT general control environment, providing technical expertise and insight to determine the effectiveness of the control environment.

Analytics

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

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

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

Internal audit

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

Use of specialists

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

Area	Specialists
PPE	Council's valuer
Pensions	PSAA consulting actuary and Pension Fund Actuary

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

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

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

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;

- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- ▶ Auditor independence.

Procedures required by the Code

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

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is £884k based on 2% of gross net cost of services expenditure. We will communicate uncorrected audit misstatements greater than £44k to you.

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

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Erewash Borough Council is £49,275.

4.6 Your audit team

The engagement team is led by Steve Clark. Steve is supported by Michael Green (Engagement Manager) is responsible for the day-to-day direction of audit work and is the key point of contact.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2015/16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	October 2015	November 2015	Audit Fee Letter Progress Report
Risk assessment and setting of scopes	December 2015/ January 2016	February 2016	Audit Plan
Testing routine processes and controls	February/ March 2016		
Year-end audit	August 2016		
Completion of audit	September 2016	September 2016	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; and, overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2016	November 2016	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

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

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

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with the Audit Commission's Standing Guidance.

At the time of writing, there are no non-audit fees.

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

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

Self-review threats

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

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

Management threats

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

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

Other threats

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

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

Overall Assessment

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

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 £	Explanation
Opinion Audit and VFM Conclusion	49,275	49,275	
Total Audit Fee – Code work	49,275	49,275	
Certification of claims and returns ¹	16,313	16,313	
Non-audit work	-	-	

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Where relevant we can rely on the work of internal audit as planned;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

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

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

¹ Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the [Audit Committee]. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	► Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process 	► Report to those charged with governance
Misstatements <ul style="list-style-type: none"> ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant 	► Report to those charged with governance
Fraud <ul style="list-style-type: none"> ► Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud 	► Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity 	► Report to those charged with governance
External confirmations <ul style="list-style-type: none"> ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures 	► Report to those charged with governance
Consideration of laws and regulations <ul style="list-style-type: none"> ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	► Report to those charged with governance

Required communication	Reference
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Report to those charged with governance
Fee Information <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary
Opening Balances (initial audits) <ul style="list-style-type: none"> ▶ Findings and issues regarding the opening balance of initial audits 	<ul style="list-style-type: none"> ▶ Annual Audit Letter
Certification work <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<ul style="list-style-type: none"> ▶ Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter.

EY | Assurance | Tax | Transactions | Advisory

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REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 8
DATE OF MEETING:	17th FEBRUARY 2016	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE and CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/internal audit/quarterly reports/quarterly report cover
SUBJECT:	INTERNAL AUDIT PROGRESS REPORT	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 02

1.0 Recommendations

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

2.0 Purpose of Report

- 2.1 To provide an update on progress against the approved Internal Audit Plan. This details the performance and activity of Internal Audit between 1st December 2015 and 31st January 2016.

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: 17th February 2016



Our Vision

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

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South Derbyshire District Council – Internal Audit Progress Report

Summary

Role of Internal Audit

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

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

Recommendation Ranking

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

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

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

Control Assurance Definitions

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

- **None** - We are not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks were not being well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Limited** - We are able to offer limited assurance in relation to the areas reviewed and the controls found to be in place. Some key risks were not well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Reasonable** - We are able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks were well managed, but some systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Comprehensive** - We are able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls were in place and operating effectively and risks against the achievement of objectives were well managed.

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

South Derbyshire District Council – Internal Audit Progress Report

Audit Coverage

Progress on Audit Assignments

The following table provide Audit Sub-Committee with information on how audit assignments were progressing as at 31st January 2016.

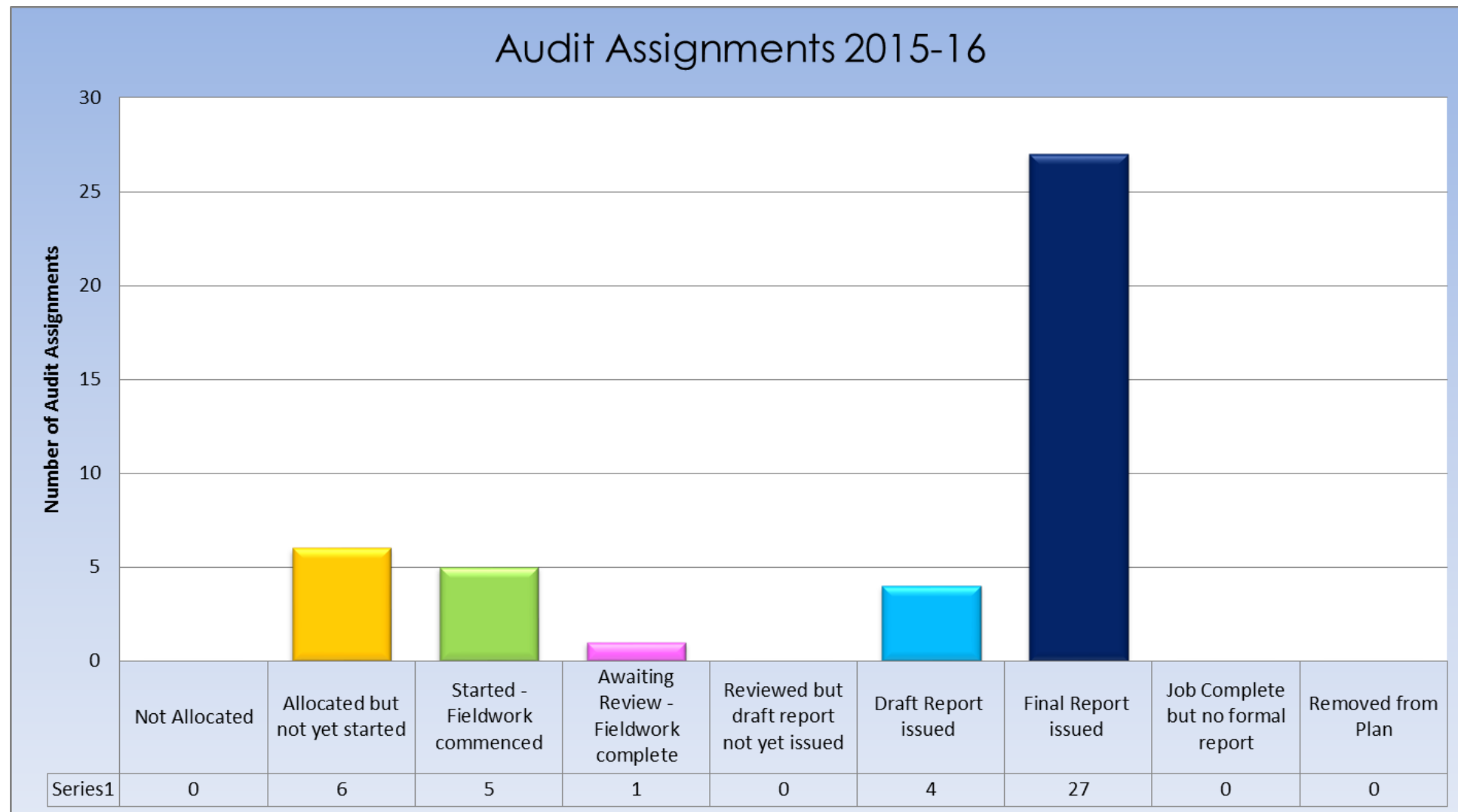
Audit Plan Assignments	Type of Audit	Current Status	% Complete
Main Accounting System (MTFP) 2015-16	Key Financial System	In Progress	45%
Treasury Management / Insurance 2015-16	Key Financial System	Final Report	100%
Council Tax / NNDR / Cashiering 2015-16	Key Financial System	In Progress	45%
Housing Benefits & Council Tax Support 2015-16	Key Financial System	In Progress	5%
Payroll / Officers Expenses & Allowances 2015-16	Key Financial System	In Progress	75%
Creditors / Debtors 2015-16	Key Financial System	Allocated	5%
People Management	Systems/Risk Audit	Final Report	100%
Information@Work	IT Audit	Fieldwork Complete	80%
Change & Configuration Management	IT Audit	In Progress	75%
Client Monitoring - Corporate Services Contract	Procurement/Contract Audit	Allocated	0%
Corporate Governance	Governance Review	Allocated	15%
Declarations of Interest	Governance Review	Final Report	100%
Petty Cash & Inventories	Systems/Risk Audit	Allocated	10%
Data Quality & Performance Management 2015-16	Governance Review	Final Report	100%
Fixed Assets 2015-16	Key Financial System	Allocated	15%
Commercial Rents	Systems/Risk Audit	Final Report	100%
Land Sales	Systems/Risk Audit	Draft Report	95%
Members' Allowances	Systems/Risk Audit	Allocated	10%
Development Control	Systems/Risk Audit	Draft Report	95%
Rosliston Forestry Centre	Systems/Risk Audit	Draft Report	95%
Rechargeable Repairs	Systems/Risk Audit	Final Report	100%
Rent Accounting	Systems/Risk Audit	Draft Report	95%
Income & Tenancy Management	Systems/Risk Audit	Final Report	100%
Sheltered Housing	Systems/Risk Audit	Final Report	100%
Grounds Maintenance	Systems/Risk Audit	Final Report	100%
Street Cleansing	Systems/Risk Audit	Final Report	100%
Safer Neighbourhood Wardens	Systems/Risk Audit	Final Report	100%
Cash Office Discrepancy	Investigation	Final Report	100%

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

South Derbyshire District Council – Internal Audit Progress Report

Audit Coverage

Progress on Audit Assignments Chart



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South Derbyshire District Council – Internal Audit Progress Report

Audit Coverage

Completed Audit Assignments

Between 1st December 2015 and 31st January 2016, the following audit assignments have been finalised since the last Progress Report was presented to this Committee (the overall control assurance rating is shown in brackets):

- Treasury Management / Insurance 2015-16 (**Reasonable**).
- Data Quality & Performance Management 2015-16 (**Comprehensive**).

No audit assignments attracted a 'Limited' or 'None' control assurance rating and as such it is not necessary to bring any issues to the Sub-Committee's attention.

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

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

Treasury Management / Insurance 2015-16

Overall Control Assurance Rating: **Reasonable**

This audit focused on the controls over the operations and activities of the Treasury Management function, including investments and

borrowing, reporting and training. It also focused on ensuring there were adequate insurance arrangements in place.

From the 34 key controls evaluated in this audit review, 26 were considered to provide adequate control and 8 contained weaknesses. The report contained 8 recommendations, 7 of which were considered a low risk and 1 was considered a moderate risk. The following issues were considered to be the key control weaknesses:

- No formal training sessions had been delivered to Members to ensure they were suitably trained to undertake the scrutiny role of Treasury Management. (**Low Risk**)
- Investments were being approved via email correspondence, but the financial detail that was being provided to the approver was limited. (**Low Risk**)
- The instruction to update the Council's list of authorised signatories had not been forwarded onto the banks in a timely manner. (**Moderate Risk**)
- Access permissions to the network and Treasury Management records were not properly restricted and accounts of former employees had not been disabled. (**Low Risk**)
- The password configuration for access to the cash flow spreadsheet was weak and all members of the finance team had been granted permissions to read, write, execute or modify the document. (**Low Risk**)
- The "tracked changes" facility within the cash flow spreadsheet had not been activated, to allow for an audit trail of changes made to the information to be obtained. (**Low Risk**)
- No checks were being undertaken to ensure that the Council's cash flow spreadsheet's logic and formulae had not been modified. (**Low Risk - Risk accepted**)

South Derbyshire District Council – Internal Audit Progress Report

- The Council's new Insurance policy documents had not been checked to confirm they were accurate and that the necessary insurance cover as agreed was being provided. (Low Risk)

and the remaining recommendation was due to be implemented by 1st April 2016.

All 8 of the control issues raised within this report were accepted. Positive actions had already been taken to address 2 of the control issues and it was agreed that 4 of these control issues would be addressed by 1st February 2016, with another 1 by 30th June 2016. In respect of the remaining low risk issue, Management decided not to take any mitigating action and chose to accept the risk.

Data Quality & Performance Management 2015-16

Overall Control Assurance Rating: **Comprehensive**

This audit focused on the governance arrangements in place over Data Quality & Performance Management at the Council to provide assurance that the systems were operating effectively and providing an acceptable level of control.

From the 19 key controls evaluated in this audit review, 14 were considered to provide adequate control and 5 contained weaknesses. The report contained 6 recommendations, all of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- TProvision had not been made for the review of the Data Quality Strategy and referenced documents were no longer relevant. (Low Risk)
- The issue of poor quality performance data was not being considered on the Council's Departmental Risk Registers. (Low Risk)
- The information recorded in 2 out of 18 Local Definitions sampled was not comprehensive and complete. (Low Risk)

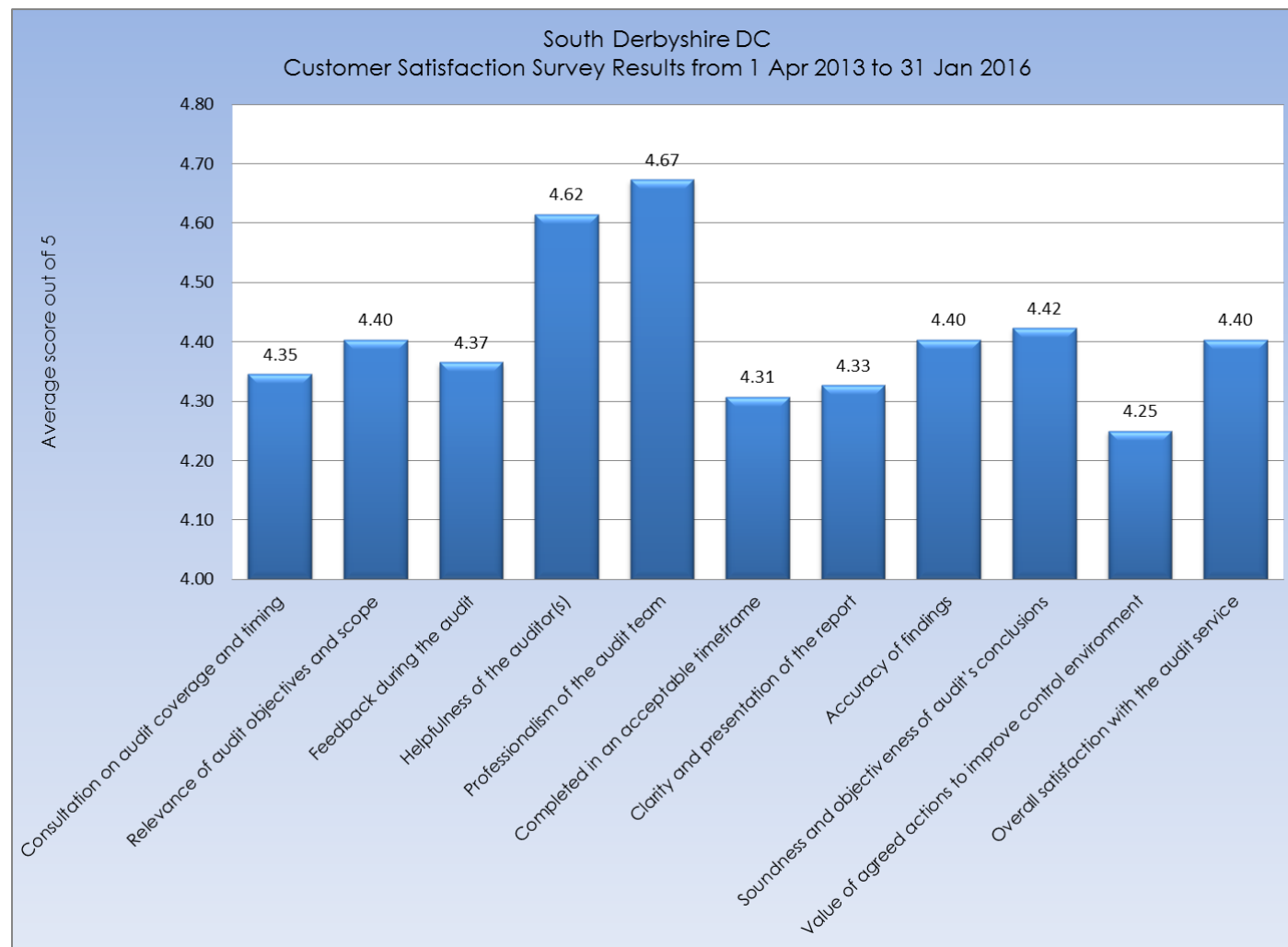
The 3 control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Positive action in respect of 1 recommendation was due to be taken by 17th March 2016, a further recommendation was due to be addressed by 31st March 2016

South Derbyshire District Council – Internal Audit Progress Report

Audit Performance

Customer Satisfaction

The Audit Section sends out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent. The chart across summarises the average score for each question from the 52 responses received between 1st April 2013 and 31st January 2016. The overall average score from the surveys was 48.5 out of 55. The lowest score received from a survey was 40, whilst the highest was 55 which was achieved on 5 occasions.



South Derbyshire District Council – Internal Audit Progress Report

Audit Performance

Customer Satisfaction

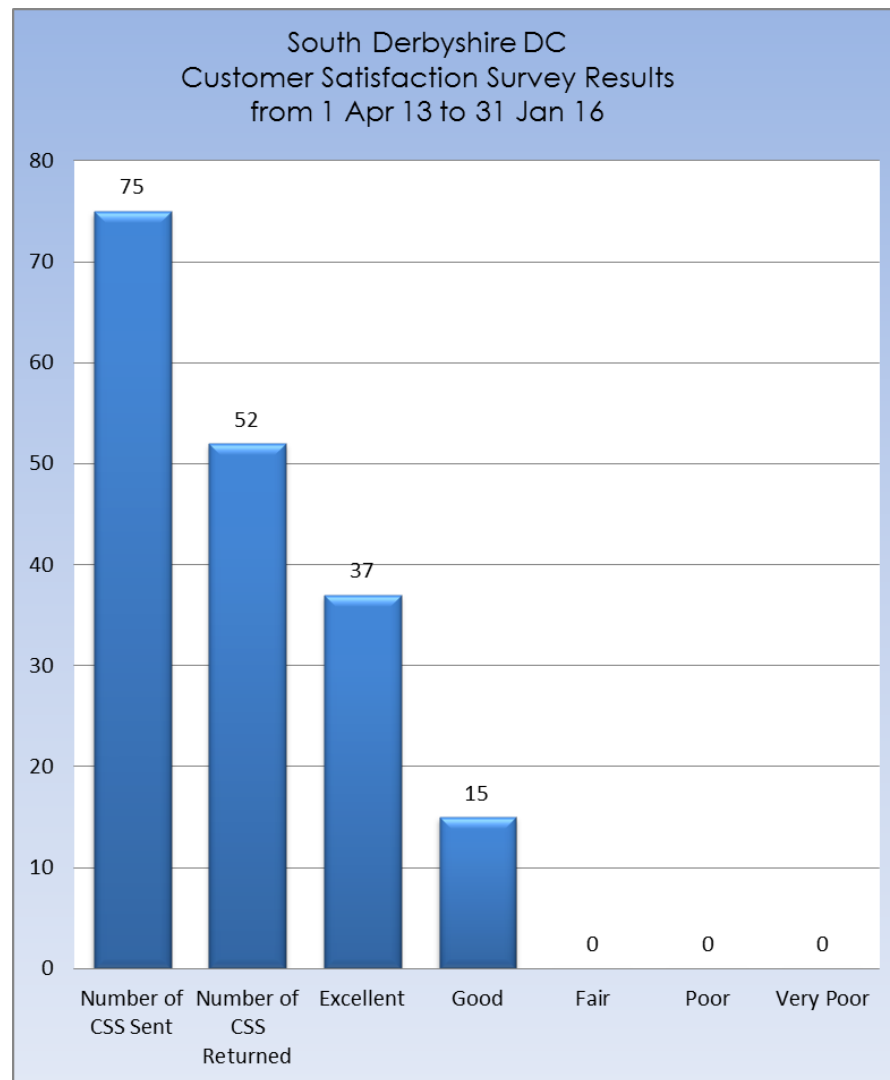
Since 1st April 2013, we have sent 75 Customer Satisfaction Surveys (CSS) to the recipients of audit services. Of the 75 sent we have received 52 responses.

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

The 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 37 of 51 responses categorised the audit service they received as excellent, another 15 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.



South Derbyshire District Council – Internal Audit Progress Report

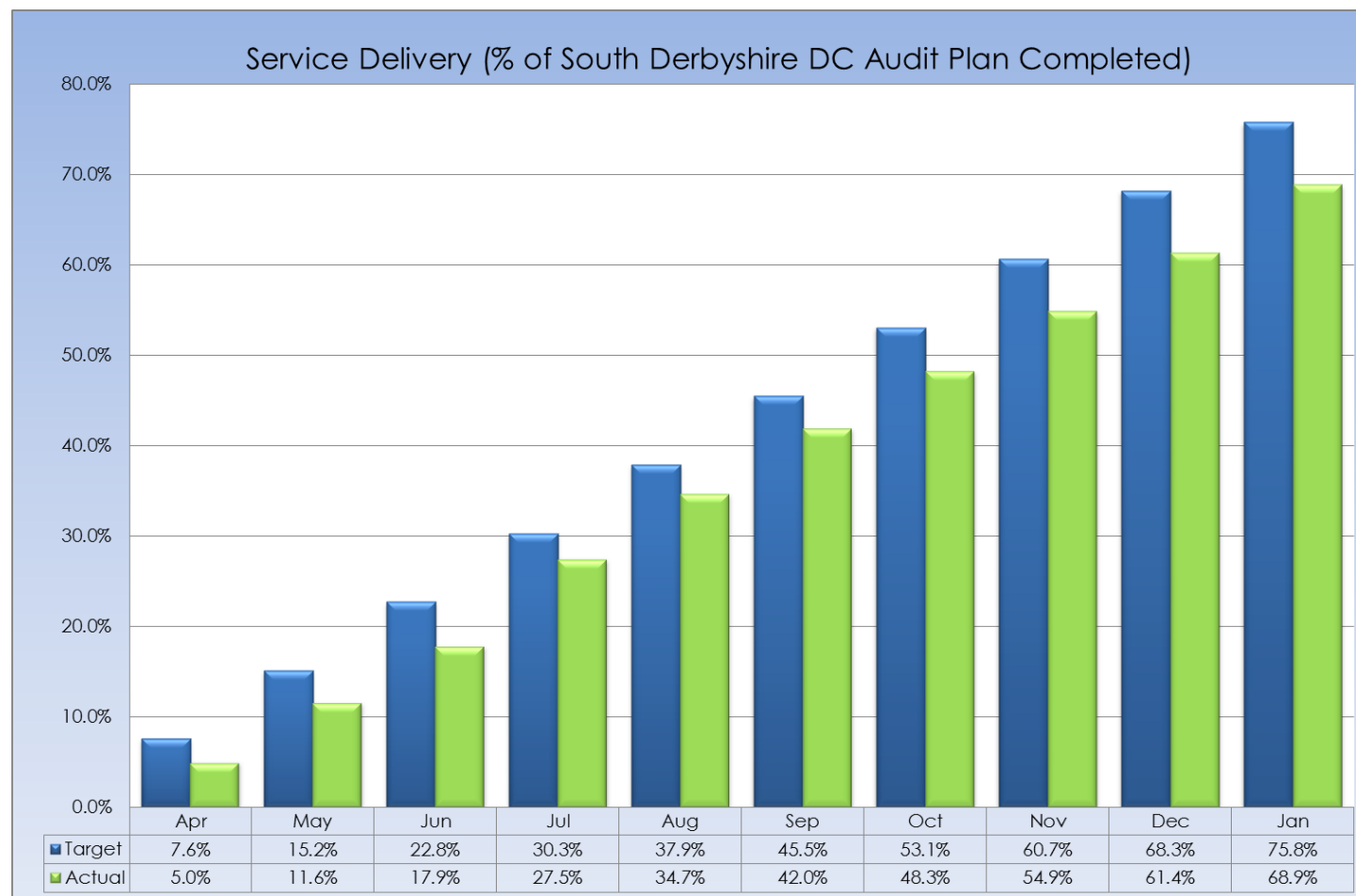
Audit Performance

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 2015-16 Audit Plan (including incomplete jobs brought forward) after 10 months of the Audit Plan year.

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



South Derbyshire District Council – Internal Audit Progress Report

Recommendation Tracking

Follow-up Process

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

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

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

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

Implementation Status Details

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

	Implemented	Being implemented	Risk Accepted	Superseded	Due, but unable to obtain progress information	Hasn't reached agreed implementation dates	Total
Low Risk	359	29	9	6	5	33	441
Moderate Risk	80	5	1	4	2	5	97
Significant Risk	7	0	0	0	0	0	7
Critical Risk	0	0	0	0	0	0	0
	446	34	10	10	7	38	545

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

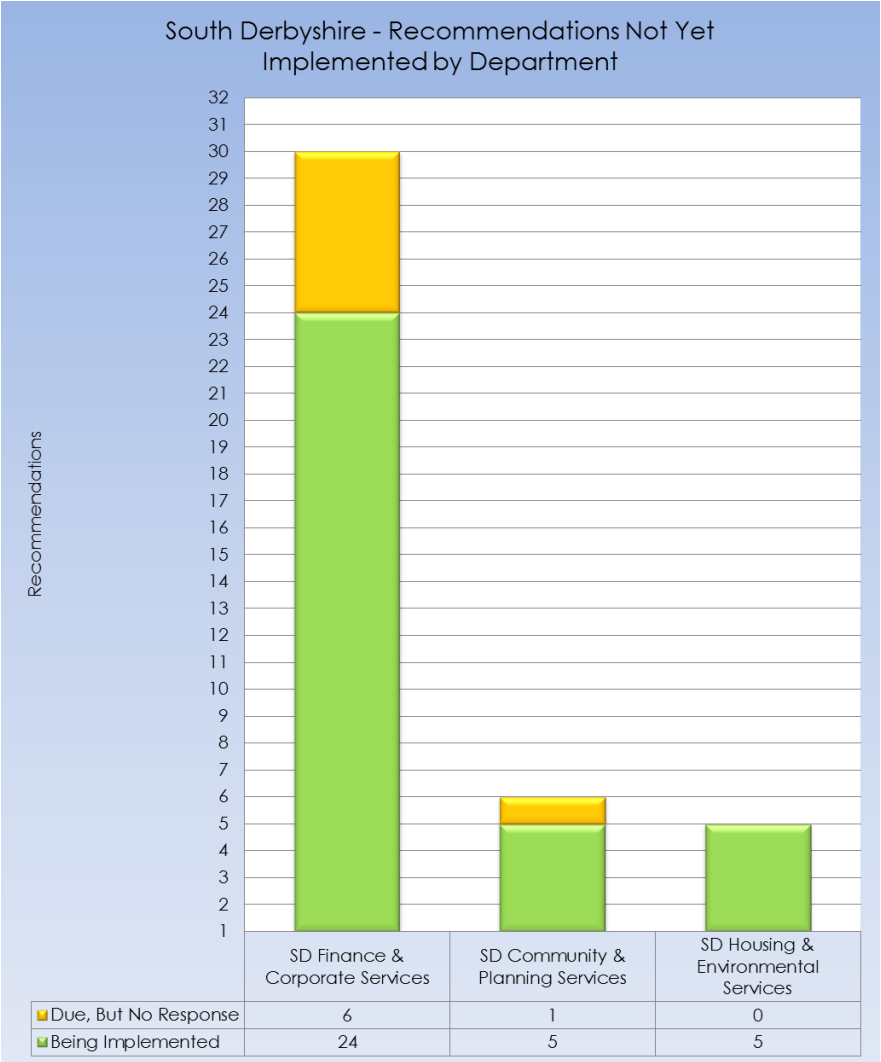
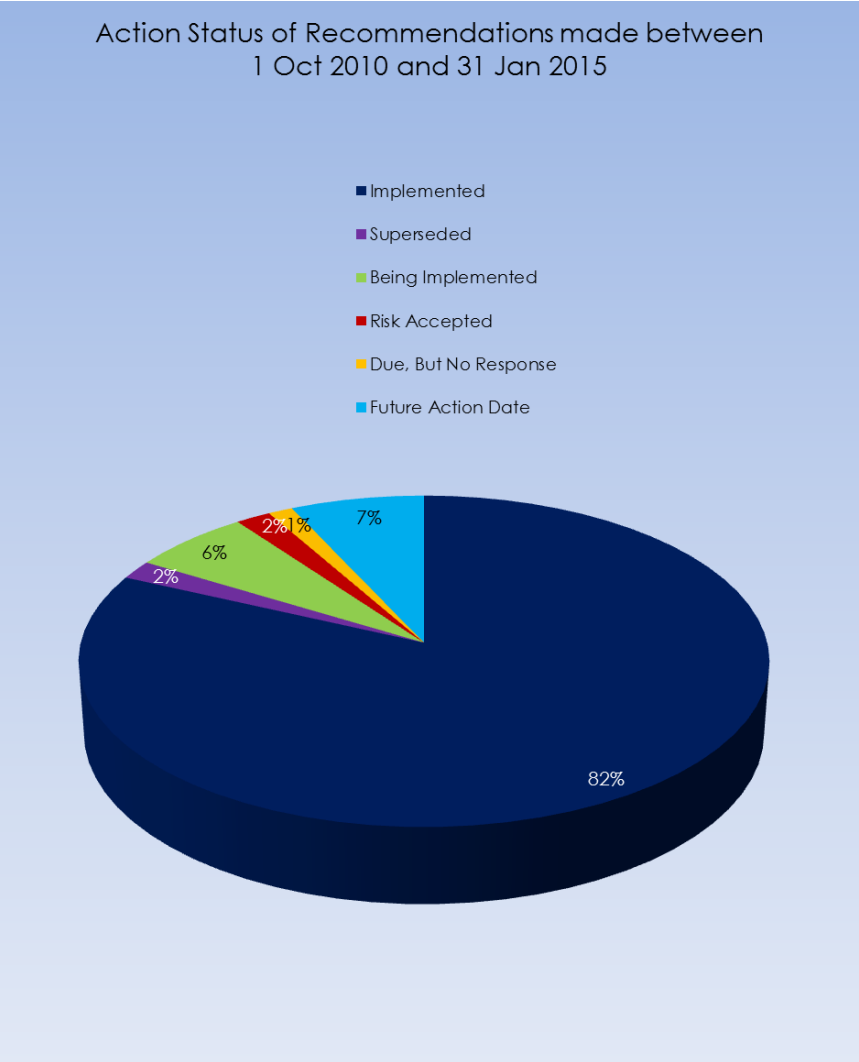
Recommendations Not Yet Implemented	Corporate Services	Community & Planning Services	Housing & Environmental Services	TOTALS
Being Implemented	24	5	5	34
Due, but unable to obtain progress information	6	1	0	7
	30	6	5	41

Internal Audit has provided Committee with summary details of those recommendations still in the process of 'Being Implemented' and those that have passed their due date for implementation. As stated earlier in this report, we will now only provide full details of each moderate, significant or critical risk issue where management has decided not to take any mitigating actions (shown in the 'Risk Accepted' category above). All the risk accepted issues shown above 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

With the current number of outstanding recommendations (43), we no longer propose to bring every one in detail to this Committee. Instead we have sought to highlight those which we believe deserve Committee's attention, either through the level of risk associated with the control issue or the length of the delay in implementing agreed actions or our inability to obtain satisfactory progress information from Management. Accordingly, the following are detailed for Committee's scrutiny:

Corporate Services

Car Allowances

Control Issue 4 - A neighbouring Authority has revised its car user allowance scheme and introduced a new scheme which has removed the essential user lump sum and pays one mileage rate to both types of user. This will enable the Authority to make significant savings in future years.

Risk Rating – Low Risk

Status Update - This will be considered as part of the pay and grading review in 2016/17.

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

Council Tax / NNDR / Cashiering 2013-14

Control Issue 3 – The error reports and zero liability bills highlighted by the Council Tax billing runs had not been corrected.

Risk Rating – Low Risk

Status Update – This action is due to be completed at the end of the calendar year. The exercise is being treated as data cleansing from the implementation of Academy, and will be a task allocated to apprentices. Staff shortages led to this being returned to a low priori.

Original Action Date 31 Dec 14 **Revised Action Date** 30 Jun 16

Corporate Governance

Control Issue 2 – The Member and Officer Relations protocol document did not include the responsibility of officers to provide training and development to Members and to respond in a timely manner to queries raised by Members. The document had not been reviewed since 2003.

Risk Rating – Low Risk

Status Update – This will be included in a wider review of the whole Constitution to bring it up to date. It was envisaged that this document would be brought up to date in advance of the May 2015 elections. However, this window was missed and the Monitoring Officer expects that this will be completed once the next committee cycle commences. Monitoring Officer suggested that this recommendation will be implemented as of 21 Jan 2016, when Members are expected to meet and approve amendments to the policy document.

Original Action Date 1 Feb 14 **Revised Action Date** 30 Jan 16

South Derbyshire District Council – Internal Audit Progress Report

Capacity Management

Control Issue 3 – There were a number of virtual and host servers with dangerous storage utilisation and memory utilisation statistics. Allowing production systems to exceed high risk capacity thresholds without following capacity plans can lead to performance, availability and reliability issues for business critical IT services.

Risk Rating – **Moderate Risk**

Status Update – Some work has been undertaken, some identified machines are due for migration and decommission - however this is unlikely to be complete until end April 2016.

Original Action Date 30 Oct 15 **Revised Action Date** 30 Apr 16

Control Issue 6 – The Council had not implemented a central CMIS (capacity management information system), for storing utilisation data, capacity data, capacity plans or capacity reports. Lack of a CMIS can impact on incident resolution times specific to capacity and performance incidents, ineffective process integration, and an inability able to make effective and accurate decisions and reports on capacity related issues.

Risk Rating – **Moderate Risk**

Status Update – No Response Received

Original Action Date 29 Jan 16 **Revised Action Date** n/a

Partnership Governance

Control Issue 7 – Key financial rules and procedures documents had not been issued to Aurora.

Risk Rating – **Low Risk**

Status Update – PMM have discussed this and agreed recommendation for February Executive meeting. SDDC financial procedures doc has been sent to Aurora. Recommendation is - agreed principle that Aurora will act in general accordance with SDDC's financial rules and procedure. Acknowledged this has been custom and practice. However noted that discretion should be allowed with the requirement to always get 3 quotes

for purchases up to £2,500. Where there is any doubt about the requirement for obtaining value for money or 3 quotes then the matter should be referred to SDDC contract manager. MR to pass on SDDC financial procedures document to ACD for reference. PMM recommendation to go to next Exec.

Original Action Date 31 Mar 15 **Revised Action Date** 1 Mar 16

CRM Security Assessment

Control Issue 1 – The CRM databases were housed on a SQL Server 2005 SP2 system. Support for SQL Server 2005 SP2 ended in 2007. Unsupported database software is exposed to newly discovered security vulnerabilities or functionality bugs, which could be exploited to jeopardise the confidentiality, availability and integrity of the CRM user data.

Risk Rating – **Low Risk**

Status Update – Live implementation of new system will be approx June 2016.

Original Action Date 30 Apr 15 **Revised Action Date** 30 Jun 16

Control Issue 3 – There were a number of configurations and maintenance issues exposing the SQL Server to serious performance and reliability issues. This could ultimately impact on the performance and availability of the Councils CRM application which would affect service delivery.

Risk Rating – **Moderate Risk**

Status Update – Live implementation of new system will be approx June 2016.

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

South Derbyshire District Council – Internal Audit Progress Report

Data Protection & Freedom of Information

Control Issue 4 – The Council's mobility assets (i.e. smartphones and tablets) were not all centrally managed by a mobile device management application. This can lead to unsecure devices being in operation processing personal and sensitive data, which could become vulnerable to unauthorised disclosure if lost or stolen.

Risk Rating – Moderate Risk

Status Update – The IT team have been using Airwatch as an MDM tool, which is installed on Councillor iPads. Other options are being explored with the IT team and O2, our mobile communications provider.

Original Action Date 29 Oct 15 **Revised Action Date** 31 Mar 16

Control Issue 7 – There were a number of Laptops in operation without full disc encryption, and there was no central monitoring application in operation to provide assurance that all Laptop devices had full disc encryption. This makes any personal or sensitive data stored locally on the Laptop's drive highly prone to unauthorised access if the device was lost or stolen.

Risk Rating – Low Risk

Status Update – No Response Received

Original Action Date 17 Dec 15 **Revised Action Date** n/a

Control Issue 8 – There were no technical controls that prevented writing of data out to unencrypted removable storage devices such as USB drives. Failure to enforce such technical controls makes any data written to unencrypted removable media highly prone to unauthorised access if lost or stolen.

Risk Rating – Moderate Risk

Status Update – No Response Received

Original Action Date 29 Jan 16 **Revised Action Date** n/a

Business Continuity

Control Issue 11 – The Business Impact Assessment had received no recent formal update. There was no documentation to support any updates in recent years.

Risk Rating – Moderate Risk

Status Update – The update is about to start following finalisation of the BIA template and methodology.

Original Action Date 30 Sep 15 **Revised Action Date** 30 Apr 16

Control Issue 16 – Business Continuity Plan Testing did not verify that intervals established in the Business Impact Assessment could be achieved.

Risk Rating – Low Risk

Status Update BIAs are now being reviewed using the new template. The period to March 2016 will capture revised BIA data. This research will reconsider the RTOs for each service and results will be incorporated into a BC plan update. This will be examined by testing

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

South Derbyshire District Council – Internal Audit Progress Report

Creditors / Debtors 2013-14

Control Issue 1 – As the Sundry Debtor Credit Control policy and procedure wasn't dated or subject to version control, we could not determine whether it had been subject to annual review. Also, we were unable to determine whether the minimum amount on which court action is taken and the minimum invoice amount had been subject to annual review.

Risk Rating – Low Risk

Status Update – It is intended to have an updated version in place by 31 December 2015. This will cover the various issues that have been raised. The plan is to pull together the various 'recovery' policies and have a single document.

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

Data Quality & Performance Management 2014-15

Control Issue 6 – There was no documented methodology for producing the Speed of Planning Applications performance figures.

Risk Rating – Low Risk

Status Update – The Council's position is that we have a contract with Northgate PS to supply the software to undertake this task. Currently the software does not do this correctly. As such the Planning Section are waiting for Northgate to deal with this issue so that we can log the process as it should operate rather than logging the current process which will otherwise be irrelevant. We DO NOT have a date for when this issue will be resolved.

Original Action Date 1 Jul 15 **Revised Action Date** 1 Jan 16

PCI Compliance

Control Issue 4 – Reporting lines and responsibilities for ensuring PCI DSS compliance had not been defined within the Council.

Risk Rating – Low Risk

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

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

Control Issue 1 – The consequences of non-compliance with the PCI DSS had not been considered as part of the Council's risk management process.

Risk Rating – Low Risk

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

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

South Derbyshire District Council – Internal Audit Progress Report

Control Issue 3 – The Council had not received any correspondence from the Third Party Service Providers – Global Pay or Capita Business Services confirming responsibilities for PCI compliance.

Risk Rating – Low Risk

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

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

Housing & Environmental Services

Vehicles, Plant & Equipment

Control Issue 3 – There was not an adequate information management system in place that provided up-to-date and accurate vehicle, plant and equipment data. The management information system in use was essentially the inventory record that audit testing revealed had not been appropriately updated.

Risk Rating – Moderate Risk

Status Update – The spreadsheet has been significantly improved but the view is to acquire a tracking system with fleet management functionality, revised target date to end of March. Due to changing priorities, workload and staffing issues a new action date has been agreed with the Director of Housing and Environmental Services. The new plan is for a draft strategy to be completed by 1st July 2015, to be taken to Committee on 12th August 2015. Due to start procurement once strategy approved (Dec 2015), this will be one of the tasks for the temporary transport project manager.

Original Action Date 30 Nov 14 **Revised Action Date** 1 Mar 16

Community & Planning Services

Section 106 Agreements

Control Issue 2 – Periodic reconciliations were not being done between the Land Charges records and the Planning Team's Section 106 agreement records to ensure that all agreements had been correctly registered as charges against the relevant land.

Risk Rating – Low Risk

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

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

Bereavement Services

Control Issue 1 – Although there were some procedural guidelines and checklists in place, the documents were fragmented and the checklists were not always being properly completed.

Risk Rating – Low Risk

Status Update – Unprecedented requirements on the service have lead to a delay in tackling the outstanding recommendations. The updating and pulling together of procedures is currently having to fit around day to day tasks and additional priorities so it is envisaged completion will be by 31st March 2016.

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

South Derbyshire District Council – Internal Audit Progress Report

Control Issue 2 – The Council's website did offer the option of extending the exclusive rights of burial for a further 25 years at the end of a 50 year term, but it was not clear as to what the procedure or cost would be should the request be made.

Risk Rating – Low Risk

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

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

Control Issue 6 – The Interment and memorial application forms and the Council's burial webpage did not clearly advice customers on the methods available to them for making a payment.

Risk Rating – Low Risk

Status Update – Unprecedented requirements on the service have lead to a delay in tackling the outstanding recommendations. Currently systematically working our way through updating the Cultural Services webpages which includes all pages relating to cemeteries and burials. Details on how to make payments will be added as part of this exercise.

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