

Please ask for Democratic Services

Phone (01283) 595722 / 595848

Typetalk 18001

DX 23912 Swadlincote

democraticservices@south-derbys.gov.uk

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Your Ref:

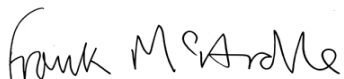
Date: 12 March 2019

Dear Councillor,

Audit-Sub Committee

A Meeting of the **Audit-Sub Committee** will be held in the **Council Chamber**, on **Wednesday, 20 March 2019 at 16:00**. You are requested to attend.

Yours faithfully,



Chief Executive

To:- **Conservative Group**

Councillor Grant (Chairman), Councillor Atkin (Vice-Chairman) and Councillor Stanton

Labour Group

Councillors Dunn and Shepherd

AGENDA

Open to Public and Press

- 1** Apologies.
- 2** To receive the Open Minutes of the following Meetings:

Audit Sub-Committee 19th September 2018 Open Minutes **4 - 6**

Audit Sub-Committee 12th December 2018 Open Minutes **7 - 10**
- 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 AUDIT COMMITTEE BRIEFING **11 - 25**
- 7** INTERNAL AUDIT PROGRESS REPORT **26 - 40**
- 8** CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2017-18 **41 - 54**
- 9** AUDIT PLANNING REPORT FOR THE YEAR ENDING 31 MARCH 2019 **55 - 95**
- 10** PROPOSED INTERNAL AUDIT PLAN 2019-20 **96 - 111**
- 11** COMMITTEE WORK PROGRAMME **112 - 115**

Exclusion of the Public and Press:

12 The Chairman may therefore move:-

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

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

AUDIT SUB-COMMITTEE

19th September 2018

PRESENT:-

Conservative Group

Councillor Grant (Chairman) and Councillor Atkin (Vice-Chairman) and Councillor MacPherson

Labour Group

Councillor Dunn and Shepherd

AS/23 **APOLOGIES**

Apologies were received from and Mr S Clark and Mr J Burgess (External Auditors)

AS/24 **DECLARATIONS OF INTEREST**

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

AS/25 **MINUTES**

The Open Minutes of the Meeting held on 25th July 2018 and 30th May 2018 were taken as read, approved as a true record and signed by the Chairman.

AS/26 **TO RECEIVE ANY QUESTIONS FROM MEMBERS OF THE PUBLIC PURSUANT TO COUNCIL PROCEDURE RULE NO.10**

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

AS/27 **TO RECEIVE ANY QUESTIONS FROM MEMBERS OF THE COUNCIL PURSUANT TO COUNCIL PROCEDURE RULE NO.11**

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

MATTERS DELEGATED TO SUB-COMMITTEE

AS/28 **INTERNAL AUDIT PROGRESS REPORT**

The internal auditors presented the report to the Sub-Committee, updating that as outlined in the report, audits were progressing as planned by the end of the

first quarter where five had been completed since the last Meeting. Members were informed that the new format of the report had been accepted and subsequently adopted for future reporting. The Committee were also updated on the restructure of the Central Midland Audit Partnership to aid with the progression of audit plans.

The Chairman sought clarification on the impact of the rollout of Universal Credit. The internal auditor explained that the full details of this impact will not be known until implementation. Councillor Atkin queried the number of payments made by cheque, the Strategic Director (Corporate Resources) advised that direct debit payments were more frequently used.

Councillor Dunn sought clarification on the definition of significant risk in relation to the dry waste recycling contract and associated risks. The internal auditor explained that the information required for the procurement process to be initiated was now available. Councillor Dunn, whilst referring to the report, queried the temporary appointment to the role of Public Buildings Officer. The Strategic Director (Corporate Resources) advised that this area had been identified as part of the planned restructure and until its formal authorisation; interim recruitment arrangements had been made.

RESOLVED:-

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.

AS/29 **COMMITTEE WORK PROGRAMME**

RESOLVED:-

Members considered and approved the updated work programme.

AS/30 **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.

MINUTES

The Exempt Minutes of the Meeting held on 30th May 2018 were received.

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

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

The Meeting terminated at 4:40pm.

COUNCILLOR J GRANT

CHAIRMAN

AUDIT SUB-COMMITTEE

12th December 2018

PRESENT:-

Conservative Group

Councillor Grant (Chairman), Councillor Atkin (Vice-Chairman) and Councillor MacPherson

Labour Group

Councillor Dunn and Shepherd

AS/31 **APOLOGIES**

Apologies for absence were received from Mr S Clark (External Auditor).

AS/32 **DECLARATIONS OF INTEREST**

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

AS/33 **TO RECEIVE ANY QUESTIONS FROM MEMBERS OF THE PUBLIC PURSUANT TO COUNCIL PROCEDURE RULE NO.10**

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

AS/34 **TO RECEIVE ANY QUESTIONS FROM MEMBERS OF THE COUNCIL PURSUANT TO COUNCIL PROCEDURE RULE NO.11**

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

MATTERS DELEGATED TO SUB-COMMITTEE

AS/35 **LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING**

The External Auditor presented the third quarterly update to the Sub-Committee, making reference to the new accounting standards relevant to the current financial year and an insight was provided to Members that meetings with Officers to implement the new standards are in progress.

Councillor Dunn queried the reference in the report to the potential implications of Brexit and how this can be assessed when there has been limited guidance provided by central government. Councillor Dunn also sought clarification on the Social Housing Green Paper, the Strategic Director (Corporate Resources) responded and advised that the matter had also been submitted to the Housing and Community Services Committee.

RESOLVED:-

The Sub-Committee considered and noted the report of the External Auditor.

AS/36 **INTERNAL AUDIT PROGRESS REPORT**

The internal auditors presented the report to the Sub-Committee outlining progress within the Audit Plan and outstanding recommendations. The internal auditors identified key issues, including the delay in the delivery of an audit on IT applications due to the staffing resources. The Chairman sought clarification on any cost implications and was reassured by the internal auditor that there were none for this Authority.

Councillor MacPherson sought clarification on training provision for staff in relation to the inspection of play equipment in local parks. The Strategic Director (Corporate Resources) responded that technical inspections are carried out by the Council's insurance company, the reference in the report related to the timely communication of any problems such as vandalism, broken glass and hazards to the attention of management. The Chairman requested that technical checks made by the insurers be included in future progress reports.

RESOLVED:-

The Sub-Committee considered the report of the Audit Manager and agreed that any issues identified are referred to the Finance and Management Committee or subject to a follow-up report as appropriate.

AS/37 **LOCAL CODE OF CORPORATE GOVERNANCE REVIEW 2018/19**

The Strategic Director (Corporate Resources) presented the report.

RESOLVED:-

1.1 Members approved the review against the Council's Local Code of Corporate Governance for 2018/19 as detailed in Appendix 1 to the report

1.2 Members approved progress on the work plan to strengthen the Council's governance arrangements in 2018/19 as detailed in Appendix 2 to the report.

AS/38 RISK MANAGEMENT POLICY FRAMEWORK AND GUIDANCE

The Strategic Director (Corporate Resources) presented the report to the Sub-Committee advising that a periodic review of the framework had enabled a consistent and streamlined approach to be adopted across the Council. The Strategic Director advised that in order to embed the framework further, policy committees would be encouraged to challenge risk in reports and further training would be provided for staff

The Chairman sought clarification on who is involved in the reviewing process. The Strategic Director (Corporate Resources) responded that senior officers would initially conduct this and present it to this Sub-Committee. The Chairman noted that as well as the selected Committee Chairmen, the Member Champion for Risk Management could also be involved in this process.

RESOLVED:-

1.1 Members approved the Risk Management Policy Framework and Guidance.

1.2 Members approved the Framework and Guidance are kept under review and reported to the Committee at least annually.

AS/39 COMMITTEE WORK PROGRAMME

It was proposed that the Meeting scheduled for 13th February 2019 be cancelled as the following Meeting is scheduled 20th March 2019; this was carried by the Sub-Committee.

RESOLVED:-

Members considered and approved the updated work programme with the amendment to cancel the Meeting scheduled for 13th February 2019.

AS/40 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 Sub-Committee was informed that no questions from Members of the Council had been received.

The Meeting terminated at 4.50pm

COUNCILLOR J GRANT

CHAIRMAN

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 6
DATE OF MEETING:	20th MARCH 2019	CATEGORY: DELEGATED
REPORT FROM:	EXTERNAL AUDIT	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/EY/committee briefings/quarterly update cover
SUBJECT:	LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING: QUARTER 4 DECEMBER 2018	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 01

1.0 Recommendation

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

2.0 Purpose of Report

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

3.0 Detail

- 3.1 The Briefing is attached separately to the report. The key questions are detailed on Page 10 of the Briefing and include matters relating to:
- 2018 Budget – implications on financial plans
 - Investment Guidance – dependence on commercial investment income
 - IFRS 9 Statutory Override – implications after 5 years
 - Pension Scheme Valuation – impact on budgets and financial plans
 - Local Public Audit – expectations gap
 - PSAA Report on Results of 2017/18 Audits – lessons for 2018/19 closedown

4.0 Financial Implications

4.1 None

5.0 Corporate Implications

5.1 Not applicable

6.0 Community Implications

6.1 Not applicable


Local Government Audit Committee Briefing

Quarter 4, December 2018



Contents at a glance





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

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

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

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

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

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



Government and economic news

EY Club Item

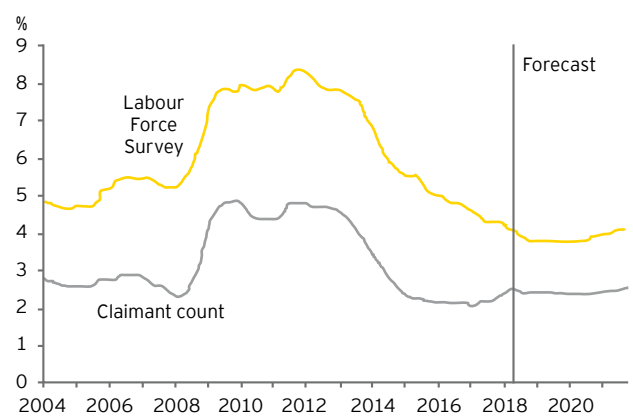
The latest EY ITEM Club forecast casts a cloudier outlook for the UK economy which will have implications for Local Authorities. This partly reflects increased uncertainties about Brexit, due to the elevated risk of the UK leaving the EU without a deal. It also reflects a more challenging global outlook, and continued pressures on consumer purchasing power.

The forecast has slightly downgraded the UK's economic prospects for 2018 and 2019, with GDP growth for 2018 trimmed from 1.4% to 1.3% – the slowest rate of expansion since 2009. While performance improved in Q2 and Q3, the outlook has since become less certain.

One positive note for UK economy is the robust growth in labour demand. The unemployment rate remained at 4.0% for the three months to July, the lowest level since February 1975. Over the same period, the number of vacancies in the UK rose to 833,000, highlighting the tightness in the labour market.

As shown in Figure 1, it appears that the spare capacity in the labour market created during the crisis has been largely absorbed. The Bank of England's (BoE) recent report about the labour market suggests that very limited slack remains – a BoE's regional Agents survey found that 40% of companies are finding it harder to recruit and retain staff compared to last year.

Figure 1
UK: Unemployment rate



The recruitment challenges facing employers are well known by local authorities. An expanding and ageing population will only add to the demand pressures, while the supply of workers may be at risk due to the impact of Brexit on migration of EEA workers.

Theory suggests that, with unemployment falling and vacancies rising, there is little scope for further labour market tightening without generating excess wage pressures. However, earnings growth has remained subdued in recent periods, and indeed relapsed in Q2 2018. Some firms appear keen to limit their costs in an uncertain environment, while fragile consumer confidence is likely deterring workers from pushing hard for pay rises.

These consumer pressures are manifesting in many areas of the economy, and notably in the housing market. Caution over engaging in major transactions has seen mortgage approvals at approximately 18.1% below their long-term (1993-2018) average. Given the earnings squeeze, and the faltering demand for private housing, the important role of social housing is likely to persist. There were 1.2 million households on a waiting list for social housing in England on 1 April 2017, exhibiting the significant excess demand. As a result, the announcement by the Government to scrap the HRA borrowing cap is welcome, and should go some way to meeting demand in the market.

As Brexit beckons, what is the impact that local authorities can expect across the UK?

With increasing focus on a potential extension to the Brexit transitionary period and the likelihood of a 'no-deal' scenario failing to diminish, local authorities are beginning to prepare for an array of potential impacts from the UK's departure from the EU. We look below at some of the key focus areas for local government in assessing the impact of Brexit.

The impact on social care provision:

The social care workforce is particularly susceptible to the impact of Brexit. Since the referendum in 2016, there has already been a decrease in the number of EU nationals taking jobs in the UK social care sector, and this is likely to be squeezed further with the end of freedom of movement. This has the potential to lead to labour cost inflation, increasing the financial pressure facing local authorities.

The effects described above will be exacerbated further due to challenges in the healthcare system. The NHS is similarly likely to suffer to workforce challenges and hence, funding challenges. This has the potential to increase the pressure on hospitals to discharge early, increasing the burden on the social care system's capacity. The government's winter crisis cash pledge to the system, is unlikely to mitigate such challenges.

The impact on supply chains and logistics:

Some coastal local authorities may face years of road traffic issues if border checks are applied following Brexit; authorities in the South East likely to be most significantly affected, due to the potential of border checks being applied at Dover.

Furthermore, investigations have been made by authorities such as Pembrokeshire Council into the ready availability of food and medicine in the event of road blockages and closures. Additionally, local authorities are struggling to make plans around international trade, as they await information on charges and how long waiting times at ports are likely to be. This is particularly important in the case of livestock and fresh foods being transported.

Changes to customs unions and physical borders may reduce the availability and increase the price of key goods required by local authorities, including adult social care supplies.

Consumer demand:

Brexit will impact the wider economy, and hence local authorities will need to be attuned to the impact on their local economies.

Brexit uncertainty is already beginning to influence the high street and local authorities need to consider the prospect of increasing voids. Furthermore, local economies that are heavily dependent on certain sectors that are vulnerable to the impact of Brexit, such as financial services and agriculture, may bear a greater brunt of the economic shock that Brexit may cause.

Local authorities may also be impacted more directly, especially those authorities that have embarked enthusiastically on commercial property investments, thereby creating direct exposure to certain sectors, especially the retail sector. In respect of this, CIPFA have issued a warning to councils outlining concerns over their commercial activity, suggesting that some have been guilty of putting public funds at 'unnecessary or unquantified risk'. Councils need to evaluate the proposed impact that they were hoping such investments may have on their financial position, along with other trading activity, in light of the potential economic impact of Brexit.

Impact on property and agricultural land prices.

Predictions that property prices in general are likely to fall following Brexit are well documented. Bank of England Governor Mark Carney has stated that UK house prices may fall by up to a third in the event of a 'no-deal' Brexit.

A reduction in property prices may not be perceived to be a bad outcome for all. Furthermore, the government's HRA borrowing cap announcement has the potential to allow councils to increase the supply of housing, further supporting a challenged housing market. However, such a reduction in property values is likely to create a shock that may create financial hardship for many as well as impacting the performance of certain sectors.

Budget 2018

On 29 October 2018 the Chancellor delivered the 2018 Autumn Budget to Parliament. Among the headline policy announcements, such as a new 2% tax on revenue for large digital companies, changes to the income tax threshold bands, and increase in funding to help departments prepare for Brexit, there were a number of announcements that will have a direct impact on local authorities. These key announcements include:

- ▶ Immediate abolition of the Housing Revenue Account (HRA) cap which restricts local authority borrowing for house building.
- ▶ £675mn Investment in the Future High Street Fund created to support local areas prepare long term strategies for their high streets and town centres, including investment in physical infrastructure. As part of this announcement, small retail businesses will see a 33% decrease in business rates and public lavatories will receive 100% business rate relief after April 2019.
- ▶ Increased staff costs for local authorities; as the national living wage is set to increase by 5% from £7.83 to £8.21 an hour.
- ▶ Allocation of additional £420mn to local authorities in 2018/19 to tackle potholes and repair damaged roads.
- ▶ Local authorities in England will receive a further £650mn in social care funding.

CIPFA's response to the budget was that while the additional short term support for the provision of services is welcomed, there are greater long term challenges that need to be addressed to embed sustainable funding. The July 2018 OBR's (OBR) projection, upon which the budget was based, forecasts that within 50 years the UK will not be able to afford anything more than debt interest, health,

social care and pension payments. CIPFA is clear that there is not sufficient funding to sustain expectations of public services at the current levels of taxation.

The Local Government Association (LGA) analysis has estimated that local services face a funding gap of £7.8bn by 2024/25; the funding gap as of 2019/20 is estimated to be £3.9bn. The services where there are the greatest funding pressures include social care, homelessness and public health. However, the growing demand for these services has detrimentally impacted on other services that help maintain local communities including libraries, roads and welfare support.

An unexpected announcement made by Government during the budget was that it will no longer use Private Finance Initiative (PFI) schemes, or its successor PF2, because PFI schemes have been identified by the Office for Budget Responsibility (OBR) as a source of significant fiscal risk to the Government. It is unclear if this decision by central Government will impact on local authorities in future years.

CIPFA Investment Guidance

The media spotlight and public scrutiny surrounding local government finances has increased significantly over the past year due to increased pressures to deliver services from reduced funding. To help authorities better manage their finances CIPFA is updating its guidance on Treasury Management. The new key principle of guidance will be that 'Local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed'.

During 2017/18 the rate at which English councils acquired land and buildings increased by 43% to a total of £4bn; whereas total borrowing increased from £4bn to £10bn (127 %). As such there is a growing concern that too many local authorities are investing heavily in commercial property at a rate that is disproportionate to their available resources. This exposes public funds to unquantified risks. This stands against the primary objective of a local authority's treasury management strategy to safeguard public money.



Accounting, auditing and governance

IFRS 9: Statutory Override update

The 2018/19 financial year will be the first year where the accounting standard IFRS 9 will be implemented by local government. IFRS 9 impacts on an authority's financial assets: the investments it holds; the amounts it has lent to others; and other monetary based assets it may have. It changes how these financial assets are classified and how movements in their value are accounted for. It also changes how these assets are impaired; based on the risk that the assets may not be recovered in full, or at all.

Following a consultation by the Ministry for Housing Communities and Local Government on the impact of IFRS 9, an initial statutory override has been granted for five years, despite 90% stakeholders opposing a time-limited period. This statutory override means that councils will still be required to account for fair value movements in financial instruments (in accordance with proper practices as set out in the code on local authority accounting); however these movements will not be charged to the revenue account.

The result of which is that statutory override will remove the potential burden that council tax payers or local authorities may have faced if fair value movements were unfavourable.

Public Sector Pension Scheme Valuation

The Government undertakes a valuation of public service pension schemes every four years, this year sees the first full assessment of these since the introduction of reformed schemes in 2015.

The Chief Secretary to the Treasury has stated that early indications would suggest that employers' contribution will need to increase as a result of a proposed decrease in the discount rate. The discount rate, known as the SCAPE rate, is based on the OBR projection of the short-term pay growth in terms of GDP. OBR has reduced this rate from 3.0% to 2.8% in 2016 and a further reduction has been proposed as of April 2019 to 2.4%. This discount rate is used to calculate the current costs of future payments and as the discount rate decreases, the pension liability increases. Given that employee rates are effectively fixed under scheme regulations, employer contributions will need to increase to meet the increased liability. Further details are to be announced later in the year in addition to further discussion taken forward as part of the spending review.

Local Public Audit – Expectations gap

For the public to gain trust and confidence in public spending, a framework of accountability, transparency, governance and ethics needs to be built. The ultimate responsibility lies with the government departments that delegate spending to local public bodies. These public bodies must then be able to demonstrate that the money has been spent efficiently and effectively.

One way the public can gain trust in public spending, is by relying on the external audit process to provide assurance on the financial statements and report by exception on the arrangements the

public body has in place to secure economy, efficiency and effectiveness. However, the role of audit, is often misunderstood creating the audit expectation gap which is the difference between what an auditor actually does, as required by legislation and auditing standards, and what stakeholders think that the auditors' obligations might be and what they might do.

The Institute of Chartered Accountants in England and Wales (ICAEW) produced a report to raise awareness on the expectation gap and suggest some possible solutions. The report also discusses how issues faced by local public bodies such as financial difficulties, increasing demand from an ageing population, complex structures and weaknesses of accountability impacts the audit process and widens the expectation gap.

Some common concerns were noted in the report by interviews with Chief Financial Officers in different sectors and regulatory bodies:

1. Local authorities and health bodies are facing a difficult time with increasing pressure to deliver more services, become innovative and commercial with reduced financial support. This pressure could bring in concerns about behaviours that may not be in the best long-term interests of the public.
2. Reports produced by auditors are not being fully utilised by management and audit committees to build on successes and make improvements within the body where recommendations have been made.
3. Auditors are concerned that qualifications and issues identified in their opinions are not taken seriously enough by those charged with governance.

4. The reduction in audit fees has led to a perception by local bodies that they are receiving reduced scope of work compared to the previous regime (Audit Commission). The concerns are not in relation to compliance with auditing standards, but rather the lack of value added activities that was previously provided.
5. Chief Financial Officers expect more challenge and review of their forward-looking plans which underpin the financial resilience of the authority.
6. Other stakeholders are not getting sufficient assurance over the effectiveness of service delivery and performance in auditors' work.
7. Increased regulation and scrutiny against the reduced number of auditor firms in the local government market.
8. Local public auditors' power being limited by the removal of indemnity insurance and increased difficulty to recover costs.

The ICAEW has offered a number of potential solutions in the report to close this expectation gap including:

1. Chief Financial Officers could consider involving external support to assist them in their financial resilience work, such as challenging their budget assumptions and other key decision making factors, instead of relying on external auditors to provide other value added activities, as these may have some independence restrictions.
2. More broadly, consideration could be given to widen the scope of the audit to include for example a greater future-looking focus.



Regulation news

PSAA: Report on results of 2017/18 audits

PSAA (Public Sector Accounts Appointments) has reported its annual summary on the timeliness and quality of financial reporting in relation to audits for the 2017/18 financial year. A total of 431 (87 %) local government and fire authorities published their audited accounts by the deadline of 3 July 2018. 2017/18 was the first year that the accounts and audit deadline was brought forward from the 30 September to the 31 July. PSAA's Chief Officer stated that whilst these results were encouraging and reflect considerable efforts of both local government finance staff and auditors, there is still more work to be done in order for 100% of authorities to meet the new deadline.

The number of qualified 'Value for Money' conclusions is currently at 7% (compared to 8% for 2016/17); however there 30 conclusions still to be issued for 2017/18. The most common reasons for issuing a qualified Value for Money conclusion were corporate governance issues, financial stability concerns and contract management issues.



Other

EY 2018 Transparency Report

Our profession has come under scrutiny from policymakers and other stakeholders over the year, and the need for transparency has never been greater. Increasingly, the public is expecting more and more from the audit than its current remit requires. This difference is known as the 'audit expectation gap' which has been discussed above. We believe the time is right for all concerned in the corporate control ecosystem to seize the moment and consider deeply what society expects from businesses and the assurance it needs over their activity.

It's in our interests and the public's for EY UK to be as open and transparent as possible. The Transparency Report goes some way towards helping us achieve this, while also providing an opportunity to share a more balanced perspective on what we

do and how we perform as a business. For example, it refers to our role in building trust and confidence in the capital markets and wider economies, by maintaining and developing positive relationships with our stakeholders. It explains what we do to make a difference to people's lives by helping to improve social mobility in the UK. It also shows how our people are supported in their role as auditors by making reference to our tools, technologies and training programmes. Details on internal and external surveys and inspections are included as well, to show how we are performing against our own expectations and – most importantly – those of our regulators.

We refer to this report in our audit planning reports to audit committees, and we summarise the key headlines below.

2018 Highlights

Audit quality

External review



(FY17: 92% and 88% respectively)
as at 29 October 2018

No FRC fines for audit work completed in the last five years and **no sanctions** against EY UK partners in respect of that period

Internal review

108 engagements reviewed in FY18, covering

47% of our **Responsible Individuals**, of

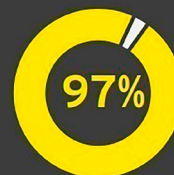
which **81%** had no improvements or minor improvements only

Delivery

Of our people in Audit



97% understand their role as an auditor in providing independent assurance, supporting strong capital markets and protecting the public interest



The result of the FRC's most recent review of our audits showed that 82% of our FTSE 350 audits were graded as requiring no more than limited improvement, against a 90% target. Overall 67% of all EY UK's audits inspected were graded as requiring no more than limited improvements. We are proud of the progress we have made in the UK since the launch of UK Sustainable Audit Quality (SAQ) programme a few years ago. But there is still more work to be done to consider audit quality from the viewpoint of key stakeholders: investors, audit committees, companies, regulators and our people. The work we have done to model the behaviours of our highest performing teams, using cognitive psychologists, will continue. In the year ahead we will prioritise the extent and consistency of the model's adoption. We aim to transform the behaviours that feature in the model into business-as-usual activity across all of our audit teams.

As organisations become more complex, so do audits, making access to different skills and capabilities more important than ever. The traditional audit has already been transformed by the use of technology and digital platforms, and the pace of change will only accelerate. These new capabilities enable us to search, sift and sort through large quantities of data, allowing us to identify potential areas of risk and understand an organisation's performance at a more granular level. The audit process is becoming more forward looking, with a focus on anticipating future risks. Our new capabilities are also providing insights into areas that were once thought to be impossible to measure, such as culture.

This unprecedented scrutiny and demand for change, can be seen as an incredible opportunity to focus our efforts on addressing the root cause, deliver sustainable high quality audit and gain the trust and confidence in the capital markets society needs and demands.

Key questions for the Audit Committee

2018 Budget

How has the 2018 Budget impacted the local authority's financial plans for the current year and the year ahead?

CIPFA Investment Guidance

How much is your authority dependent on commercial investment income to fund services?

What governance structures are in place to ensure that the authority's borrowing is proportionate to its need and level of resources?

IFRS 9: Statutory Override

Have you considered the impact of the new IFRS 9 accounting standard? How will you plan for the possibility that the statutory override will end in five years' time?

Public Sector Pension Scheme Valuation

Have you taken into account the impact of the most recent review of the public sector pension scheme on your budgets and medium term financial position?

Local Public Audit – Expectations gap

How far do you recognise the issues of the ICAEW report on the expectations gap in local public audit? What is your perspective on the value that external audit provides?

PSAA: Report on results of 2017/18 audits

What lessons have you learnt from the earlier accounts and audit deadlines in 2017/18? Are you confident that these lessons will be applied for the 2018/19 accounts and audit process?

Find out more

EY Club Item

<https://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections>

2018 Budget

<https://www.gov.uk/government/news/budget-2018-24-things-you-need-to-know>

<https://www.local.gov.uk/about/news/lga-responds-budget-2018>

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-responds-to-budget-2018>

<https://www.local.gov.uk/sites/default/files/documents/Moving%20the%20conversation%20on%20-%20LGA%20Autumn%20Budget%20Submission%202018.pdf>

CIPFA Investment Guidance

<https://www.publicfinance.co.uk/news/2018/10/cipfa-investment-guidance-will-help-councils-steer-through-challenges>

Local Public Audit – Expectations gap

<https://www.icaew.com/about-icaew/regulation-and-the-public-interest/policy/public-sector-finances/local-public-audit-expectations-gap>

<https://www.icaew.com/-/media/corporate/files/about-icaew/policy/local-public-audit-expectation-gap.ashx?la=en>

IFRS 9: Statutory Override

<https://www.publicfinance.co.uk/news/2018/11/ifrs-9-override-last-five-years>

Public Sector Pension Scheme Valuation

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/738917/Technical_Bulletin_Public_Service_Pension_Schemes_Valuations.pdf
<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-09-06/HCSW945/>

PSAA: Report on results of 2017/18 audits

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

EY Transparency Report 2018

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>

[https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/\\$File/ey-uk-2018-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/$File/ey-uk-2018-transparency-report.pdf)

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ED None

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REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	20th MARCH 2019	CATEGORY: RECOMMENDED
REPORT FROM:	INTERNAL AUDIT MANAGER	OPEN
MEMBERS' CONTACT POINT:	ADRIAN MANIFOLD (01332 643281) adrian.manifold@centralmidlandsaudit.co.uk	DOC: u/ks/audit/internal audit/quarterly reports/quarterly report cover
SUBJECT:	INTERNAL AUDIT PROGRESS REPORT	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 02

1.0 Recommendations

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

2.0 Purpose of Report

- 2.1 To provide an update on progress against the approved Internal Audit Plan. This details the performance and activity of Internal Audit for the period 1 December 2018 to 28 February 2019.

3.0 Detail

- 3.1 The detailed report is attached.

4.0 Financial Implications

- 4.1 None.

5.0 Corporate Implications

- 5.1 None directly.

6.0 Community Implications

- 6.1 None directly.

7.0 Background Papers

- 7.1 None

South Derbyshire District Council – Audit Progress Report

Audit Sub-Committee: 20th March 2019



South Derbyshire
District Council



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Our Vision

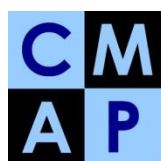
To bring about improvements in the control, governance and risk management arrangements of our Partners by providing cost effective, high quality internal audit services.

Contacts

Richard Boneham CPFA
Head of Internal Audit (DCC) &
Head of Audit Partnership
c/o Derby City Council
Council House
Corporation Street
Derby, DE1 2FS
Tel. 01332 643280
richard.boneham@derby.gov.uk

Adrian Manifold CMIIA
Audit Manager
c/o Derby City Council
Council House
Corporation Street
Derby
DE1 2FS
Tel. 01332 643281
adrian.manifold@centralmidlandsaudit.co.uk

Mandy Marples CPFA, CCIP
Audit Manager
c/o Derby City Council
Council House
Corporation Street
Derby
DE1 2FS
Tel. 01332 643282
mandy.marples@centralmidlandsaudit.co.uk



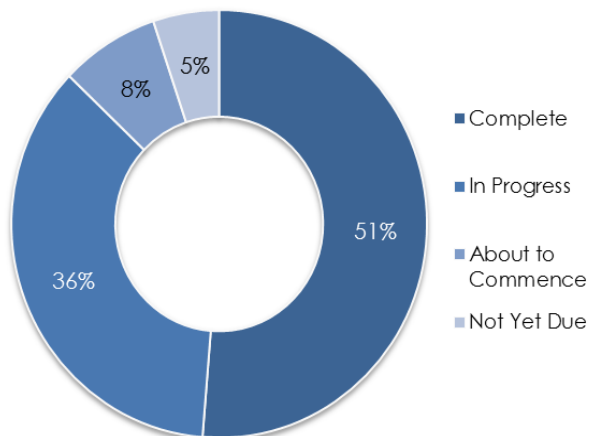
central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

South Derbyshire District Council – Audit Progress Report

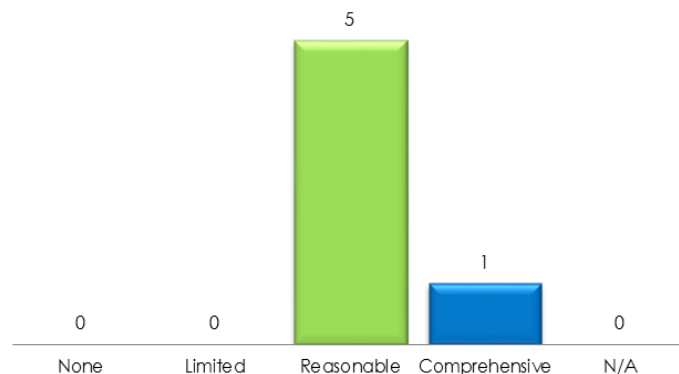
AUDIT DASHBOARD

Plan Progress



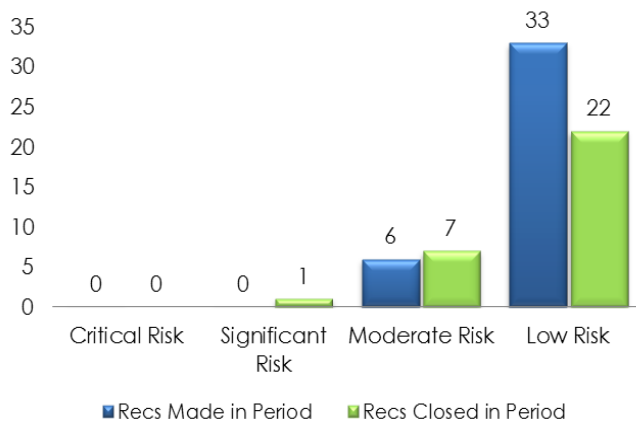
Jobs Completed in Period

Control Assurance Ratings During Period



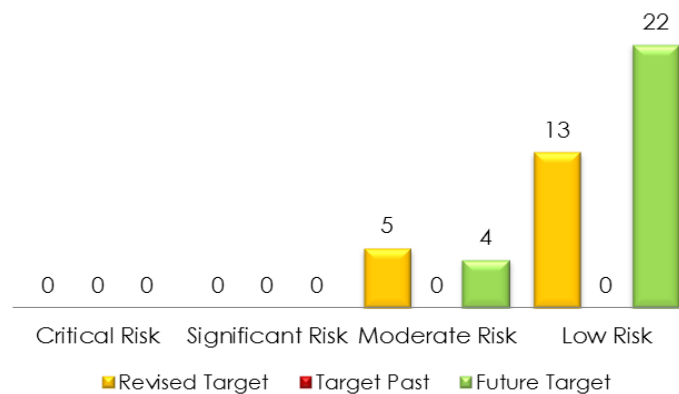
Recommendations

Movement During Period



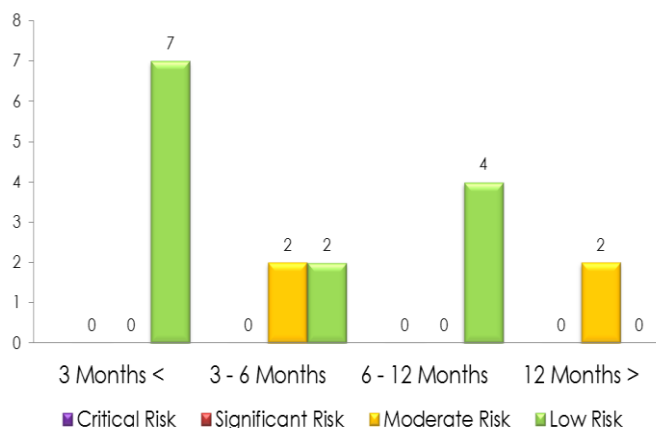
Recommendations

Recommendations Currently Open



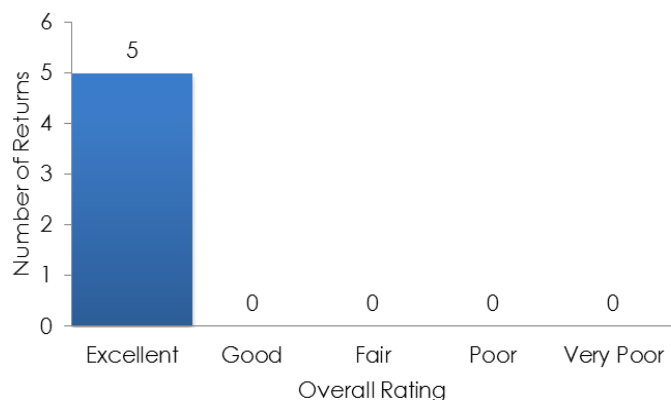
Recommendations

Overdue Recommendations



Customer Satisfaction

Returns Between Mar 18 & Feb 19



South Derbyshire District Council – Audit Progress Report

AUDIT PLAN

Progress on Audit Assignments

The following table provide Audit Sub-Committee with information on how audit assignments were progressing as at 28th February 2018.

2018-19 Jobs	Status	% Complete	Assurance Rating
Data Protection & Freedom of Information	Removed from Plan	n/a	
Information Governance	In Progress	40%	
Treasury Management 2018-19	Draft Report	95%	
Insurance 2018-19	Final Report	100%	Reasonable
Capital Programme	Not Allocated	0%	
Payroll 2018-19	In Progress	60%	
Creditors 2018-19	Draft Report	95%	
Revenue Systems 2018-19	Allocated	25%	
NDR 2018-19	Merged	n/a	
Housing Benefit & Council Tax Support 2018-19	In Progress	50%	
PCI Compliance	Final Report	100%	Reasonable
Orchard IT Application	Draft Report	95%	
File Server Security	Draft Report	95%	
Waste Management	Final Report	100%	Comprehensive
Fleet Management	Draft Report	95%	
Street Cleansing	Draft Report	95%	
Section 106 Agreements	Final Report	100%	Reasonable
Development Control	Allocated	5%	
Pollution Control	Final Report	100%	Comprehensive
Food Safety	In Progress	65%	
Sport & Health Funding	Not Allocated	0%	
Rosliston Forestry Centre	In Progress	40%	
Planned & Responsive Maint. - Public Buildings	Allocated	0%	
Housing Safety Inspections	In Progress	75%	
Allocations & Homelessness	Final Report	100%	Reasonable
Sheltered Housing / Careline	Final Report	100%	Reasonable
Community Safety Partnership	In Progress	70%	
Corporate Governance	In Progress	30%	

South Derbyshire District Council – Audit Progress Report

B/Fwd Jobs	Status	% Complete	Assurance Rating
Risk Management	Job Complete	100%	N/A
Health & Safety	Final Report	100%	Reasonable
Payroll 2017-18	Final Report	100%	Reasonable
Organisational Culture & Ethics	Final Report	100%	Reasonable
Council Tax 2017-18	Final Report	100%	Comprehensive
NDR 2017-18	Final Report	100%	Comprehensive
Housing Benefit & Council Tax Support 2017-18	Final Report	100%	Comprehensive
Express Electoral System Security Assessment	Final Report	100%	Reasonable
Sharpes Pottery	Final Report	100%	Comprehensive
New Build / Affordable Housing	Final Report	100%	Comprehensive
Licensing	Final Report	100%	Comprehensive
Safeguarding	Final Report	100%	Reasonable
Followup of Whistleblowing Recommendations	Final Report	100%	Reasonable

Audit Plan Changes

We previously indicated that the IT Application audit scheduled for this year was unlikely to take place in 2018/19. Fortunately, we have been able to make some headway on this audit (see Orchard IT Application above).

South Derbyshire District Council – Audit Progress Report

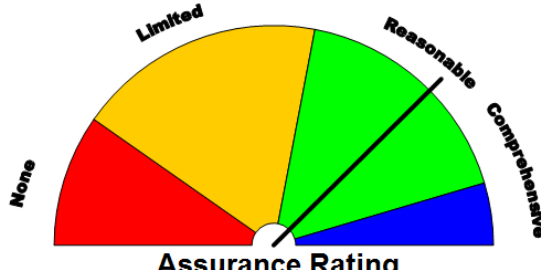
AUDIT COVERAGE

Completed Audit Assignments

Between 30th November 2018 and 28th February 2019, the following audit assignments have been finalised since the last Progress Report was presented to this Sub-Committee.

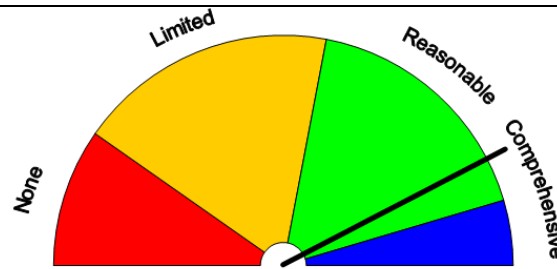
Audit Assignments Completed in Period	Assurance Rating	Recommendations Made				% Recs Closed
		Critical Risk	Significant Risk	Moderate Risk	Low Risk	
Sheltered Housing / Careline	Reasonable	-	-	1	7	25%
Health & Safety	Reasonable	-	-	1	4	0%
Section 106 Agreements	Reasonable	-	-	1	4	40%
Waste Management	Comprehensive	-	-	-	2	100%
PCI Compliance	Reasonable	-	-	1	7	25%
Allocations & Homelessness	Reasonable	-	-	2	9	55%

As part of the ongoing File Server Security audit, a moderate risk recommendation was also brought to management's attention during the period via a memorandum. This audit has yet to be concluded, so does not appear in this report. Due to the nature of the control weakness, it was considered prudent to bring the matter to management's attention at the earliest opportunity to ensure prompt action could be taken.

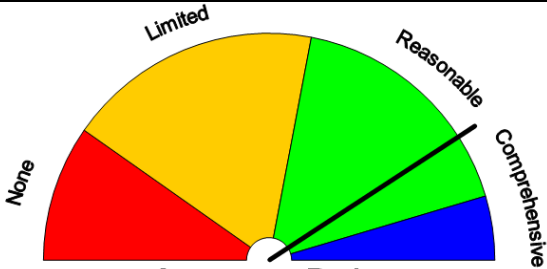
Sheltered Housing / Careline					
Control Objectives Examined		Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
Robust systems are in place for income collection		9	6	2	1
Effective monitoring of service provision is undertaken		3	1	2	0
Support plans are produced and stored according to appropriate procedures		6	3	1	2
TOTALS		18	10	5	3
Summary of Weakness			Risk Rating	Agreed Action Date	
The spreadsheet of private customers was not regularly reconciled with the list of recurring invoices, and discrepancies were identified when audit performed this reconciliation.			Low Risk	31/03/2019 Future Action	
The Excel spreadsheet of private customers was not complete and responsibilities for its maintenance were unclear.			Low Risk	31/12/2019 Future Action	
Careline charges were not regularly reviewed.			Low Risk	01/09/2019 Future Action	
Data could not be extracted directly from Tunstall reports into MS Excel in a readily useable format. Performance data had to be manually input which was time-consuming and led to errors.			Low Risk	31/03/2019 Future Action	
Support plans could not always be located in the sample tested.			Moderate Risk	24/12/2018 Implemented	

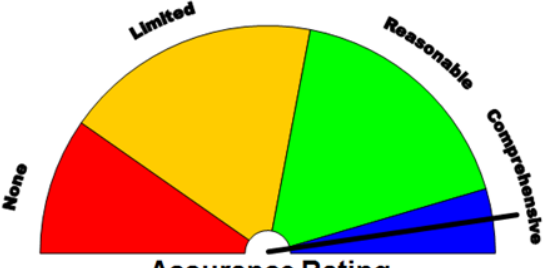
South Derbyshire District Council – Audit Progress Report

The Support Plan spreadsheet was not consistently updated, despite the checklist sheet being completed and reviewed.	Low Risk	24/12/2018 Implemented
Security of support plans, which contain personal data, was not covered in a formal policy.	Low Risk	31/01/2019 Being Implemented 30/06/2019
The correct type of support plan had not always been completed in the sample tested.	Low Risk	31/01/2019 Being Implemented 30/06/2019

<h3>Health & Safety</h3>		 <p>Assurance Rating</p>		
Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
To ensure that the Council's governance framework for health and safety is designed to ensure compliance with health and safety legislation.	6	3	3	0
To ensure that employees have received training relevant to their role, and have an awareness of Health and Safety and have access to information and further training as required.	6	4	2	0
To ensure that health and safety risks have been identified and assessed, and periodic inspections take place for high risk areas.	6	5	1	0
To ensure that all incidents are recorded, with further investigation and / or reporting undertaken as necessary.	3	3	0	0
To ensure that information on activity and incidents is supplied to management, Committee and / or the Council as required.	4	4	0	0
TOTALS	25	19	6	0
Summary of Weakness		Risk Rating	Agreed Action Date	
The terms of reference for the Employee Health and Safety Committee had not been revised to recognise the ending of the contract with Northgate Human Resources in 2017, and were not consistent with the Health and Safety Policy.		Low Risk	30/04/2019 Future Action	
The Council had a Health and Safety Policy that complied with safety legislation requirements and included the Council's arrangements for carrying out the policy. However, we found no evidence to confirm that the policy had been approved at a suitable level.		Low Risk	30/06/2019 Future Action	
Of a sample of 11 Health and Safety related policies, we found that 6 did not include version control, of the remaining 5 with version control, 3 had not been properly maintained.		Low Risk	30/11/2019 Future Action	
The Health and Safety page on the Council's Intranet had not been kept up-to-date. It did not provide: <ul style="list-style-type: none"> Information on the Council's approach to Health and Safety. A route for staff to contact the Health and Safety Officer. Access to Health and Safety related policies and procedures, training information, contact details, etc.		Low Risk	30/09/2019 Future Action	
There was no overview process to ensure that adequate Health and Safety documentation had been obtained from all contractors engaged by the Council.		Moderate Risk	29/03/2019 Future Action	

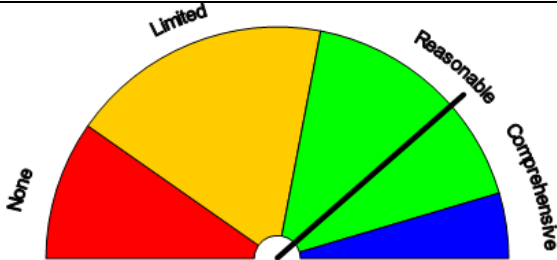
South Derbyshire District Council – Audit Progress Report

Section 106 Agreements	 <p>Assurance Rating</p>			
Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
Policy and procedures relating to Section 106 agreements adhere to both Council policy and legislation	6	5	1	0
Existing Section 106 agreements are monitored in accordance with the requirements of the agreement.	7	6	1	0
Incoming Section 106 funds are appropriately managed, allocated and banked in a timely manner.	9	7	2	0
Expenditure of Section 106 funds is appropriate and meets the terms of the agreement	3	2	0	1
Arrangements are in place to monitor non-financial contributions to ensure they are adequately enforced	2	2	0	0
TOTALS	27	22	4	1
Summary of Weakness		Risk Rating	Agreed Action Date	
The "Section 106 Agreements version 8 - A guide for Developers" document had not been reviewed since April 2010, and contained out-of-date information.		Low Risk	01/04/2019 Future Action	
Monitoring of the progress on developments subject to Section 106 agreements was not undertaken to a set timetable.		Low Risk	Implemented	
The payment for one Section 106 agreement, that was received from the developer without being invoiced, had not been subject to indexation. The additional sum required had been identified and recorded, but had not been invoiced or received.		Low Risk	Implemented	
Variances identified as part of the reconciliation between Planning records and Accountancy records for the Section 106 Reserve Account had not been fully investigated and resolved.		Low Risk	31/03/2019 Future Action	
The terms of Section 106 agreements in relation spending Section 106 contributions within a specified time period were not all complied with.		Moderate Risk	30/06/2019 Future Action	

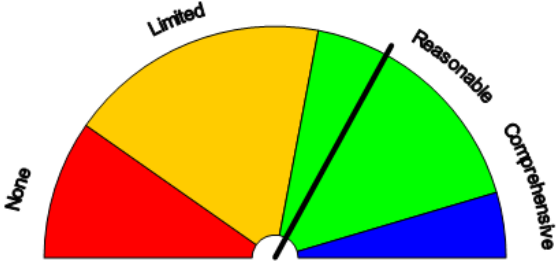
Waste Management	 <p>Assurance Rating</p>			
Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
Appropriate controls are in place to monitor the delivery of the contract in respect of Dry Waste Recycling	9	6	3	0

South Derbyshire District Council – Audit Progress Report

TOTALS	9	6	3	0
Summary of Weakness	Risk Rating		Agreed Action Date	
There was a discrepancy in the number of properties in the district between the Service Level Monitoring Sheet, used to calculate monthly statistics and the payment claim, used to calculate the charge to the Council.	Low Risk		28/02/2019 Implemented	
Whilst the Council had hypothetical contingency arrangements in place for delivery of the dry waste recycling contract, these had not been formally documented.	Low Risk		N/A – Already implemented	

<h3>PCI Compliance</h3>		 <p>Assurance Rating</p>		
Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
There is a suitable understanding of the PCI standards across the Council	3	0	1	2
The organisation's PCI programme structure has been well established.	4	1	1	2
A testing schedule and methodology has been established to ensure PCI compliance	8	7	0	1
Responsibilities for ensuring PCI compliance have been suitably established and are at a suitable level of seniority within the Council.	2	0	1	1
TOTALS	17	8	3	6
Summary of Weakness	Risk Rating		Agreed Action Date	
The ICT Security, Electronic Communications and Security and the Credit Card Procedure and Policies and Security Policy documents were out of date and contained dated references with respect to PCI (DSS).	Low Risk		01/06/2019 Future Action	
Officers taking card payments outside of the Contact Centre were not aware of the PCI Standard. Staff taking payments over the phone, did not have written guidance on how to keep the card payer's details secure.	Low Risk		01/06/2019 Future Action	
There was a general lack of awareness of PCI compliance risks amongst staff using the Paye.net system outside of the Contact Centre.	Low Risk		01/06/2019 Future Action	
The Council had not maintained an inventory of hardware and software components relating to equipment used to take card payments.	Low Risk		01/01/2020 Future Action	
We were not able to confirm whether the Service Provider (Capita) responsible for the processing of card holder data on behalf of the Council had either undertaken their attestation of PCI compliance or provided evidence to the Council to demonstrate this has been undertaken.	Low Risk		15/02/2019 Implemented	
The document which outlined duties and responsibilities in terms of PCI Standards contained out-of-date references.	Low Risk		01/04/2019 Future Action	
Chip & PIN machines were still attached to the Customer Services front desks despite them not being used in a number of years.	Low Risk		Implemented	
The Council was not PCI Compliant and was paying non-compliance fees to a third party. Further management fees were being paid to the financial system provider for PCI and they were also charging the Council for a verbal assessment that no-one at the Council knew anything about.	Moderate Risk		01/04/2019 Future Action	

South Derbyshire District Council – Audit Progress Report

<h2>Allocations & Homelessness</h2>	 <p>Assurance Rating</p>			
Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
The Allocations Policy is fit for purpose (reflects demand and prioritises effectively)	6	5	0	1
Allocations are made in accordance with policy and robust procedures	9	5	1	3
Adequate and appropriate provision has been made to prevent homelessness	9	6	1	2
Individual assessments and action plans are drawn up and monitored effectively	10	6	2	2
TOTALS	34	22	4	8
Summary of Weakness		Risk Rating	Agreed Action Date	
There were no formal procedure notes detailing the allocations process.		Low Risk	30/07/2019 Future Action	
There was no check by a second officer to ensure that bids were being correctly skipped.		Moderate Risk	01/04/2019 Future Action	
Up-to-date documentation, confirming eligibility for a property, was not always obtained prior to a let commencing.		Low Risk	01/04/2019 Future Action	
Direct lets were not always authorised at an appropriate level of seniority.		Moderate Risk	01/03/2019 Implemented	
The Homelessness Prevention Strategy had not been updated to ensure that it met the requirements of new legislation.		Low Risk	01/06/2019 Future Action	
The Temporary Accommodation Policy was in draft form and had not been updated since 2015.		Low Risk	01/06/2019 Future Action	
One of the three agreed performance indicators for the homelessness service (HS8) had not been calculated or reported to management during 2018-19.		Low Risk	01/02/2019 Implemented	
A PHP was not always completed when a prevention or relief duty was owed.		Low Risk	01/03/2019 Implemented	
Applicants were not always assigned actions within their PHP.		Low Risk	01/03/2019 Implemented	
PHPs were not reviewed when applicants circumstances changed.		Low Risk	01/03/2019 Implemented	
Functionality of LocataPro was not always used correctly by officers.		Low Risk	01/03/2019 Implemented	

South Derbyshire District Council – Audit Progress Report

RECOMMENDATION TRACKING

Final Report Date	Audit Assignments with Open Recommendations	Assurance Rating	Recommendations Open		
			Action Due	Being Implemented	Future Action
12-Feb-19	PCI Compliance	Reasonable	-	-	6
14-Feb-19	Allocations & Homelessness	Reasonable	-	-	5
19-Dec-18	Sheltered Housing / Careline	Reasonable	-	2	4
25-Jan-19	Section 106 Agreements	Reasonable	-	-	3
02-Oct-18	Payroll 2017-18	Reasonable	-	-	1
25-Apr-18	Organisational Culture & Ethics	Reasonable	-	1	-
12-Jul-18	NDR 2017-18	Comprehensive	-	1	-
06-Sep-18	Council Tax 2017-18	Comprehensive	-	2	-
10-Jan-19	Health & Safety	Reasonable	-	-	5
06-Mar-18	Tenants Arrears 2017-18	Reasonable	-	3	-
19-Jan-18	Rent Accounting 2017-18	Reasonable	-	1	-
13-Nov-17	Officers Expenses & Allowances	Reasonable	-	1	-
18-May-18	Sharpes Pottery	Comprehensive	-	-	2
23-Nov-17	Housing Contracts Review	Limited	-	1	-
07-Aug-17	Parks & Open Spaces	Reasonable	-	3	-
06-Jun-17	Leisure Centres	Reasonable	-	1	-
29-Jun-18	Safeguarding	Reasonable	-	2	-
		TOTALS	-	18	26

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

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

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

Audit Assignments with Recommendations Due	Action Due			Being Implemented		
	Significant Risk	Moderate Risk	Low Risk	Significant Risk	Moderate Risk	Low Risk
Sheltered Housing / Careline	-	-	-	-	-	2
Organisational Culture & Ethics	-	-	-	-	1	-
NDR 2017-18	-	-	-	-	-	1
Council Tax 2017-18	-	-	-	-	-	2
Tenants Arrears 2017-18	-	-	-	-	-	3
Rent Accounting 2017-18	-	-	-	-	-	1
Officers Expenses & Allowances	-	-	-	-	1	-
Housing Contracts Review	-	-	-	-	1	-
Parks & Open Spaces	-	-	-	-	1	2
Leisure Centres	-	-	-	-	1	-
Safeguarding	-	-	-	-	-	2
TOTALS	-	-	-	-	5	13

South Derbyshire District Council – Audit Progress Report

Highlighted Recommendations

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

Being Implemented Recommendations

Organisational Culture & Ethics	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
<p>The Council had not undertaken a staff survey which was specifically geared towards the Council's culture, ethics and values.</p> <p>We recommend that the Council consider undertaking a specific Cultural Survey aimed at assessing officer opinions on the Council's culture, ethics and values. The results of the survey could then be used to make improvements where necessary should any common specific themes or patterns result.</p>	Moderate Risk
Management Response/Action Details	Action Date
A survey will be undertaken following research with the Council's Communications section.	31/10/2018
Status Update Comments	Revised Date
There is a restructure report tabled to Members at the Finance and Management Committee this week. Following the outcome of that, the post to drive this matter forward will be identified. Management therefore propose to delay this recommendation until 30/09/19.	30/09/2019

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

South Derbyshire District Council – Audit Progress Report

Leisure Centres	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
<p>The Council had not undertaken inspections on the exterior fabric of the building as per the contract summary of maintenance responsibilities.</p> <p>We recommend that the Council fulfil its obligations in respect of those areas which it has responsibility for maintaining. Inspections should be undertaken on a regular basis, in accordance with any relevant legislation and properly documented.</p>	Moderate Risk
Management Response/Action Details	Action Date
Programme of inspections to be agreed with Building Maintenance Officer	01/10/2017
Status Update Comments	Revised Date
<p>Our public building officer resigned several months ago and has not been replaced pending both a housing services and Council wide restructure. Once responsibility for this area of work is identified in the final structure and someone in post we will be able to commence the required inspections. Given the uncertainty suggest a revised compliance date of Jan 31st 2018</p> <p>The long term future of the Public Building Officer post has still not been settled and an interim arrangement has recently been implemented with a temporary 6 month appointment. Suggest a revised date of the end of September 2018.</p> <p>Request made to interim public buildings officer to assist. Answer pending. Anticipate should be able to close out by Dec 31 2018.</p> <p>Responsibilities are being addressed but not in the systematic way required. The Public Building Officer situation has still not been properly resolved and capacity issues has meant he hasn't had time to devote to this issue. Suggest a revised date of March 31 and will pursue support with him and other colleagues.</p>	31/03/2019

Parks & Open Spaces	Rec No. 1
Summary of Weakness / Recommendation	Risk Rating
<p>Comprehensive risk assessments of play equipment were not available for inspection. A limited number of non-descript risk assessments were located with play equipment listed as a hazard, suggesting that risk assessments had not been completed for all playgrounds and equipment across the district.</p> <p>We recommend that the Council establish risk assessments for all the playgrounds and the equipment therein, for which it could be held liable. The risk assessments should be undertaken with the above guidance provided by ROSPA and should consider the activity classification, hazard identification, the evaluation of risk, the evaluation of the control measures and the specification for further action.</p>	Moderate Risk
Management Response/Action Details	Action Date
Agree action plan with H&S officer. Agree content of risk assessments and list of sites to be inspected - SDDC own sites only. Establish which Parish Councils already undertake risk assessments. Write to advise remaining Parish Councils of their responsibilities. NOTE: there may be budget/cost implication.	31/12/2017
Status Update Comments	Revised Date
<p>Our internal capacity to progress is temporarily limited but we are undertaking a district wide play audit of our own which will help to address the outstanding recommendation. The Play Audit is now nearing completion and Risk Assessments on play sites were included in our Play Audit brief to the Consultants.</p> <p>See extract below:</p> <ul style="list-style-type: none"> Carry out a risk assessment of each site using ROSPA/SDDC risk assessment format/ categories. 	31/03/2019

South Derbyshire District Council – Audit Progress Report

- Activity Classification.
- Hazard Identification.
- Evaluation of Risk.
- Evaluation of Control Measure.
- Action Plan for improvement.

The Play audit is virtually concluded but final sign off has been hampered by ongoing staff absence of those leading on the audit day to day. Nonetheless in light of their continued absence copies of some sample risk assessments have been requested from our consultants. These will be forwarded on receipt in order that the action can be closed asap.

Housing Contracts Review		Rec No. 3
Summary of Weakness / Recommendation		Risk Rating
<p>Contract opportunities for adaptations (where collective works were over the £25,000 threshold) were not being advertised on the 'Contracts Finder' website, in line with the requirements of the Public Contract Regulations 2015.</p> <p>We recommend that the Head of Procurement identify a range of options available to the Council for complying with this ruling and seek to strengthen systems to ensure compliance with the Public Contract Regulations 2015. Such a system should ensure that the principles of transparency, equal treatment and non-discrimination, under European Union Treaties, are also adhered to.</p>		Moderate Risk
Management Response/Action Details		Action Date
<p>The Council agreed changes to the procurement of Disabled Facility works at a meeting of the Finance and Management Committee on 12th October 2017. The current "standing" list will be replaced by a Framework of 4 to 5 contractors to undertake smaller works below £25,000. This will be subject to an OJEU process.</p> <p>Any larger works above £25,000 will be tendered separately and advertised in the normal way (Source Derbyshire, etc.)</p>		23/11/2017
Status Update Comments		Revised Date
<p>The Housing Section originally met with Chesterfield NHS to explore the possibility of using a dynamic purchasing framework to address this issue. More recently they have taken the decision to procure a whole house approach contract through Fusion21, for one main contractor to carry out all repairs and improvements works, which will hopefully start on the 1st April 2019. This will mean that the Council have one contractor that can carry out all disabled adaptations.</p>		01/04/2019

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 8
DATE OF MEETING:	20th MARCH 2019	CATEGORY: DELEGATED
REPORT FROM:	EXTERNAL AUDIT	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/EY/grants/grants cover report
SUBJECT:	CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2017/18	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 01

1.0 Recommendations

- 1.1 That the Claims and Returns Report for 2017/18 is considered and the recommendations, together with management actions as detailed in Section 5 of the Auditor's Report, are noted.

2.0 Purpose of Report

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

3.0 Detail

- 3.1 The Auditor's report summarises the findings from their certification of the Housing Benefits Subsidy Claim for the DWP.

4.0 Financial Implications

- 4.1 The fee for undertaking the work is contained within the Council's Budget for external audit work.

5.0 Corporate Implications

- 5.1 None directly.

6.0 Community Implications

- 6.1 None directly.

7.0 Background Papers

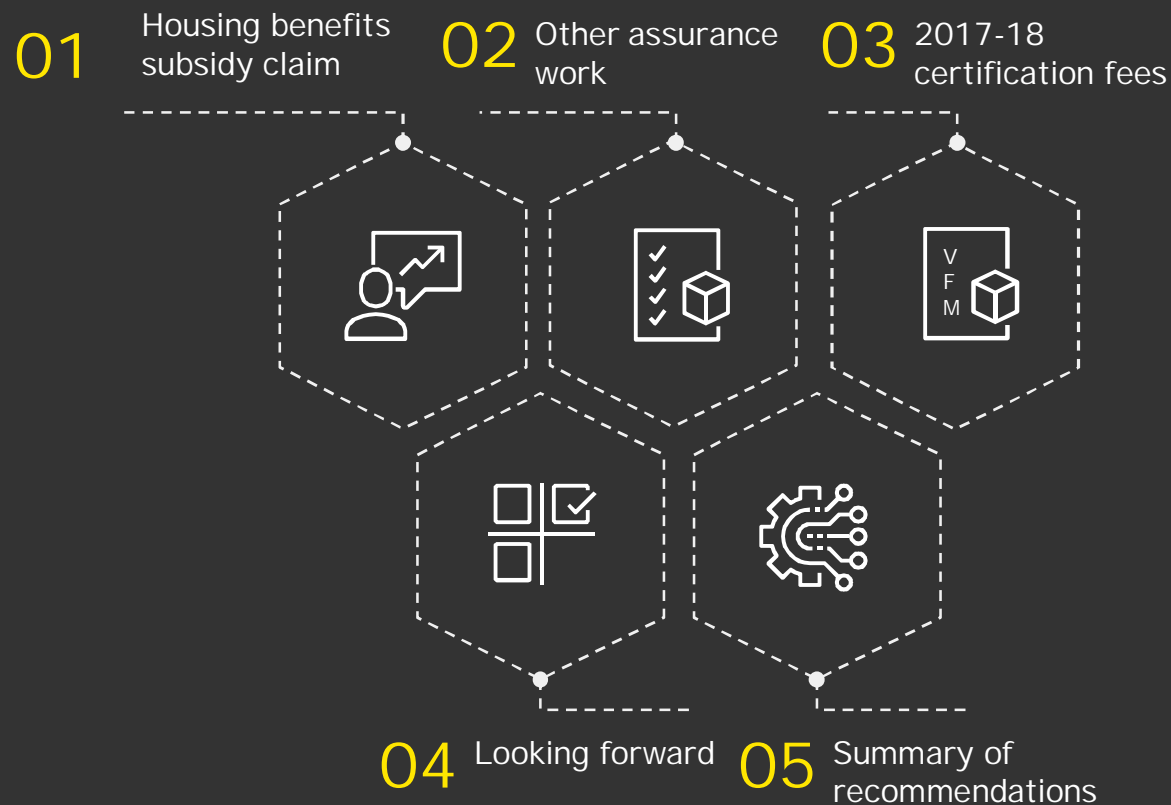
None

South Derbyshire District Council

Certification of claims and returns annual report 2017-18

March 2019

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (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 (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit-Sub Committee and management of South Derbyshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit-Sub Committee, and management of South Derbyshire District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit-Sub Committee, and management of South Derbyshire District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Housing benefits subsidy claim



Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£16,687,091
Amended/Not amended	Amended – subsidy reduced by £752
Qualification letter	Yes
Fee – 2017-18	£16,313
Fee – 2016-17	£19,271

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires reporting accountants to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the certification of previous years claims. We found errors and carried out extended testing in several areas.

Extended and other testing identified errors which the Council amended. They had a small net impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter (QL). The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. The main issues we reported in the QL were as follows:

§ Non-HRA rent rebates

- Testing identified misclassification of overpayments which resulted in an amendment to the final claim

§ Rent Rebates (for claimants in HRA properties)

- Misclassified overpayments resulting in an over claim of subsidy
- Incorrect pension state pension uprating but had no effect on subsidy paid and claimed.

§ Rent Allowances (claimants renting from private landlords or registered social landlords)

- Misclassification of overpayments resulting in an over claim of subsidy
- Underpayments in benefit entitlement due to the following reasons;
 - Ø the use of an incorrect rental value
 - Ø The claim assessment had not reflected the vacation of a non-dependent
 - Ø The claim assessment had an incorrect applicable amount
- Overpaid benefit entitlement due a claimants tax credit not being update

§ Modified schemes

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

Page 45 of 115

Our 2017/18 recommendations are detailed on page 12.



02

Other assurance work





Other assurance work

During 2017-18 we also acted as reporting accountants in relation to the pooling of housing capital receipts

We have provided separate reports to the Council in relation to this return. This work has been undertaken outside the PSAA regime. The fees for this are included in the figures in Section 3. They are referred to here to ensure to ensure Members have a full understanding of the various returns on which we provide assurance.

We did not identify any significant issues from this work that need to be brought to the attention of Members.



03

2017-18 certification fees





2017-18 certification fees

The PSAA determine a scale fee each year for the certification of the housing benefits subsidy claim. For 2017-18, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) and are available on their website (www.psaa.co.uk).

Claim or return	2017-18	2017-18	2016-17
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	16,313	16,313	19,271*
Pooling of housing capital receipts return	1,680	1,680	1,800

* The scale fee variation in 2016/17 related to additional testing and has been approval by PSAA.



04

Looking forward



2018/19 and beyond

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body.

As your appointed auditor for the financial statements audit, we are pleased that for 2018-2019 the Council has appointed us to act as reporting accountants in relation to the Housing Benefit and Subsidy Claim.

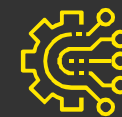
We welcome this opportunity to continue undertaking this work for the Council providing a seamless quality service, drawing on vast array of experienced and knowledgeable public sector professionals in these areas, whilst realising the synergies and efficiencies that are achieved by undertaking both the audit and grant work.

We will discuss with the Strategic Director (Corporate Resources) our proposal for the 2018/19 Pooling of Housing Capital Receipts return.



05

Summary of recommendations



Summary of recommendations

This section highlights the recommendations from our work on the 2017-18 Housing benefits subsidy claim and the actions agreed.

Finding	Priority	Recommendation	Management comment	Deadline	Responsible officer
<p>Annual uprating of system parameters</p> <p>Our review of the Council's annual check for the accuracy of input of the system parameters identified that not all the updates had been reviewed by the Revenues and Benefits Manager.</p>	Medium	Re-review the update of the 2018/19 system parameters previously undertaken in February 2018 and the recent review for 2019/20, to ensure all parameters have evidence of review by the Revenue and Benefits manager.	Arrangements have been reviewed which include further independent checks prior to final sign-off.	30/4/2019	Revenues and benefits manager
<p>Modified schemes</p> <p>We identified that in one case the local scheme had not been calculated correctly.</p>	Low	Review 100% of modified scheme cases before completing the 2018/19 subsidy claim to ensure the local scheme element is calculated correctly.	All cases will be checked in advance of submitting the 2018/19 claim.	30/4/2019	Revenues and benefits manager
<p>Common errors in the claim</p> <p>The errors identified from our 2017/18 testing relate to the follow areas;</p> <ul style="list-style-type: none"> Tax credits State retirement pension uprating Rental values Classification of overpayments 	High	The Council should continue to undertake its quality assurance arrangements and maintain regular training to claim assessors to minimise errors arising in the claim.	Quality assurance checks and regular training will continue on an ongoing basis	Ongoing	Revenues and benefits manager

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ED None

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REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 9
DATE OF MEETING:	20th MARCH 2019	CATEGORY: DELEGATED
REPORT FROM:	EXTERNAL AUDITOR	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/EY/audit plan cover
SUBJECT:	AUDIT PLANNING REPORT FOR THE YEAR ENDING 31 MARCH 2019	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 01

1.0 Recommendations

- 1.1 That the proposed Audit Plan for the year ending 31 March 2019 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 31 March 2019.

3.0 Detail

- 3.1 The Audit Plan sets out how the EY intend to carry out their responsibilities as Auditor. Its purpose is to provide the Committee with a basis to review their proposed audit approach and scope for the 2018/19 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.
- 3.2 It is also to ensure that the audit is aligned with the Committee's service expectations.
- 3.3 The Plan summarises the Auditor's initial assessment of the key risks driving the development of an effective audit for the Council and outlines planned audit strategy in response to those risks.

4.0 Financial Implications

- 4.1 The Audit Plan provides an estimate of the fees that will be charged to the Council and how they are calculated. 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 Audit planning report

Year ended 31 March 2019

March 2019



Private and Confidential

Audit-Sub Committee

South Derbyshire

Civic Way

Swadlincote

DE11 0AH

Dear Committee Members

11 March 2019

Audit planning report 2018/19

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit-Sub Committee with a basis to review our proposed audit approach and scope for the 2018/19 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.

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

We welcome the opportunity to discuss this report with you on 20 March 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Steve Clark

For and on behalf of Ernst & Young LLP

Enc

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit-Sub Committee and management of South Derbyshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of South Derbyshire District Council, the matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit-Sub Committee and management of South Derbyshire District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2018/19 audit strategy



Overview of our 2018/19 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition - inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Further details are provided on page 9.
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. Further details are provided on page 10.
Cut-off error	Significant risk	New risk	In 2017/18 we identified a material cut-off error and as such have deemed this an area of focus. Further details are provided on page 11.
Valuation of land and buildings	Other financial statements risk	No change in risk or focus	PPE accounts for a significant proportion of the Council's assets (£142m at 31 March 2018). The valuation of land and buildings is subject to a number of assumptions and judgements. and a small movement in these assumptions could have a material impact on the financial statements. Further details are provided on page 12.
Valuation of the Pension liability	Other financial statement risk	No change in risk or focus	Funding of the Council's participation in the LGPS will continue to have an impact on both its cash flows and the liability in the balance sheet. The Council is a member of the LGPS, administered by Derbyshire Pension Fund. The net pension liability was £32m as at 31 March 2018. The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. assumptions. A small movement in these assumptions could have a material impact on the value in the balance sheet. The 2017/18 audit identified that the Council's share of the asset was understated by £0.26m, Both these be an area of audit focus. Further details are provided at page 13.

Overview of our 2018/19 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
IFRS 9 – Financial statements	Other financial statement risk	New risk	These are new accounting standards applicable for local authority accounts from for the 2018/19 financial year. There is a risk that the Council does implement the requirements of the standards correctly. Further details of the risk are provided at page 14.
IFRS 15 – Revenue contracts with customers	Other financial statement risk	New risk	

Overview of our 2018/19 audit strategy

Audit scope

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

- § Our audit opinion on whether the financial statements of South Derbyshire District Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and
- § Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

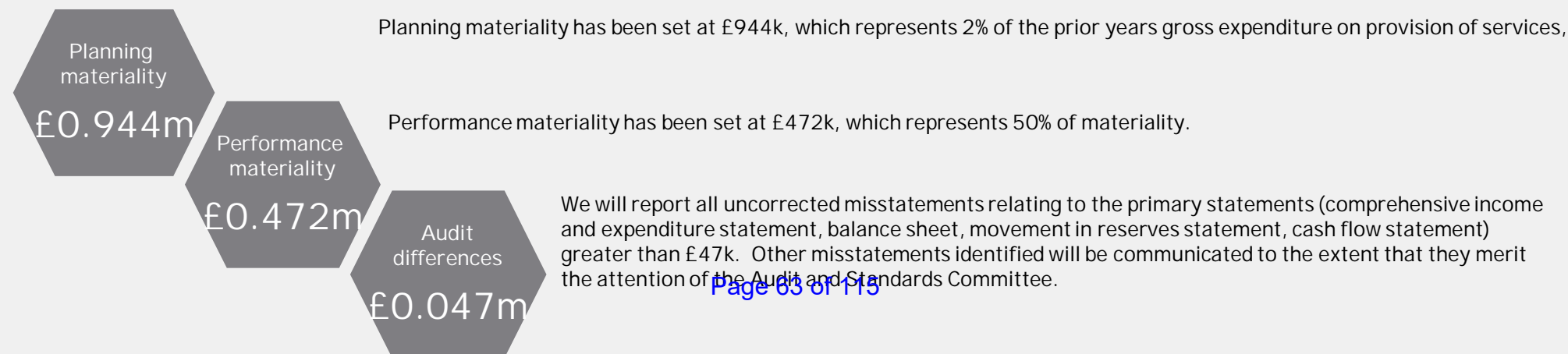
Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

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

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

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

Materiality





02 Audit risks





Audit risks

Our response to significant risks

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

Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

What is the risk?

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

Due to the nature and value of some streams revenue and expenditure we do not consider the risk of fraud to apply to the following sources of Council revenue and expenditure;

- Income from Central Government grants.
- Council Tax income
- Business rate income
- Payroll
- Housing benefit income and expenditure

In respect of expenditure we consider the risk is focussed on the incorrect capitalisation of revenue expenditure.

Our audit approach

We will undertake substantive procedures in response to this risk;

- Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding; and
- Test a sample of property, plant and equipment additions which have been included in the balance sheet to confirm that they have been correctly capitalised in accordance with accounting standard IAS 16 and the Council's PPE recognition accounting policy.



Audit risks

Our response to significant risks (continued)

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Our audit approach

We will undertake substantive procedures in response to this risk. The procedures designed to address the identified risk are set out below;

- Identifying fraud risks during the planning stage of the audit;
- Inquiries of management about risks of fraud and the controls put in place to address those risks;
- Understanding the oversight given by those charged with governance of management's processes over fraud;
- Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- Determining an appropriate strategy to address those identified risks of fraud;
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Sample testing of journals from the accounting period that are identified from application of specified audit risk criteria;
- Consider the existence of significant unusual transactions during the year and performing review and testing as required;



Audit risks

Our response to significant risks (continued)

Risk of cut-off error

What is the risk?

In the 2017/18 audit results report we confirmed that our audit testing identified a material error relating to the overstatement of both trade payables and cash and bank.

The absence of adequate cut-off arrangements at year may give rise to transactions being accounted for in the incorrect financial year.

Our audit approach

We will undertake substantive procedures in response to this risk. The procedures designed to address the identified risk are set out below;

- Document our understanding of the Council's processes and controls in place to mitigate the risks.
- Sample testing of revenue and liability cut-off at the period end date.
- Conduct testing to identify unrecorded liabilities at the year-end.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	Our audit approach?
<p><u>Valuation of land and buildings</u></p> <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>The fair value of other land and buildings represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>The Council land and building assets are annually valued, and are subject to a number of assumptions and judgements, which if inappropriate could result in a material impact on the financial statements</p>	<p>We will;</p> <ul style="list-style-type: none"> • Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding • Evaluate the competence, capabilities and objectivity of management's specialist. • Review the terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards. And assess if the instruction includes a specific instruction from the council to the valuer relating to an assessment on the unvalued population; • Consider the work performed by the Council's external valuer, including the adequacy and scope of the work performed. • Perform a sample test the asset data used by the valuer over the completeness and appropriateness of information provided to the valuer in performing their valuations (e.g. floor plans to support valuations based on a price attributed to area measurements); • Review the classification of assets and ensure the correct valuation methodology has been applied. • Consider changes to useful economic lives as a result of the most recent valuation; and • Test the accounting entries have been correctly processed and recorded in the financial statements.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	Our audit approach?
<p><u>Pension Liability Valuation</u></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Derbyshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that the net liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £32 million.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>In 2017/18, the Council's share of the pension scheme assets was understated by £0.26m primarily as a result of the timing of the actuary's work.</p>	<p>We will;</p> <ul style="list-style-type: none"> • Perform appropriate tests to obtain assurance over the information provided to the actuary. • Write to the Pension Fund auditor to ascertain whether there are material concerns we need to be aware of for our audit. • Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. • Consider the variation in the valuation of the pension fund assets used in the Council's actuarial valuation to the actual year-end asset valuation in order to determine whether the estimate was materially correct; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	Our audit approach
<p><u>IFRS 9 - financial instruments</u></p> <p>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; • Consider the classification and valuation of financial instrument assets; • Review new expected credit loss model impairment calculations for assets; and • Check additional disclosure requirements.
<p><u>IFRS 15 – Revenue contracts with customers</u></p> <p>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year.</p> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non-domestic rates and government grants will be outside the scope of IFRS 15. If the Council has not assessed if standard is relevant, there may be a risk of material misstatement if recognition of revenue is incorrect and new disclosure requirements are not included in the financial statements.</p>	<p>We will;</p> <ul style="list-style-type: none"> • Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. This will include where relevant, any Local Authority Trading Companies consolidated into the Authority's Group Accounts • Consider application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and • Check additional disclosure requirements are correctly included.



03

Value for Money Risks



Background

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

For 2018/19 this is based on the overall evaluation criterion:

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

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

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

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

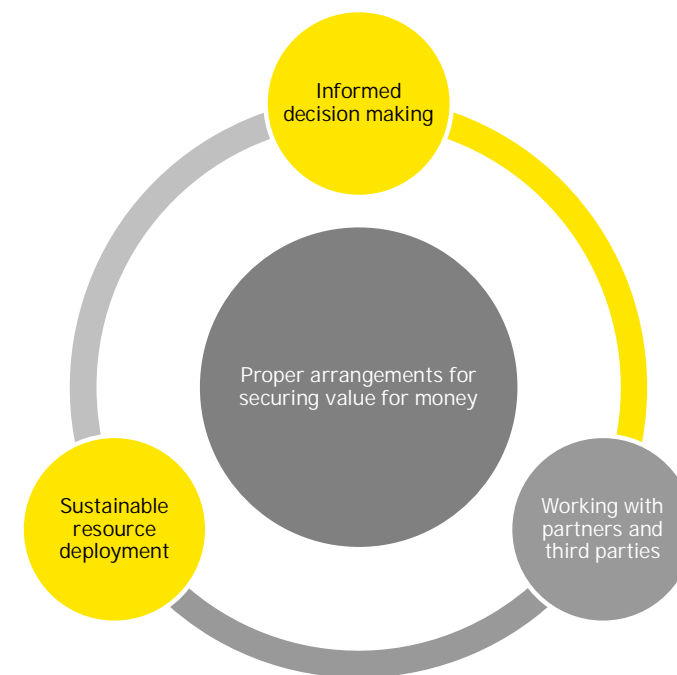
We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

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

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this has included consideration of the steps taken by South Derbyshire District Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

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





Value for Money Risk

What is the significant value for money risk?	What arrangements does the risk affect?	Our audit approach
Securing financial resilience	<p>From the medium term financial plan, updated in February 2019, the Council has forecasted budget deficits from 2019/20 to 2023/24 with the general fund depleting from £9.1m to £2.1m but remaining above the £1m minimum level.</p> <p>Going forward the Council will need to continue to scrutinise its financial plans to achieve budget savings of £0.4m in 2019/20 rising to £1.5m in 2023/24.</p>	<p>We will focus on:</p> <ul style="list-style-type: none">§ Reviewing the MTFS including the adequacy of major assumptions§ Reviewing the Council's arrangements to develop a robust savings plan to address the future financial challenges.
Procurement and related contract issues in the Housing and Environment Services Directorate	<p>In our 2017/18 Audit Results Report, we reported that the value for money conclusion was qualified on the basis management had yet to fully implement the Internal Audit recommendations relating to the control weaknesses in the procurement and contract management arrangements in the Housing and Environment Services Directorate. We have therefore determined that the risk in this area remains relevant for the financial year.</p>	<p>We will focus on;</p> <ul style="list-style-type: none">§ Reviewing the outcomes of the work undertaken by Internal Audit to establish if the recommendations have been fully implemented by management§ Understanding, if there are any incomplete recommendations, the extent of and impact they have on system of internal control and managements plans to address them§ Review the adequacy of managements governance arrangements to move to a shared procurement service.

A close-up, slightly blurred photograph of a stack of Indian Rupee banknotes. The focus is on the texture and colors of the paper, with various shades of green, yellow, and red visible. The word 'RESERVE' is partially visible on one of the notes.

04

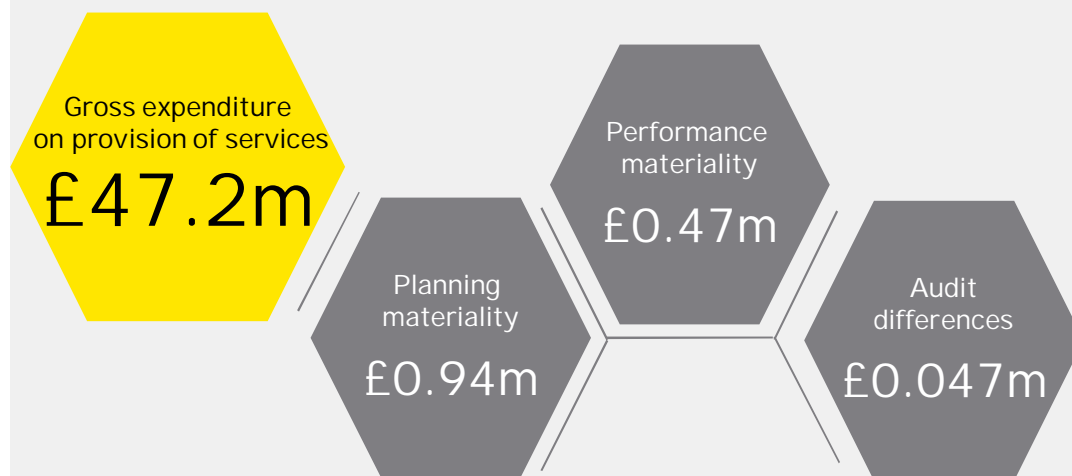
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £0.94m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £m which represents 50% of planning materiality

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

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

Specific materiality – We have also identified the following areas where misstatement at a lower level than our overall materiality level might influence the reader of the financial statements. The areas identified in our audit strategy applied include: Related

- We assess the Remuneration disclosures including any severance payments, exit packages and termination benefits as numerically sensitive and set a materiality level of £1k, being the rounding number in the financial statements.
- Related party transactions. For any errors identified in related parties we considered the concept of the materiality of transactions and balances as would relevant to the related individual or organisation.
- External audit fees: we set a materiality of £1k being the rounding number in the accounts.
- Members' allowances; a figure of £1k is judged appropriate.
- Cash and bank balances: given the inherent risk we have set a materiality level of £0



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in 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).

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

Procedures required by standards

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

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO [delete if not applicable]

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.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

We do not plan to place reliance on the work of internal audit however we will review internal audit plans and the results of their work. Should the results have a potential consequence on the year-end financial statements, we will assess the impact on our audit strategy and update the Audit-Sub Committee should our risk assessment change.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	Our audit approach
<p>Earlier deadline for production of the financial statements</p> <p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year Which required the Council to prepare and approve the accounts by 31 May and 31 July 2018, respectively.</p> <p>Whilst these changes provided risks for both the preparers and the auditors of the financial statements, the earlier deadlines for 2017/18 were fully achieved.</p> <p>These deadlines apply to 2018/19 and we have met with management to discuss the outcomes from the 2017/18 audit in order to make improvements and plan effectively for the current year audit.</p> <p>To ensure the audit 2018/19 audit is completed efficiently we have agreed the following points with the Finance team;</p> <ul style="list-style-type: none"> • Production of a detailed audit project plan to monitor with the finance team • Early communication of emerging issues • Production of good quality draft financial statements • Prepare high quality supporting working papers in advance of the commencement of the year-end audit; • Ensure that appropriate Council staff to be available throughout the agreed audit period; • complete and prompt responses to audit questions. <p>Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. It should be noted that these circumstances <u>may</u> result in a delay to your audit while we complete other work elsewhere.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Work with the Council to engage early to facilitate early substantive testing where appropriate. • Continue to operate the EY Client Portal facility: <ul style="list-style-type: none"> • Streamline our audit requests through a reduction of emails and improved means of communication; • Provide on -demand visibility into the status of audit requests and the overall audit status; • Reduce risk of duplicate requests; and • Provide better security of sensitive data. • Agree the team and timing of each element of our work with you. • Agree the supporting working papers that we require to complete our audit.



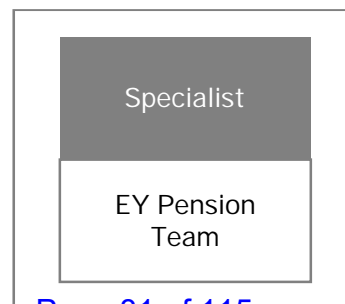
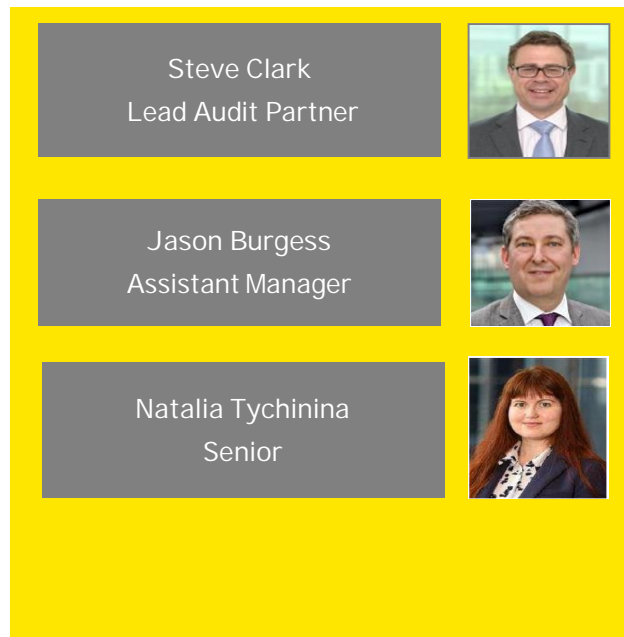
06

Audit team



Audit team

Audit team structure:



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* Key Audit Partner

Use of specialists

Our approach to the involvement of specialists, and the use of their work.

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

Area	Specialists
Valuation of Land and Buildings	Council's external valuer
Pensions disclosure	PSAA consulting actuary, the actuary of the Staffordshire Pension Fund and EY Pension Team.

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

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

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



07

Audit timeline





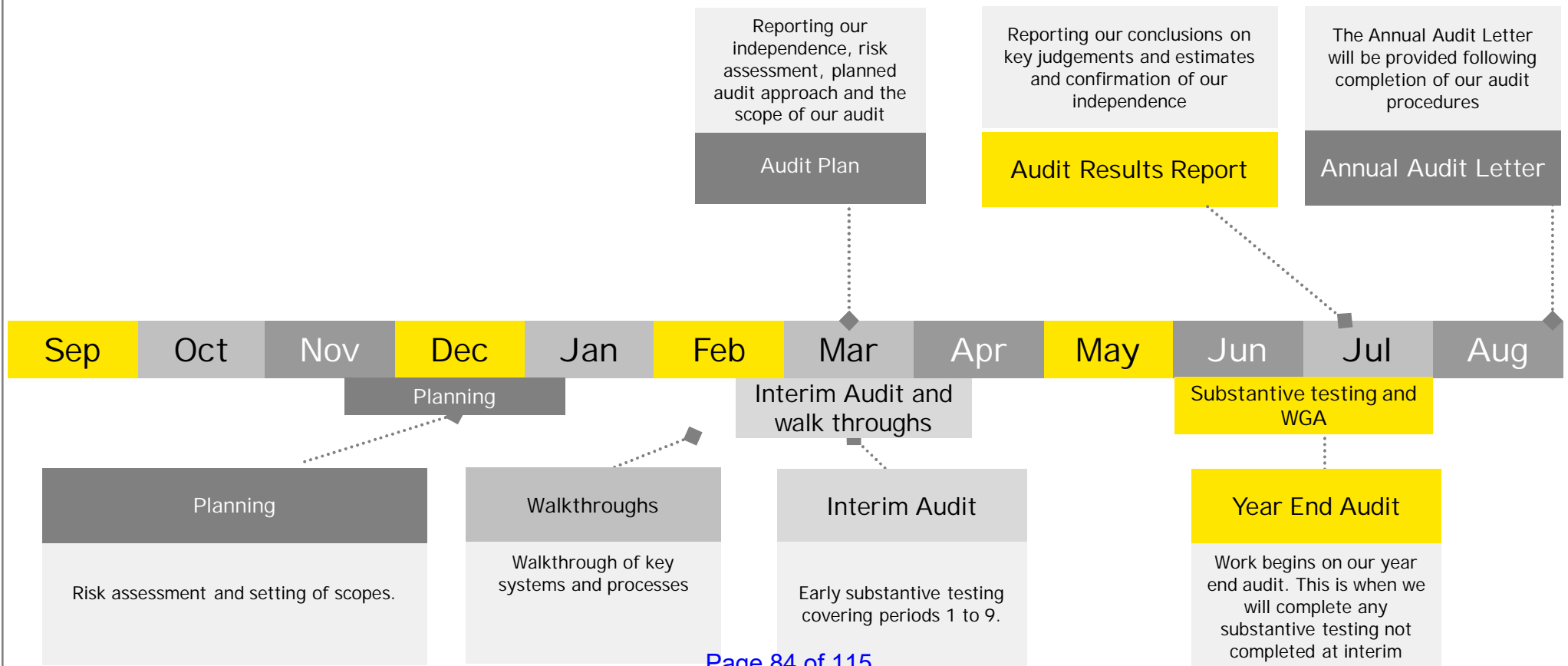
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

From time to time matters may arise that require immediate communication with the Audit and Standards Committee and we will discuss them with the Audit-Sub Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





08

Independence



Introduction

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

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation] 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

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

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees. We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately NIL. No additional safeguards are required.

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

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

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 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 the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

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

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.
There are no other threats at the date of this report.

Other communications

EY Transparency Report 2018

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>



09

Appendices



Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2018/19 accounts of opted-in principal local government 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 requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Audit Fee – Code work	37,941	37,941	50,945
Total audit fee – code work	37,941	37,941	50,945
Other non-audit services not covered above (Housing Benefits)	15,500	0	16,313
Other non-audit services not covered above (Pooling of Housing Capital receipts)	TBC*	0	1,680
Total other non-audit fees	15,500	37,941	17,993
Total fees	53,441	37,941	68,938

All fees exclude VAT

. * We have recently completed the working for the 2017/18 pooling of housing capital receipts return. We will discuss the arrangements for the 2018/19 return with the Strategic Director (Corporate Resources).

All fee variations are subject to approval by PSAA.

The agreed fee presented is based on the following assumptions:

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




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

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

Appendix B




Required communications with the Audit-Sub Committee

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

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit-Sub Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report (March 2019)
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 	Audit results report (July 2019)

Appendix B

Required communications with the Audit-Sub Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <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 	Audit results report (July 2019)
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report (July 2019)
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit-Sub Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit results report (July 2019)
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations Page 92 of 115 • Difficulty in identifying the party that ultimately controls the entity 	Audit results report (July 2019)




Appendix B

Required communications with the Audit-Sub Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <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 	<p>Audit Planning Report (March 2019)</p> <p>Audit Results Report (July 2019)</p>
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 	Audit results report (July 2019)
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-Sub Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit-Sub Committee may be aware of 	Audit results report (July 2019)
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	Audit results report (July 2019)

Appendix B

Required communications with the Audit-Sub Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report (July 2019)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report (July 2019)
Auditors report	<ul style="list-style-type: none"> Key audit matters that we will include in our auditor's report Any circumstances identified that affect the form and content of our auditor's report 	Audit results report (July 2019)
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report (March 2019) Audit results report (July 2019) Annual Audit Letter (Sept/Oct 2019)
Certification work	Summary of certification work undertaken	Certification report (March 2020)

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

Purpose and evaluation of materiality

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

Materiality determines:

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

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

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 10
DATE OF MEETING:	20th MARCH 2019	CATEGORY: DELEGATED
REPORT FROM:	INTERNAL AUDIT MANAGER	OPEN
MEMBERS' CONTACT POINT:	ADRIAN MANIFOLD (01332 643281) Adrian.manifold@centralmidlandsaudit.com	DOC: u/ks/audit/internal audit/annual plans/covering report
SUBJECT:	PROPOSED INTERNAL AUDIT PLAN 2019-20	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 02

1.0 Recommendations

- 1.1 That the proposed Internal Audit Plan for 2019/20 is considered and approved for implementation, subject to any changes agreed by the Committee.

2.0 Purpose of Report

- 2.1 To consider the proposed Audit Plan for 2019/20. This is in accordance with the Public Sector Internal Audit Standards (PSIAS) which requires Internal Audit to develop a risk-based plan to direct their work in the forthcoming financial year.

3.0 Detail

- 3.1 The Plan has been drawn up by the Audit Manager. This follows consultation with the Council's Leadership Team and Senior Managers representing all service areas. The Plan details where audit are proposing to allocate their resources over the financial year 2019/20.
- 3.2 This includes an assessment of the Council's risk areas which helps to inform how audit will allocate resources. The allocation is also based on regulatory requirements to review key financial systems each year.
- 3.3 The Plan also details the audit approach and coverage that the Council can expect from the Internal Audit Service. The Audit Sub Committee is requested to consider priorities and the proposed allocation of audit resources for 2019/20.

4.0 Financial Implications

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

5.0 Corporate Implications

Employment Implications

5.1 None

Legal Implications

5.2 None

Corporate Plan Implications

5.3 None directly

Risk Impact

5.4 None

6.0 Community Impact

Consultation

6.1 None required

Equality and Diversity Impact

6.2 None directly

Social Value Impact

6.3 None directly

Environmental Sustainability

6.4 None directly

7.0 Background Papers

7.1 None

South Derbyshire District Council – Internal Audit Plan 2019- 20 & Audit Charter

Audit Sub-Committee: 20th March 2019



South Derbyshire
District Council



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Our Vision

To bring about improvements in the control, governance and risk management arrangements of our Partners by providing cost effective, high quality internal audit services.

Contacts

Richard Boneham CPFA
Head of Internal Audit (DCC) &
Head of Audit Partnership
c/o Derby City Council
Council House
Corporation Street
Derby, DE1 2FS
Tel: 01332 643280
Richard.boneham@derby.gov.uk

Adrian Manifold CMIIA
Audit Manager
c/o Derby City Council
Council House
Corporation Street
Derby
DE1 2FS
Tel. 01332 643281
adrian.manifold@centralmidlandsaudit.co.uk

Mandy Marples CPFA, CCIP
Audit Manager
c/o Derby City Council
Council House
Corporation Street
Derby
DE1 2FS
Tel. 01332 643282
mandy.marples@centralmidlandsaudit.co.uk



central midlands audit partnership
Providing Excellent Audit Services in the Public Sector

Introduction

Purpose of Report

The purpose of this report is for the Board to approve the Internal Audit Charter and Annual Internal Audit Plan for 2019-20.

Role of Internal Audit

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

The organisation's Internal Audit service is provided by Central Midlands Audit Partnership (CMAP). The Partnership was formed as a Joint Board under section 101 of the Local Government Act 1972. It currently serves 6 public sector organisations and Derby City Council is the host authority. The legal agreement between the Partners runs for 5 years from 2016 until January 2021.

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

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

The Three Lines of Defense Model



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

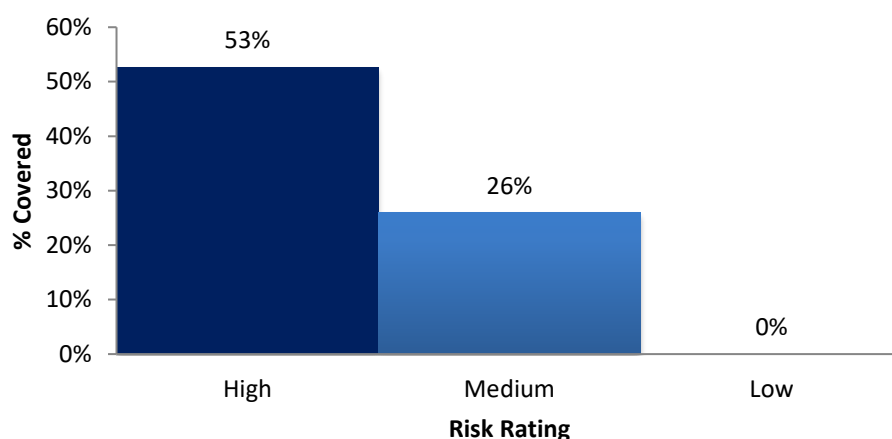
Internal Audit Plan

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

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

The Audit Plan must incorporate sufficient work to enable the Chief Audit Executive to give an opinion on the adequacy of the organisation's overall control environment. Accordingly, this Audit Plan contains 488 days. Equally Internal Audit must be adequately resourced with the necessary level of skilled and experienced staff to deliver the Audit Plan.

2019-20 Coverage of Auditable Areas by Risk Rating Category



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

Internal Audit Charter

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

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

Approach to Audit Planning

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

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

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

Once the scores for each of the 75 auditable areas identified have been input to the risk model, along with the date when the area was last audited, the risk model will automatically generate a plan of suggested audit coverage. Senior management are consulted on the proposed plan and their views are taken account of before producing the final, ranked list of areas to audit. This year's risk assessment identified 19 High risk areas, 54 Medium risk areas and 2 Low risk areas.

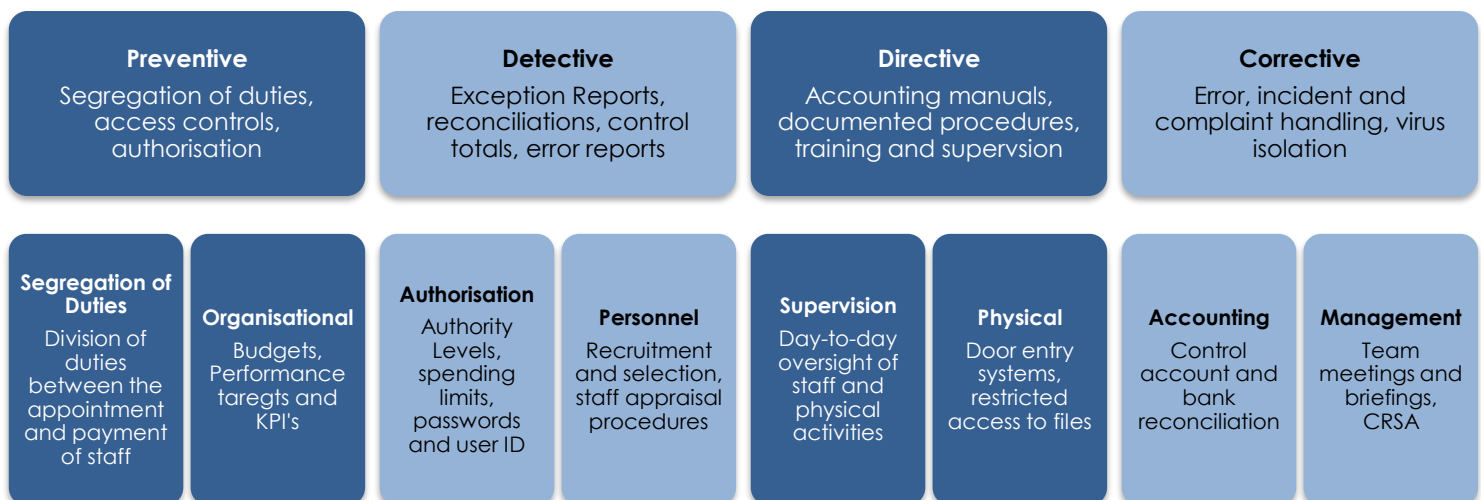
Discussions are also undertaken with the organisation's External Auditors to ensure that the proposed coverage, where possible, complements their work.

Types of Audit Work

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

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

Control categories with examples



Source: Chartered Institute of Internal Auditors – Resources – Control

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

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

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

South Derbyshire District Council – Audit Plan 2019-20

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

Client Support Work

To support the organisation, a number of days have also been set aside for the following:

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

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

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

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

Brought Forward Jobs - A number of incomplete audits from the 2018-19 Audit Plan will need to be concluded in 2019-20.



South Derbyshire District Council – Audit Plan 2019-20

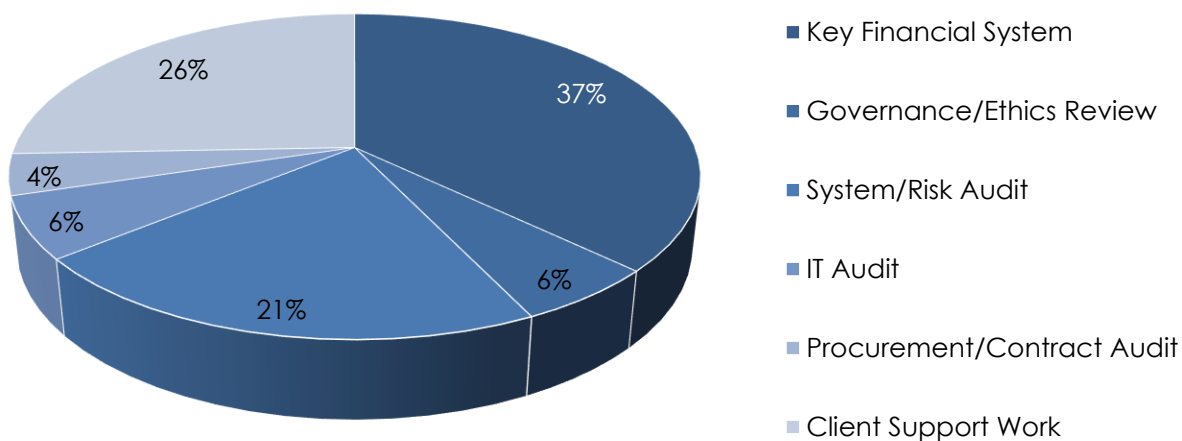
Appendix A - Audit Plan Detail

Our risk assessment of the organisation activities, in consultation with senior management, has concluded that the following audits will be undertaken in 2019-20:

Audit Plan Assignments	Risk Rating	Indicative Quarter
Key Financial Systems Reviews		
Main Accounting System	High	Q3
Treasury Management	High	Q4
Banking Services	Medium	Q1/Q2
Payroll	High	Q3/Q4
Officers Expenses & Allowances	Medium	Q1/Q2
Creditors	High	Q3/Q4
Fixed Assets	Medium	Q2
Revenues Systems	High	Q3/Q4
Cashiering	Medium	Q1
Housing Ben & Council Tax Support	High	Q3
Rent Accounting	High	Q1
Former Tenants Arrears	Medium	Q2
Governance/Ethics Reviews		
Anti-Fraud & Corruption	Medium	Q1
Data Quality & Performance Mgmt	High	Q2
Procurement/Contract Reviews		
Significant Contracts	High	Q2
System/Risk Reviews		
Project Management	Medium	Q4
Business Change & Transformation	Medium	Q2/Q3
Council House Sales (Right To Buy)	Medium	Q1
Grounds Maintenance	Medium	Q3
Improvement Grants	Medium	Q3/Q4
Bereavement Services	Medium	Q4
Electoral Services	Medium	Q2
Economic Development	Medium	Q4
IT Audit Reviews		
IT Applications	High	Q3
IT Infrastructure	High	Q2

The detailed scopes of each audit assignment will be agreed with the relevant managers nearer the commencement of the audit.

Audit Plan 2019-20 per Type of Audit



Appendix B - Audit Charter

Purpose & Mission

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

Standards for the Professional Practice of Internal Auditing

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

Authority

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

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

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

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

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

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

Independence & Objectivity

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

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

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

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

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

Internal auditors will:

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

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

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

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

Scope of Internal Audit Activities

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

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

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

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

- Any response to risk by management that may be unacceptable to the organisation.

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

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

Responsibility

The Chief Audit Executive has the responsibility to:

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

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- Ensure adherence to the organisation's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Sub-Committee.
- Ensure conformance of the internal audit service with the Standards, with the following qualifications:
 - If the internal audit service is prohibited by law or regulation from conformance with certain parts of the Standards, the Chief Audit Executive will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
 - When the Standards are used in conjunction with requirements issued by CIPFA, the Chief Audit Executive will ensure that the internal audit service conforms with the Standards, even if the internal audit service also conforms with the more restrictive requirements of CIPFA.

Quality Assurance & Improvement Programme (QAIP)

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

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



Central Midlands
Audit Partnership

REPORT TO:	AUDIT SUB-COMMITTEE	AGENDA ITEM: 11
DATE OF MEETING:	20th MARCH 2019	CATEGORY: DELEGATED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) Kevin.Stackhouse@southderbyshire.gov.uk	DOC:
SUBJECT:	COMMITTEE WORK PROGRAMME	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: G

1.0 Recommendations

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

2.0 Purpose of Report

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

3.0 Detail

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

4.0 Financial Implications

4.1 None arising directly from this report.

5.0 Background Papers

5.1 Work Programme.

Audit Sub-Committee: Indicative Work Programme 2018/19

Work Programme Area	Date of Committee meetings	Contact Officer (Contact details)
Reports Previously Considered By Previous Committees		
Local Government Audit Committee Briefing	30 th May 2018	Jason Burgess (Assistant Manager) EY Jburgess3@uk.ey.co
Internal Audit Progress Report	30 th May 2018	Adrian Manifold (Audit Manager) Adrian.manifold@centralmidlandsaudit.co.uk
Internal Audit Annual Report 2017/18	30 th May 2018	Adrian Manifold (Audit Manager) Adrian.manifold@centralmidlandsaudit.co.uk
Local Code of Corporate Governance Annual Report 2017/18	30 th May 2018	Ardip Kaur (Legal and Democratic Services Manager) Ardip.kaur@south-derbys.gov.uk
Annual Governance Statement 2017/18	30 th May 2018	Ardip Kaur (Legal and Democratic Services Manager) Ardip.kaur@south-derbys.gov.uk
Anti-Fraud and Corruption Plan 2018/19	30 th May 2018	Kevin Stackhouse (Strategic Director Corporate Resources) Kevin.stackhouse@south-derbys.gov.uk

Audit Results Report (ISA 260) for the year ending 31 st March 2018	25 th July 2018	Jason Burgess (Assistant Manager) EY Jburgess3@uk.ey.co
Internal Audit Progress Report	25 th July 2018	Adrian Manifold (Audit Manager) Adrian.manifold@centralmidlandsaudit.co.uk
Local Government Audit Committee Briefing	19 th September 2018	Jason Burgess (Assistant Manager) EY Jburgess3@uk.ey.co
Internal Audit Progress Report	19 th September 2018	Adrian Manifold (Audit Manager) Adrian.manifold@centralmidlandsaudit.co.uk
Local Government Audit Committee Briefing	12 th December 2018	Jason Burgess (Assistant Manager) EY Jburgess3@uk.ey.co
Internal Audit Progress Report	12 th December 2018	Adrian Manifold (Audit Manager) Adrian.manifold@centralmidlandsaudit.co.uk
Local Code of Corporate Governance Review 2018/19	12 th December 2018	Ardip Kaur (Legal and Democratic Services Manager) Ardip.kaur@south-derbys.gov.uk
Provisional Programme of Reports To Be Considered by Committee		

Local Government Audit Committee Briefing	20 th March 2019	Jason Burgess (Assistant Manager) EY Jburgess3@uk.ey.co
Internal Audit Progress Report	20 th March 2019	Adrian Manifold (Audit Manager) Adrian.manifold@centralmidlandsaudit.co.uk
Certification of Claims and Returns Report 2017/18	20 th March 2019	Jason Burgess (Assistant Manager) EY Jburgess3@uk.ey.co
External Audit Planning Report for the year ending 31 st March 2019	20 th March 2019	Jason Burgess (Assistant Manager) EY Jburgess3@uk.ey.co
Internal Audit Plan 2018/19 and Audit Charter	20 th March 2019	Adrian Manifold (Audit Manager) Adrian.manifold@centralmidlandsaudit.co.uk