

**F. McArdle**  
**Chief Executive**

Civic Offices, Civic Way,  
Swadlincote, Derbyshire DE11 0AH

**[www.south-derbys.gov.uk](http://www.south-derbys.gov.uk)**

**Please ask for: Lisa Kinsey**

Phone: (01283) 595722

Typetalk: (0870) 240958

DX 23912 Swadlincote

E-mail: [m.lisa.kinsey@south-derbys.gov.uk](mailto:m.lisa.kinsey@south-derbys.gov.uk)

Our ref: LK/cl

Your ref:


Date: 25 March 2014

Dear Councillor,

**Audit-Sub Committee**

A Meeting of the **Audit-Sub Committee** will be held in the **Council Chamber**, on **Wednesday, 02 April 2014 at 16:00**. You are requested to attend.

Yours faithfully,



Chief Executive

To:- **Conservative Group**

Councillor Harrison (Chairman), Councillor Ford (Vice-Chairman) and Councillor Mrs. Hood.

**Labour Group**

Councillors Dunn and Shepherd.

## **AGENDA**

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

- |           |   |                  |
|-----------|---|------------------|
| <b>1</b>  | Apologies.  |                  |
| <b>2</b>  | To receive the Open Minutes of the Meeting held on 19th February 2014(Copy attached).         |                  |
|           | Open Minutes from the Meeting held on 19th February 2014                                      | <b>5 - 6</b>     |
| <b>3</b>  | To note any declarations of interest arising from any items on the Agenda                     |                  |
| <b>4</b>  | To receive any questions by members of the public pursuant to Council Procedure Rule No.10.   |                  |
| <b>5</b>  | To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11. |                  |
| <b>6</b>  | External Audit Plan year ending 31st March 2014   | <b>7 - 22</b>    |
| <b>7</b>  | Grant Certification Work Plan 2013-14   | <b>23 - 31</b>   |
| <b>8</b>  | Audit Committee update year ending 31st March 2014  | <b>32 - 56</b>   |
| <b>9</b>  | Informing the Audit Risk Assessment   | <b>57 - 76</b>   |
| <b>10</b> | Benchmarking the Council's arrangements for securing financial resilience                     | <b>77 - 88</b>   |
| <b>11</b> | Internal Audit Plan   | <b>89 - 101</b>  |
| <b>12</b> | CIPFA - Practical Guidance for Audit Sub-Committees   | <b>102 - 113</b> |

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

- 13** The Chairman may therefore move:-

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

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



AUDIT SUB-COMMITTEE

19th February 2014

**PRESENT:-**

**Conservative Group**

Councillor Harrison (Chairman) and Councillor Ford (Vice-Chairman) and Councillor Mrs. Hood

**Labour Group**

Councillors Dunn, and Shepherd.

AS/17. **MINUTES**

The Open Minutes of the Meeting held on 25<sup>th</sup> September and 18<sup>th</sup> December 2013 were submitted. The Minutes were taken as read, approved as a true record and signed by the Chairman.

**MATTERS DELEGATED TO SUB-COMMITTEE**

AS/18. **GRANT THORNTON – GRANTS CERTIFICATION WORK REPORT 2012/13**

A report was submitted to enable the Sub-Committee to review the work of the Council's External Auditor for 2012/13 in relation to grants, in particular to consider the recommendations and management responses in the report.

Members reviewed the documents, commenting on the results of the certification work in particular on the grant claims relating to the Housing and Council Tax Benefit Scheme. Questions were asked on appropriate quality controls being in place, the volume of claimants at any one time which is currently 10,000. Further questions were then asked on the council potentially underpaying claimants rather than overpaying, it was confirmed that to date no underpayments had been made. A final question was asked on how many cases per year go to tribunal and this was confirmed to be no more than 12.

**RESOLVED:-**

***That the report is received and the proposed actions for 2013/14 are approved.***

AS/19. **INTERNAL AUDIT - QUARTERLY PROGRESS REPORT**

An update was provided on progress against the approved Internal Audit Plan for the period 1<sup>st</sup> December 2013 to 31<sup>st</sup> January 2014.

The document comprised a summary, details of audit coverage, audit performance and recommendation tracking. Members reviewed the document, initially commenting on the progress of Audit Assignments paying particular attention to the IT audit which was still in progress, where it was reported that this was due to staffing changes. Six Audits were complete and the remaining were on target with no concerns. It was confirmed that the customer satisfaction Survey response from staff was good for the organisation. Finally, the Sub-Committee discussed recommendation tracking, particularly the revised action dates.

**RESOLVED:-**

***That the report of the Audit Manager is received.***

J. HARRISON

CHAIRMAN

The Meeting terminated at 4.45 p.m.

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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 6</b>
<b>DATE OF MEETING:</b>	<b>2nd APRIL 2014</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE &amp; CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:kevin.stackhouse@south-derbys.gov.uk">kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/audit/grant thornton/plan& inspection/ covering report
<b>SUBJECT:</b>	<b>EXTERNAL AUDIT PLAN YEAR ENDING 31<sup>ST</sup> MARCH 14</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 01</b>

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## **1.0 Recommendations**

- 1.1 That the proposed Audit Plan for 2013/14 is considered and the proposed approach to undertaking audit work for the year is approved.

## **2.0 Purpose of Report**

- 2.1 For Grant Thornton, as the Council's appointed auditors, to present their Audit Plan and approach for the year ending 31<sup>st</sup> March 2014.

## **3.0 Detail**

- 3.1 The Plan sets out where the External Auditors will focus their activities for the year ending March 2014. Predominantly, this will involve work in respect of the Council's Annual Accounts and Financial Statements, arrangements for securing Value for Money, together with assessing the Annual Governance Statement and other emerging issues, such as Pensions.
- 3.2 This is a broad plan and details how the Auditors will approach their work in order to satisfy statutory requirements and to benefit the Council. It details work and testing undertaken to-date and identifies risks that will be followed up over the main audit period in July/August 2014.
- 3.3 The outcome will be reported to the Committee in September 2014, with the Annual Audit Letter being reported to Full Council in December 2014.

#### **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

# The Audit Plan for South Derbyshire District Council

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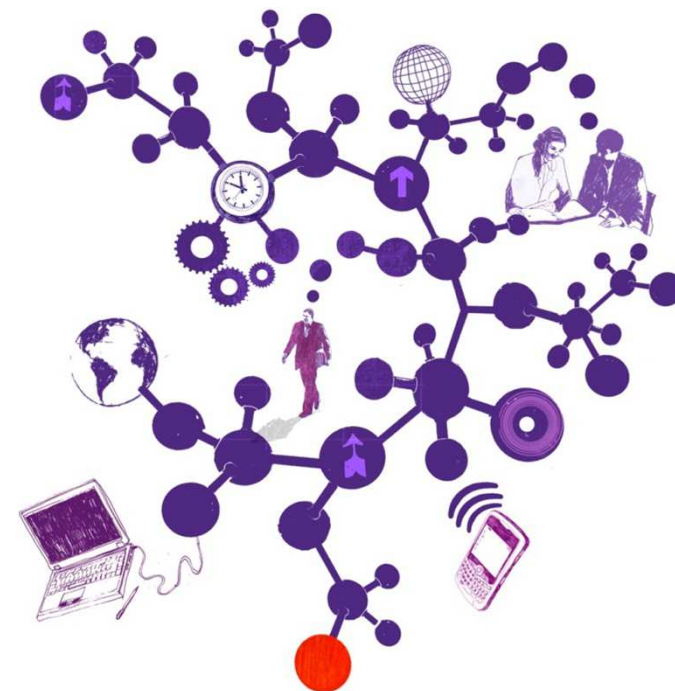
**Year ended 31 March 2014**

18 March 2014

**Kyla Bellingall**  
Director  
T 0121 232 5359  
E [kyla.bellingall@uk.gt.com](mailto:kyla.bellingall@uk.gt.com)

**Tony Parks**  
Audit Manager  
T 0121 232 5301  
E [tony.l.parks@uk.gt.com](mailto:tony.l.parks@uk.gt.com)

**Avtar Sohal**  
Executive  
T 0121 232 5279  
E [avtar.sohal@uk.gt.com](mailto:avtar.sohal@uk.gt.com)



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

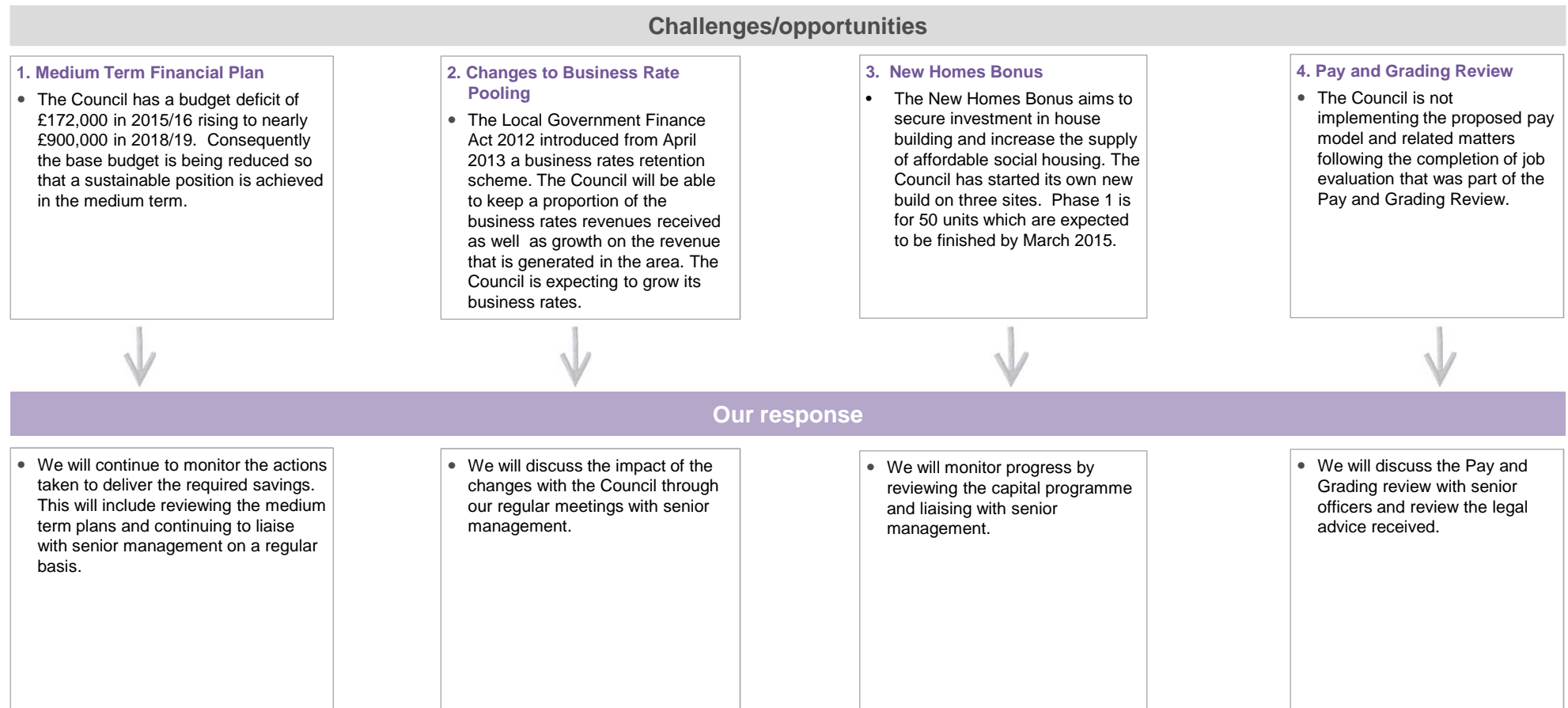
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# Contents

Section	Page
1. Understanding your business	4
2. Developments relevant to your business and the audit	5
3. Our audit approach	6
4. Significant risks identified	7
5. Other risks identified	8
6. Value for Money	9
7. Results of interim audit work	10
8. Key dates	11
9. Fees and independence	12
10. Communication of audit matters with those charged with governance	13

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

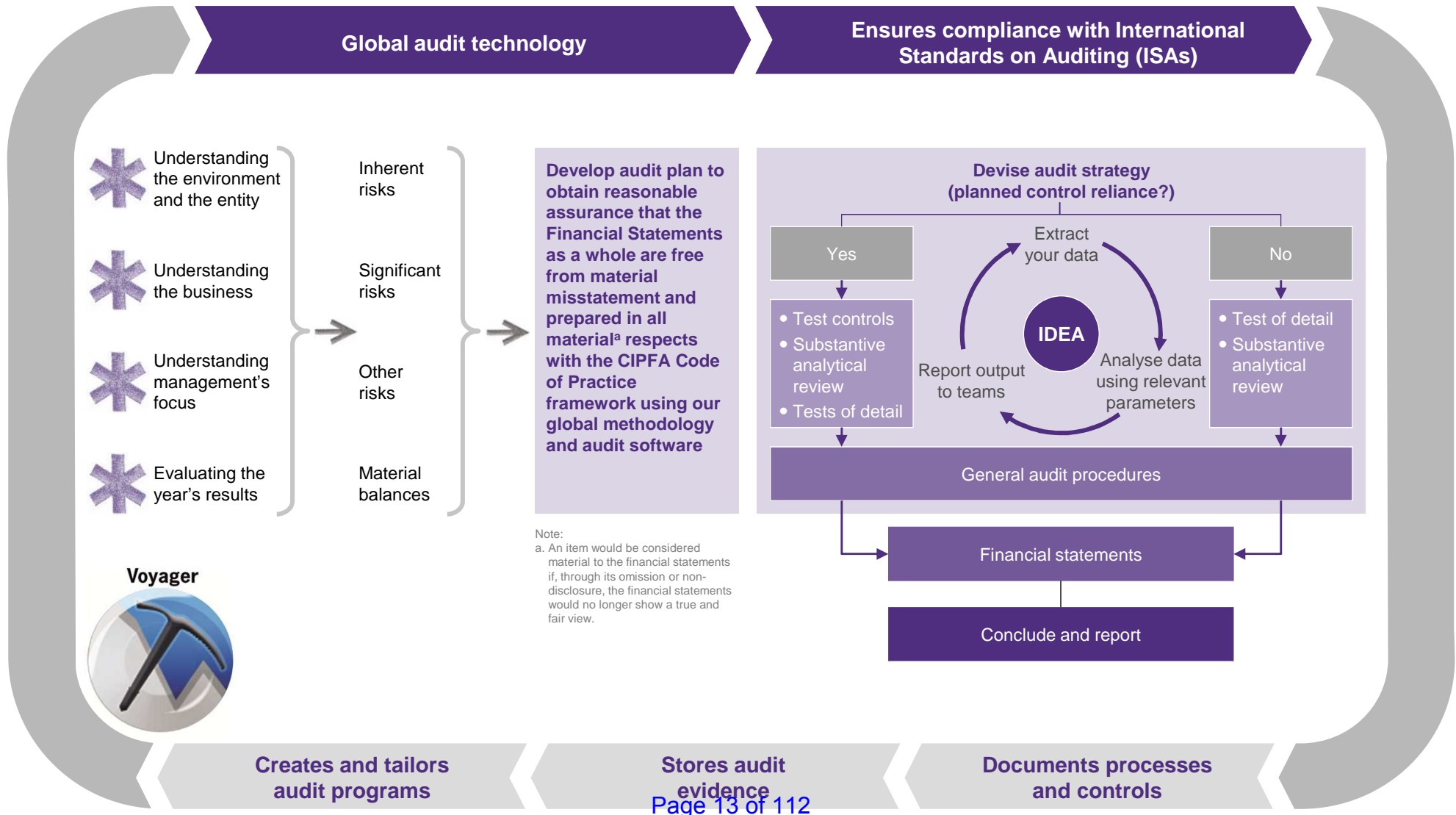


# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements					
<b>1. Financial reporting</b> <ul style="list-style-type: none"> <li>Changes to the CIPFA Code of Practice</li> <li>Clarification of Code requirements around Property, Plant and Equipment valuations</li> <li>Changes to Non Domestic Rates accounting and provisions for business rate appeals</li> </ul>	<b>2. Legislation</b> <ul style="list-style-type: none"> <li>Local Government Finance settlement – the spending power for local authorities in England will fall by 2.9% in 2014/15 compared to 2013/14</li> <li>Welfare Reform Act 2012 made a number of significant changes to the way that welfare is funded and administered</li> </ul>	<b>3. Corporate governance</b> <ul style="list-style-type: none"> <li>Annual Governance Statement (AGS) – the Council conducts a review at least once in each financial year of the effectiveness of its system of internal control</li> <li>Explanatory foreword shall provide an explanation of the Council's financial position and assists in the interpretation of the financial statements</li> </ul>	<b>4. Pensions</b> <ul style="list-style-type: none"> <li>The impact of 2013/14 changes to the Local Government pension Scheme (LGPS). There are a number of changes including employee contribution rates and bandings.</li> <li>Changes will be required to payroll systems to ensure pension contributions are calculated correctly</li> </ul>	<b>5. Financial Pressures</b> <ul style="list-style-type: none"> <li>Managing service provision with less resource</li> <li>Progress against savings plans</li> </ul>	<b>6. Other requirements</b> <ul style="list-style-type: none"> <li>The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>The Council completes grant claims and returns on which audit certification is required</li> </ul>
Our response					
<ul style="list-style-type: none"> <li>We will ensure that the Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing</li> </ul>	<ul style="list-style-type: none"> <li>We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management, providing a view where appropriate</li> </ul>	<ul style="list-style-type: none"> <li>We will review the arrangements the Council has in place for the production of the AGS</li> <li>We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</li> </ul>	<ul style="list-style-type: none"> <li>We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management</li> </ul>	<ul style="list-style-type: none"> <li>We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan</li> <li>We will undertake a review of Financial Resilience as part of our VFM conclusion</li> </ul>	<ul style="list-style-type: none"> <li>We will carry out work on the WGA pack in accordance with requirements</li> <li>We will certify grant claims and returns in accordance with Audit Commission requirements</li> </ul>

# Our audit approach



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## Significant risks identified

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

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<b>Further work planned:</b> <ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies</li><li>• Testing of material revenue streams</li></ul>
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<b>Further work planned:</b> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Testing of journal entries</li><li>• Review of unusual significant transactions</li></ul>

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses (completeness)	Creditors understated or not recorded in the correct period	We have completed our documentation of the system and performed a walkthrough of the identified controls.	<ul style="list-style-type: none"> <li>We will complete detailed substantive testing of expenditure balances included in the financial statements</li> <li>We will carry out specific work around the completeness of balances. This will include tests to ensure that expenditure is not understated and cut off testing of a sample of transactions</li> </ul>
Employee remuneration (completeness)	Employee remuneration accrual understated	We have completed our documentation of the system and performed a walkthrough of the identified controls.	<ul style="list-style-type: none"> <li>We will complete detailed substantive testing of employee remuneration balances included in the financial statements</li> <li>We will carry out specific work around the completeness of balances. This will include testing a sample of transactions raised in the year to see if expenditure is included in the correct period</li> </ul>
Welfare Expenditure (valuation – gross)	Welfare benefit expenditure improperly computed	We have completed our documentation of the system and performed a walkthrough of the identified controls.	<ul style="list-style-type: none"> <li>We will review the Benefits system reconciliation to ensure that information from the benefits system can be agreed to the ledger and financial statements</li> <li>We will carry out procedures in accordance with the HBCount methodology required to certify the housing benefit subsidy claim</li> <li>We will test a sample of council tax benefit granted under the new Council Tax reduction scheme</li> </ul>
Housing Rent Revenue Account (completeness)	Revenue transactions not recorded	We have completed our documentation of the system and performed a walkthrough of the identified controls.	<ul style="list-style-type: none"> <li>We will complete detailed substantive testing of Housing Rent balances included in the financial statements.</li> <li>We will carry out specific work around the completeness of balances. This will include testing to ensure that income is not over or understated and cut off testing of a sample of transactions</li> </ul>

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# Value for money

## Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We are in the process of undertaking an initial risk assessment to identify areas of risk to our VfM conclusion. The main risk relates to the medium term financial position. The Council has a budget deficit of £172,000 in 2015/16 rising to nearly £900,000 in 2018/19. Consequently the base budget is being reduced so that a sustainable position is achieved in the medium term. We will tailor our detailed work to support the risk assessment.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

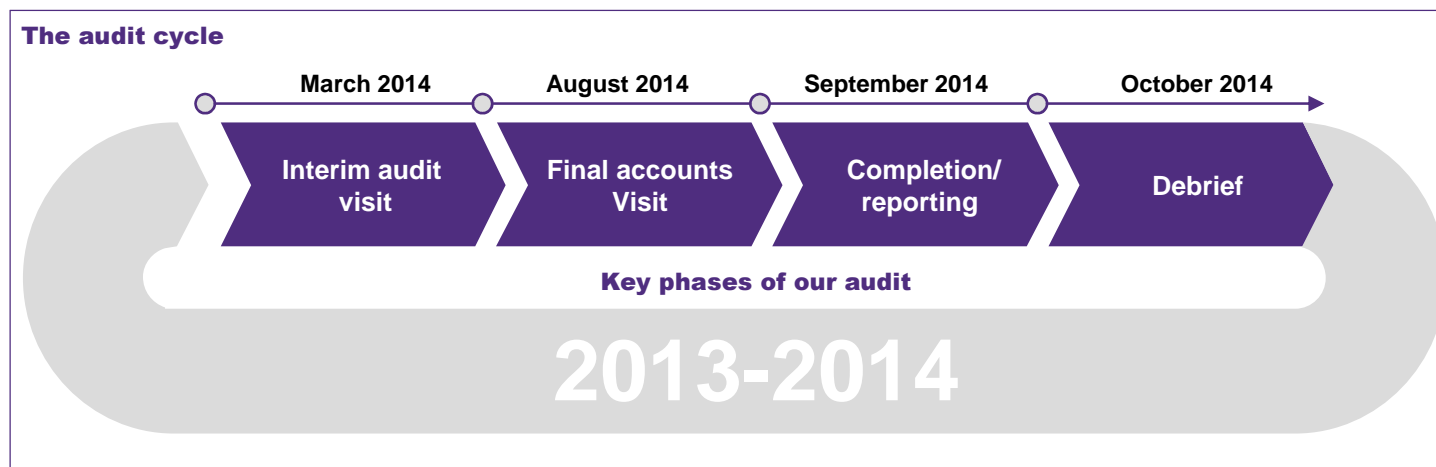
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## Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p>	<p>Review of the Council's journal entry policy has not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We are to complete substantive year end journal testing as part of our year end financial statements audit.</p>

# Key dates



Date	Activity
February 2014	Planning
March 2014	Interim site visit
April 2014	Presentation of audit plan to Audit - Sub Committee
August 2014	Year end fieldwork
September 2014	Audit findings clearance meeting
September 2014	Report audit findings to those charged with governance (Audit - Sub Committee)
30 September 2014	Sign financial statements opinion

# Fees and independence

## Planned Fees

	£
Council audit	64,800
Grant certification	28,100
<b>Total fees (excluding VAT)</b>	<b>92,900</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

## Fees for other services

Service	Fees £
Review of Recharge of Central Support Services into the Housing Revenue Account	5,000
Further testing of 2012/13 Housing and Council Tax Subsidy Claim	3,500*
* This is an estimated fee and is subject to confirmation by the Audit Commission	

## Independence and ethics

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

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

# Communication of audit matters with those charged with governance

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

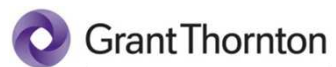
This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

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

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

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

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



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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 7</b>
<b>DATE OF MEETING:</b>	<b>2nd APRIL 2014</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE &amp; CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:kevin.stackhouse@south-derbys.gov.uk">kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/audit/grant Thornton/certification work plan/ covering report
<b>SUBJECT:</b>	<b>GRANT CERTIFICATION WORK PLAN 2013/14</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 01</b>

## **1.0 Recommendations**

- 1.1 That the proposed Plan for 2013/14 is considered and the proposed approach to undertaking the grant certification work for the year is considered and approved.

## **2.0 Purpose of Report**

- 2.1 For Grant Thornton, as the Council's appointed auditors, to set out their approach to certifying grant claims in accordance with Audit Commission's requirements.

## **3.0 Detail**

- 3.1 The detailed Plan is attached. The results will be reported to the Committee next year following completion of the Auditor's work.

## **4.0 Financial Implications**

- 4.1 The Plan provides an estimate of the fees that will be charged to the Council and how they are calculated. At this stage, it is considered that 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

# Grant certification work plan for South Derbyshire District Council

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**2013/14**

18 March 2014

**Kyla Bellingall**

Director

T 0121 232 5359

E [kyla.bellingall@uk.gt.com](mailto:kyla.bellingall@uk.gt.com)

**Tony Parks**

Audit Manager

T 0121 232 5301

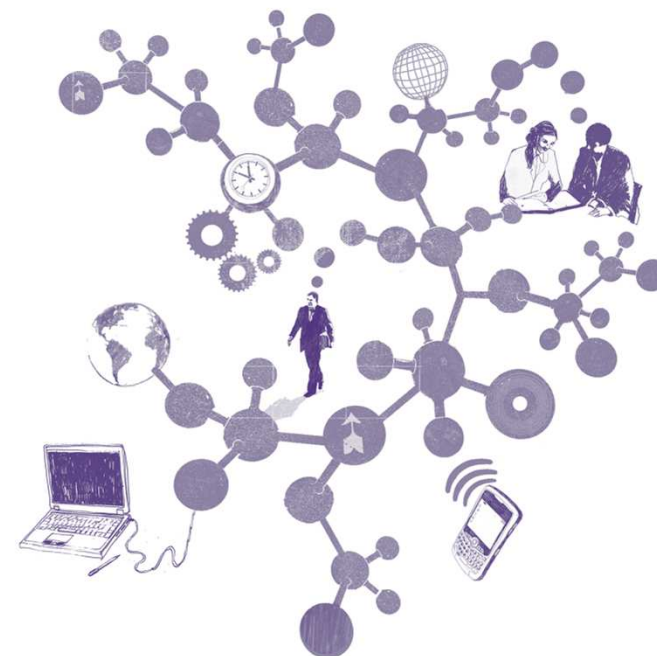
E [tony.l.parks@uk.gt.com](mailto:tony.l.parks@uk.gt.com)

**Avtar Sohal**

Executive

T 0121 232 5279

E [avtar.sohal@uk.gt.com](mailto:avtar.sohal@uk.gt.com)



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# Contents

Section	Page
1. Our approach to grant certification work	3
Appendix A Summary of expected claims and returns for the year ended 31 March 2014	7

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# Our approach to grant certification work

## Introduction

Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information.

The Audit Commission makes certification arrangements with grant-paying bodies, including confirming which claims and returns require certification and issuing certification instructions. These instructions are tailored to each scheme and set out the specific procedures to be applied in examining the claim or return. The Audit Commission agrees the deadline for submission of each claim by authorities and the deadline for certification by auditors.

As the Council's appointed external auditor, we undertake grant certification work acting as an agent of the Audit Commission.

## Certification arrangements

The Audit Commission's certification arrangements are designed to be proportionate to the claim or return. The arrangements for 2013/14 are:

- for claims and returns below £125,000, certification by us is not required, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions
- for claims and returns above £125,000 and below £500,000, we are required to perform limited tests to agree entries on the claim or return to underlying records, but are not required to undertake any testing of the eligibility of expenditure or data

- for claims and returns over £500,000, we are required to assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, we are required to undertake limited tests to agree entries on the claim or return to underlying records but not to undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, we are required to undertake all the tests in the relevant certification instruction and use our assessment of the control environment to inform decisions on the level of testing required.

In determining whether we place reliance on the control environment, we consider other work we have undertaken on the Council's financial ledger and any other relevant systems, and make appropriate use of relevant internal audit work where possible.

## Role of all parties

The table below summarises the respective roles and responsibilities of the parties involved in the certification process.

Party	Role & responsibility
Grant paying body	Sets conditions of grant and deadline for submission for pre-certified and certified claims
Audit Commission	Issues certification instructions for auditor work
Council	Submits claims for certification to the Appointed Auditor within grant paying body submission deadlines
Appointed Auditor	Certifies claims in accordance with Audit Commission certification instructions and within certification deadlines

The Council's role is set out in more detail below:

- the Director of Finance and Corporate Services is responsible for ensuring that supporting accounting records are sufficient to document the transactions for which claims are made. These records should be maintained in accordance with proper practices and kept up to date, including records of income and expenditure in relation to claims and returns
- the Council should ascertain the requirements of schemes at an early stage to allow those responsible for incurring eligible expenditure to assess whether it falls within the scheme rules and to advise those responsible for compiling claims and returns to confirm any entitlement
- the Council should ensure all deadlines for interim and final claims are met to avoid sanctions and penalties from grant paying bodies
- grant-paying bodies usually require the Council's certificate to be given by an appropriate senior officer. This is typically the Director of Finance and Corporate Services or an officer authorised by written delegated powers
- the Council should monitor arrangements with any third parties involved in the certification process.

---

## Claims history

The most significant claims and returns in 2012/13 were:

- housing and council tax benefit claim
- national non-domestic rates return
- pooling of capital receipts

Due to changes in government funding, there are a number of schemes that either finished in 2012/13 or where funding is no longer ring-fenced. For the Council this means that there will be no certification under the Audit Commission regime of the following schemes this year:

- council tax benefit (previously part of the housing and council tax benefit claim)
- national non-domestic rates return

## Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification
- without qualification but with agreed amendments incorporated by the Council or
- with a qualification letter (with or without agreed amendments incorporated by the Council).

Where a claim is qualified because the Council has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the Council or claw back funding which has already been provided or has not been returned.

In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which may impact on the certification fee.

## Certification work fees

The Audit Commission sets an indicative fee for grant claim certification based on 2011/12 actual certification fees for each council. The indicative fee for the Council is £28,100. This fee may be subject to revision by the Audit Commission as certification of council tax benefit is no longer required as part of the Housing Benefit Subsidy scheme. The fee is based on the following assumptions:

- there will be no change in the scope of our work due to the control environment in place during the year
- the Council provides adequate working papers to support each entry in the claim/return
- the Council's staff are available to deal with our queries in a timely manner and provide such explanations and supporting evidence necessary to support entries.

Where there is any significant variation from these assumptions, we will discuss a variation to the indicative scale fee with the Council and the Audit Commission.

The Council has identified all claims and returns requiring certification and this information is incorporated into Appendix A to this plan.

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## Administration

When each expected claim or return is completed, a copy of the signed claim should be sent to Tony Parks at the following address:

**Grant Thornton UK LLP**  
**Colmore Plaza**  
**20 Colmore Circus**  
**Birmingham**  
**West Midlands**  
**B4 6AT**

- The **original** claims and returns should be retained by the Council.
- If additional claims and returns are identified by either us or the Council they will be incorporated into the appendix in this plan
- All claims and returns listed in appendix A should be sent to us, even if below the de minimis limit so that we can confirm that no certification is required. We are required to report the value of these claims to the Audit Commission in our annual certification report.

## Managing the certification process – our role

- We intend to certify all claims and returns in accordance with the deadlines set by the Audit Commission. If we receive any claims after the Council's submission deadline, we will endeavour to certify them within the Audit Commission deadline but, where this is not possible, within three months from receipt
- A copy of each certified claim or return will be sent to the relevant named contact when the certification process is complete, along with a copy of the qualification letter, where applicable
- Copies of the certification instructions can be provided on request for any new claims or returns
- We expect to complete the certification of all claims by late 2014 and will issue a grant certification report highlighting any issues that need to be brought to the Council's attention.

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## Appendix A: Summary of expected claims & returns for the year ended 31 March 2014

Claim (CI reference)	Authority deadline **	Certification deadline **	Claim certified in prior year	Prior year outcome
Housing benefits subsidy (BEN01) *	30/04/14	30/11/14	Yes	Claim qualified
Pooling of housing capital receipts (CFB06)	28/06/14	27/09/14	Yes	No amendments or qualification

\* No certification of council tax benefit is required in 2013/14

\*\* Indicative deadlines only – final deadlines to be confirmed by the Audit Commission



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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 8</b>
<b>DATE OF MEETING:</b>	<b>2nd APRIL 2014</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE &amp; CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:Kevin.stackhouse@south-derbys.gov.uk">Kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/live files/grant Thornton/interim audits/audit committee update March 2014
<b>SUBJECT:</b>	<b>AUDIT COMMITTEE UPDATE YEAR ENDING 31 MARCH 2014</b>	
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 01</b>

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## **1.0 Recommendations**

- 1.1 That the report is considered and noted.
- 1.2 That any emerging issues requiring an update are identified and are subject to a future report to the Committee.

## **2.0 Purpose of Report**

- 2.1 The attached report from the Council's External Auditors, details progress on delivering their responsibilities for 2013/14. This includes an update on interim accounts work, together with:
  - A summary of emerging national issues and developments that may be relevant to the Council.
  - A number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

## **3.0 Detail**

- 3.1 The Auditors' report details a number of issues which focus on what local councils should address in the current financial climate, together with legislative changes in areas such as welfare reform, pensions and audit.
- 3.2 It is considered that the Council is addressing these issues where they apply; this report provides the opportunity for the Committee to check that the Council has the appropriate frameworks in place. In doing so, it may wish to

request a report back on any issue where greater detail is required. A summary of the issues and the Council's position is provided below.

### **Audit Commission Research – Tough Times 2013**

- 3.3 This report focused on how councils were dealing with current financial challenges and the degree to which councils were financially resilient.
- 3.4 As reported to the Council during the latest budget round, the Council's own finances show a balanced budget for the 2 years of 2013/14 and 2014/15, a sustainable medium-term position, with a track record of delivering savings - £1.5m since 2010.

### **Local Audit and Accountability Act**

- 3.5 This received Royal Assent on 30<sup>th</sup> January 2014. Amongst other things, the Act makes provision for the closure of the Audit Commission in March 2015 when local councils will take responsibility for appointing their own Auditors. It is anticipated that this will commence in 2016/17 or 2019/20 if current arrangements are extended.
- 3.6 It is anticipated that specific reports will be presented to the Committee over the next year or so as the exact timetable and details are released.

### **Final Local Government Finance Settlement 2014/15**

- 3.7 This was considered by the Council in January and February 2014 as part of the budget round and update of the MTFP.

### **Help for House Building**

- 3.8 This is being considered as part of a package of funding measures to deliver the Council's New Build programme, which is being monitored by the Housing and Finance Committees.

### **2016 Tipping Point? Challenging the Current**

- 3.9 This report, produced by Grant Thornton, assesses whether councils have the arrangements in place to ensure their sustainable financial future. This includes a good practice checklist which tests the degree to which councils comply against a range of measures.
- 3.10 Measures are grouped into the following categories:
- Key indicators of financial performance
  - Strategic financial planning
  - Financial governance
  - Financial control

- 3.11 There are approximately 40 measures in total. Of these, the Director of Finance has assessed that 38 are met satisfactorily. The remaining 2, i.e. the use of a working capital ratio as a financial indicator and greater use of benchmarking of costs when setting budgets, will be reviewed during 2014/15.
- 3.12 The report also provides case studies from other authorities. Having reviewed these studies, the Director of Finance considers that several areas of good practice are already adopted by the Council. The one tool that the Council has previously not used is what is called Priority Based Budgeting.
- 3.13 This entails formal consultation with local residents and other stakeholders who inform the Council of priorities and where to allocate limited resources. For example, some councils have used this approach to identify revenue savings required to fill a funding gap. Effectively the public are asked to make choices between reduced services, increased service charges or increasing Council Tax.

### **Alternative Delivery Models in Local Government**

- 3.14 This is a further report by Grant Thornton which outlines other methods of delivering services through collaboration, partnerships, outsourcing and multi sector working, etc.
- 3.15 The Council has in recent years used a variety of these methods following service reviews. This has followed a full options appraisal and consideration of a business case which is tailored to the needs of each service area; this framework is established in service reviews.

### **Welfare Reform**

- 3.16 In addition to the implementation of the Local Council Tax Support Scheme in April 2013, the impact of the wider welfare reform locally has been regularly reported to the Council. As reported to the Finance and Management Committee in December 2013, details of the implementation of Universal Credit and its specific impact on the Council are anticipated over the next year or so.

### **Property, Plant and Equipment Valuations**

- 3.17 The Accounting Code of Practice has clarified requirements regarding valuation of assets for inclusion in the Financial Statements. No changes to the Council's accounting policy are required as it is considered these aspects of the Code are already met. However, additional disclosure notes will be added to the financial statements to clarify the Council's approach.

### **Provision for Business Rate Appeals**

- 3.18 This is a new requirement under the Business Rates Retention system introduced in April 2013. The Council has budgeted to set-aside a provision

and will do so based on its estimated liability. The Council has sufficient information which will allow a robust estimate to be made and will provide for the full estimated amount in 2013/14, as planned.

### **Accounting for and Financing Pension Costs**

- 3.19 The Fund's actuaries are supplying the relevant information to enable the changes to the accounting requirements to be met. The Council is not currently considering making any early lump sum pension payments.

### **Changes to the Local Government Pension Scheme**

- 3.20 The Council has been working closely with the both the administering authority (i.e. Derbyshire County Council) and its payroll provider over several months to ensure the changes are reflected in systems, processes and that the workforce is aware of the changes.
- 3.21 This is being implemented for the April 2014 payroll as required.

## **4.0 Financial Implications**

- 4.1 None

## **5.0 Corporate Implications**

- 5.1 None

## **6.0 Community Implications**

- 6.1 None

## **7.0 Background Papers**

- 7.1 None

# Audit Committee Update for South Derbyshire District Council

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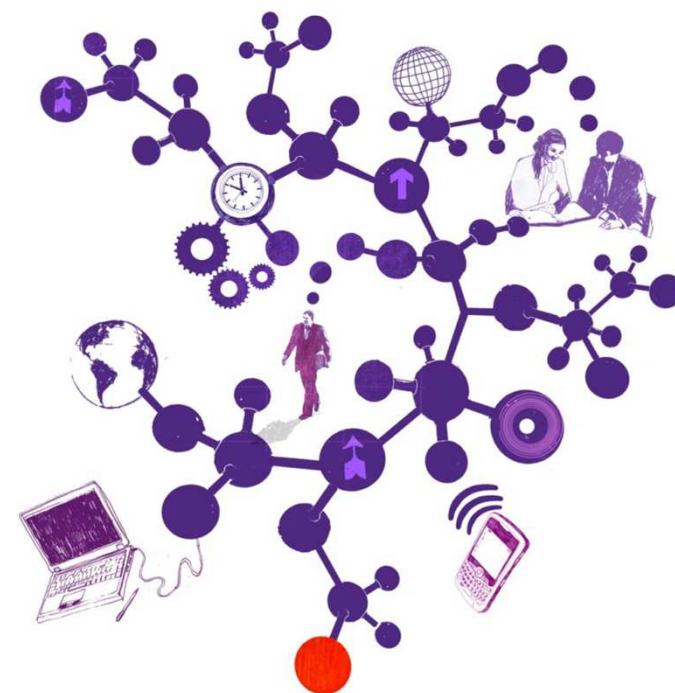
**Year ended 31 March 2014**

26 February 2014

**Kyla Bellingall**  
Director  
T 0121 232 5359  
E [kyla.bellingall@uk.gt.com](mailto:kyla.bellingall@uk.gt.com)

Tony Parks  
Manager  
T 0121 232 5301  
E [tony.l.parks@uk.gt.com](mailto:tony.l.parks@uk.gt.com)

Avtar Sohal  
Executive  
T 0121 232 5279  
E [avtar.sohal@uk.gt.com](mailto:avtar.sohal@uk.gt.com)



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

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# Contents

Section	Page
Introduction	4
Progress at 26 February 2014	5
Emerging issues and developments	
Local government guidance	8
Grant Thornton	12
Accounting and audit issues	15

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# Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a district council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Kyla Bellingall Engagement Lead T 0121 232 5359 M 07786 198 735 [kyla.bellingall@uk.gt.com](mailto:kyla.bellingall@uk.gt.com)  
Tony Parks Audit Manager T 0121 232 5301 M 07880 456 113 [tony.l.parks@uk.gt.com](mailto:tony.l.parks@uk.gt.com)

## Progress at 26 February 2014

Work	Planned date	Complete?	Comments
<b>2013-14 Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on Council's 2013-14 financial statements.	March 2014	In progress	Audit planning has commenced with our internal planning meeting completed. The Audit Plan is expected to go to the 2 April 2014 Audit Sub Committee.
<b>Interim accounts audit</b> Our interim fieldwork visit includes: <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing.</li> </ul>	March 2014	Not yet due	Interim audit dates have been agreed for March 2014.
<b>2013-14 final accounts audit</b> Including: <ul style="list-style-type: none"> <li>• audit of the 2013-14 financial statements</li> <li>• proposed opinion on the Council's accounts.</li> </ul>	August - September 2014	Not yet due	

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## Progress at 26 February 2014

Work	Planned date	Complete?	Comments
<b>Value for Money (VfM) conclusion</b> Our VfM conclusion is based on the following criteria specified by the Audit Commission <ul style="list-style-type: none"><li>• The organisation has proper arrangements in place for securing financial resilience</li><li>• The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness</li></ul>	March & September 2014	Not yet due	
<b>Other activity undertaken</b> <ul style="list-style-type: none"><li>• Review of Recharge of Central Support Services into Housing Revenue Account</li></ul>	December 2013 – January 2014	Yes	

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## Emerging issues and developments

# Councils must continue to adapt to meet the needs of local people

## Local government guidance

### Audit Commission research - Tough Times 2013

The Audit Commission's latest research, <http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Tough-Times-2013-Councils-Responses-to-Financial-Challenges-w1.pdf> shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. However, with uncertainty ahead, the Commission says that councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.

The Audit Commission Chairman, Jeremy Newman said that with continuing financial challenges 'Councils must share what they have learnt from making savings and keep looking for new ways to deliver public services that rely less on funding from central government'.

#### Key findings:

The Audit Commission's research found that:

- the three strategies most widely adopted by councils have been reducing staff numbers, securing service delivery efficiencies and reducing or restructuring the senior management team;
- three in ten councils exhibited some form of financial stress in 2012/13 – exhibited by a mix of difficulties in delivering budgets and taking unplanned actions to keep finances on track;
- auditors expressed concerns about the medium term prospects of one third of councils (36 per cent)

#### Issues to consider/challenge questions:

How have members satisfied themselves that the Council can deliver a balanced budget, that the medium term strategy/budget has been subject to appropriate challenge and that the Council's finances are resilient over the medium term (3 years) and beyond?

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# Councils choosing their auditors one step closer

## Local government guidance

### Local Audit and Accountability Act

The Local Audit and Accountability Act received Royal Assent on 30 January 2014.

#### Key points

Amongst other things:

- the Act makes provision for the closure of the Audit Commission on 31 March 2015;
- arrangements are being worked through to transfer residual Audit Commission responsibilities to new organisations;
- there will be a new framework for local public audit due to start when the Commission's current contracts with audit suppliers end in 2016/17, or potentially 2019/20 if all the contracts are extended;
- the National Audit Office will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions;
- Local Authority's will take responsibilities for choosing their own external auditors;
- recognised supervisory bodies (accountancy professional bodies) will register audit firms and auditors and will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors;
- Local Authority's will be required to establish an auditor panel which must advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
- existing rights around inspection of documents, the right to make an objection at audit and for declaring an item of account unlawful are in line with current arrangements;
- transparency measures give citizens the right to film and tweet from any local government body meeting.

Issues to consider/challenge questions:

- Have members considered the implications of the Local Audit and Accountability Act for the Council's future external audit arrangements?

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# Austerity continued – further cuts in spending powers

## Local Government Guidance

### Final local government finance settlement 2014/15

On 5 February 2014 the government published the final local government finance settlement for 2014/15. This confirmed the proposals laid out in the provisional finance settlement. The government has proposed that any council tax increases made by billing or precepting authorities of 2 per cent or more will be subject to a referendum. This proposal needs to be accepted by Parliament.

Excluding the Greater London Authority, the spending power for local authorities in England will fall by 2.9% in 2014/15 compared to 2013/14. As in previous years, councils will have their funding reduction capped at 6.9%. Indicative funding levels for 2015/16 have also been provided to assist local authorities with their medium term financial planning. The settlement will be finalised in February 2014.

#### Challenge questions:

- Has your Director of Finance and Corporate Services reviewed the proposed settlement and assessed the impact on your Council?

# Councils keep New Homes Bonus

## Local government guidance

### Help for housing building

In the Autumn statement (5 December 2013) the government announced plans to secure a £1 billion 6 year investment in house building, to simplify the local authority planning process and help to achieve the stated objective of delivering 250,000 new homes.

Key objectives:

- nationally to increase the housing supply in England through a £1 billion 6 year investment programme;
- at a local level helping councils to increase the supply of affordable social housing supply in their area by allowing them to bid for up to £300 million of additional borrowing against their housing revenue account;
- improving labour market mobility by introducing a Right to Move for those needing to move to take up a job or training ;
- Allowing councils outside London to keep all of their **New Homes Bonus** and have full control over how they use it to support new homes in their area – the New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use, is paid each year for 6 years and is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use

Issues to consider/challenge questions:

- Has your Director of Finance and Corporate Services assessed the implications and potential financial impact for the Council of the help for housing building measures announced in the Autumn statement?

# 79% of Councils anticipate Tipping Point soon

## Grant Thornton

### 2016 tipping point? Challenging the current

This report [http://www.grant-thornton.co.uk/Global/Publication\\_pdf/LG-Financial-Resilience-2016-tipping-point.pdf](http://www.grant-thornton.co.uk/Global/Publication_pdf/LG-Financial-Resilience-2016-tipping-point.pdf) is the third in an annual series which assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future.

Local authorities have so far met the challenges of public sector budget reductions. However, some authorities are predicting reaching tipping point, when the pressure becomes acute and financial failure is a real risk. Based on our review of forty per cent of the sector, this report shows that seventy nine per cent of local authorities anticipate some form of tipping point in 2015/16 or 2016/17.

Our report rates local authorities in four areas - key indicators of financial performance, strategic financial planning, financial governance and financial control. It also identifies a series of potential 'tipping point scenarios' such as local authorities no longer being able to meet statutory responsibilities to deliver a range of services.

Our report also suggest some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. This includes a relentless focus on generating additional sources of revenue income, and improving efficiency through shared services, strategic partnerships and wider re-organisation.

#### Challenge questions

- Our report includes a good practice checklist designed to provide senior management and members with an overview of key tipping point risks. Has the Director of Finance and Corporate Services completed the checklist and reported it to the Audit Committee?
- The report also includes good practice case studies in strategic financial planning, financial governance and financial control. Has the Director of Finance and Corporate Services reviewed these case studies and considered whether there is scope to adopt these?

# Alternative Delivery Models – are you making the most of them?

## Grant Thornton

### Alternative delivery models in local government

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/> discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

#### Challenge question

- Our report includes a number of case studies summarising how public services are being delivered through alternative service models. Has the Authority reviewed these case studies and assessed whether there are similar opportunities available to it?
- Our report includes three short checklists on supporting innovation in service delivery, setting up a company and questions that members should ask officers when considering the development of a new delivery model. Are the checklists being considered as part of the development of the Authority's commissioning strategy?

# Welfare reforms – what you think of it so far?

## Grant Thornton

### Reaping the benefits: first impressions of the impact of welfare reform.

The potential scope of this topic is broad, so our report [http://www.grant-thornton.co.uk/Global/Publication\\_pdf/Reaping-the-benefits-LG-Welfare-Reform.pdf](http://www.grant-thornton.co.uk/Global/Publication_pdf/Reaping-the-benefits-LG-Welfare-Reform.pdf) focuses on the financial and managerial aspects of welfare reform. This involves:

- Understanding the challenges currently facing local government and housing associations in regard to welfare reform and what organisations have been doing to meet this challenge in terms of strategy, projects and new processes.
- Reporting on the early indications of effectiveness following the implementation of these measures and the impact of reform.
- Providing early insight into challenges facing these organisations in the near future.

We have pulled together information from a variety of sources, including our regular conversations across the local government and housing sectors and surveying local authorities and housing associations in England.

We found that:

- In general, organisations have been very active in engaging with stakeholders and putting in place appropriate governance arrangements and systems to implement specific reforms. A minority of organisations did not fully exploit all the options open to them in preparing for reform.
- So far, the indication is that the impact of reform experienced by local authorities and partners has been managed effectively. This may be because the full impact has not yet been felt. Some worrying signs are emerging, including rising rental arrears, homelessness and reliance on food banks, which may be linked to the reforms.
- Looking ahead, further reforms, such as the implementation of universal credit and the move to direct payments present significant uncertainties and challenges over the next few years.

Challenge questions

- Has the Director of Finance and Corporate Services kept members informed of progress with stakeholder engagement and changes to governance arrangements to implement specific reforms?
- What impact assessment is the Authority carrying out on council tax localisation, the benefit cap and housing benefit, the spare room subsidy and changes to the Social Fund?
- Does the Authority have a plan in place or in development for the introduction of universal credit?

# Revaluing your assets – clarification of accounting guidance

## Accounting and audit issues

### Property, plant and equipment valuations

The 2013/14 Code has clarified the requirements for valuing property, plant and equipment and now states explicitly that revaluations must be 'sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.' This means that a local authority will need to satisfy itself that the value of assets in its balance sheet is not materially different from the amount that would be given by a full valuation carried out on 31 March 2014. This is likely to be a complex analysis which might include consideration of:

- the condition of the authority's property portfolio at 31 March 2014
- the results of recent revaluations and what this might mean for the valuation of property that has not been recently valued
- general information on market prices and building costs
- the consideration of materiality in its widest sense - whether an issue would influence the view of a reader of the accounts.

The Code also follows the wording in IAS 16 more closely in the requirements for valuing classes of assets:

- items within a class of property, plant and equipment are to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates
- a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

There has been much debate on what is a short period and whether assets that have been defined as classes for valuation purposes should also be disclosed separately in the financial statements. These considerations are secondary to the requirement that the carrying value does not differ materially from the fair value. However, we would expect auditors to report to those charged with governance where, for a material asset class:

- all assets within the class are not all valued in the same year
- the class of asset is not disclosed separately in the property, plant and equipment note.

#### Challenge question

Has your Director of Finance and Corporate Services consulted you on the programme of valuations and the proposals for disclosing information about classes of assets?

# Estimating the impact of business rate appeals

## Accounting and audit issues

### Business rate appeals provisions

Local authorities are liable for successful appeals against business rates. They should, therefore, recognise a provision for their best estimate of the amount that businesses have been overcharged up to 31 March 2014.

However, there are practical difficulties which mean that making a reliable estimate for the total amount that has been overcharged is challenging:

- the appeals process is managed by the Valuation Office Agency (VOA) and so local authorities are reliant on the information provided to them by the VOA
- some businesses may have been overcharged but not yet made an appeal.

We would expect local authorities:

- to work with the VOA to make sure that they have access to the information they need
- where appeals have been made, to determine a methodology for estimating a provision and to apply this methodology consistently
- where appeals have not been made:
  - to consider the extent to which a reliable estimate can be made (for example, in relation to major businesses)
  - to recognise a provision where a reliable estimate can be made
  - to disclose a contingent liability where a reliable estimate cannot be made
  - to provide a rationale to support their judgement that a reliable estimate cannot be made
- to revisit the estimate with the latest information available immediately before the audit opinion is issued.

Challenge questions:

- Is your authority confident of obtaining the information it needs from the VOA?
- Has your authority recognised a provision where it is possible to make a reliable estimate? Has a robust methodology been used?
- Has your authority provided a robust rationale where it has decided it cannot make a reliable estimate? Is it planning to disclose a contingent liability?
- Is your authority planning to revisit its provision and contingent liability before the audit opinion is issued?

# Accounting for pensions

## Accounting and audit issues

### Accounting for and financing the local government pension scheme costs

#### Accounting issues

The 2013/14 Code follows amendments to IAS 19 and changes the accounting requirements for defined benefit pension liabilities such as those arising from the local government pension scheme (LGPS). This is a change in accounting policy and will apply retrospectively.

The main changes we expect to see are:

- a reallocation of amounts charged in the comprehensive income and expenditure statement (CIES)
- more detailed disclosures.

We do not expect changes to balance sheet items (the net pension liability and pension reserve balance). This means that whilst we would expect the CIES to be restated, a third balance sheet is not required. Actuaries should be providing local authorities with the information they need to prepare the financial statements, including restated comparatives.

#### Financing issues

The amount to be charged to the general fund in a financial year is the amount that is payable for that financial year as set out in the actuary's rates and adjustments certificate. Some local authorities are considering paying pension fund contributions early in exchange for a discount but not charging the general fund until later.

Local authorities must be satisfied that the amounts charged to the general fund in a financial year are the amounts payable for that year. Where local authorities are considering making early payments, we would expect them to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund. We would expect this to include consideration of:

- the actuary's opinion on the amounts that are payable by the local authority into the pension fund
- the agreement between the actuary and the local authority as to when these payments are to be made
- the wording in the rates and adjustments certificate setting out when amounts are payable for each financial year.

For example, if a local authority agrees to make a payment to the pension fund in a single year and proposes to charge this amount to the general fund over a three-year period, we would expect the rates and adjustments certificate to show, unambiguously, that the amount payable is spread over the three years.

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# Accounting for pensions

## Accounting and audit issues

Challenge questions:

- Is your local authority confident of getting the information from its actuary to meet the changes in the requirements for accounting for the LGPS (including restating the comparatives)?
- If your authority is considering making an early payment to the pension fund, has it set out a reasonable argument for how it proposes to charge this amount to the general fund? Is this supported by legal advice?

# Changes to the public services pension scheme

## Accounting and audit issues

### Changes to the Local Government Pension Scheme

The Public Service Pensions Bill received Royal Assent in April 2013, becoming the Public Service Pensions Act 2013 ('the Act'). The Act makes provision for new public service pension schemes to be established in England, Wales & Scotland. Consequent regulations have been laid to introduce changes to the LGPS in England and Wales from 1st April 2014. (The regulations for the changes in Scotland have not yet been laid and will only impact from 1 April 2015).

These introduce a number of changes including:

- a change from a final salary scheme to a career average scheme
- introduction of a 50/50 option whereby members can choose to reduce their contributions by 50% to receive 50% less benefit
- calculation of contributions based on actual salary which could lead to some staff with irregular patterns of working moving between contribution rate bandings on a regular basis
- changes in employee contribution rates and bandings
- transitional protection for people retiring within 10 years of 1 April 2014 (further regulations are still awaited).

The above changes have implications for all employers involved in the LGPS introducing required changes to their payroll systems to ensure pension contributions are calculated correctly. This has consequent implications for administering authorities to communicate with employers and consider how they will obtain assurance over the accuracy and completeness of contributions going forwards since the calculations are more complex going forwards and less predictable. In addition changes are also required to pension administration/payment systems as well as much more detailed processes around maintaining individual pension accounts for all members to ensure the correct payment of future pensions.

The Act also requires changes to the governance arrangements although regulations for the LGPS have not yet been laid for these and the changes in governance arrangements are not expected to be implemented until 1 April 2015.

(continued overleaf)

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# Changes to the public services pension scheme

## Accounting and audit issues

### Changes to Local Government Pension Scheme continued

#### Challenge questions

- Is the authority aware of the detailed requirements and their impact on its current payroll system and processes?
- Is the authority taking appropriate action to ensure implementation of the required changes to its payroll system and processes by 1 April 2014?
- Has the authority liaised with the administering authority over any changes they may need in the assurances provided over the completeness and accuracy of contributions?



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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 9</b>
<b>DATE OF MEETING:</b>	<b>2nd APRIL 2014</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE &amp; CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:Kevin.stackhouse@south-derbys.gov.uk">Kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/grant Thornton/interim audits/audit risk assessment cover
<b>SUBJECT:</b>	<b>INFORMING THE AUDIT RISK ASSESSMENT</b>	
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 01</b>

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## **1.0 Recommendations**

1.1 That the report is considered and noted.

## **2.0 Purpose of Report**

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

- Fraud
- Laws and regulations
- Going concern.

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

## **3.0 Detail**

3.1 The report of Grant Thornton as the Council's appointed Auditor is attached to this covering paper. The Auditor will be in attendance at the meeting to present the report and deal with any questions from the Audit Sub-Committee.

#### **4.0 Financial Implications**

4.1 None

#### **5.0 Corporate Implications**

5.1 None

#### **6.0 Community Implications**

6.1 None

#### **7.0 Background Papers**

7.1 None

# Informing the audit risk assessment for South Derbyshire District Council

**2013/14**

17 March 2014

**Kyla Bellingall**

Director

T +44 (0)121 232 5359

E [kyla.bellingall@uk.gt.com](mailto:kyla.bellingall@uk.gt.com)

**Tony Parks**

Audit Manager

T +44 (0)121 232 5301

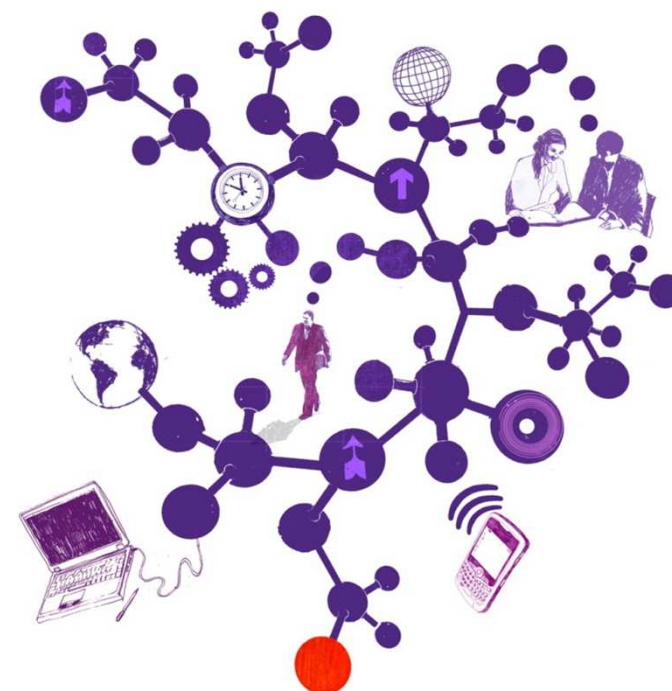
E [tony.l.parks@uk.gt.com](mailto:tony.l.parks@uk.gt.com)

**Avtar Sohal**

Audit Executive

T +44 (0)121 232 5279

E [avtar.sohal@uk.gt.com](mailto:avtar.sohal@uk.gt.com)



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

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# Contents

Section	Page
Purpose	4
Fraud	5
Fraud Risk Assessment	6
Laws and Regulations	8
Impact of Laws and Regulations	9
Going Concern	10
Going Concern Considerations	11
Accounting Estimates	13
Related Parties	14
Appendix A: Accounting Estimates	15

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# Purpose

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

## Background

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

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

## Communication

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

- fraud
- laws and regulations
- going concern.

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

# Fraud

## Issue

### Matters in relation to fraud

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

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

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

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

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

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

# Fraud risk assessment

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

# Fraud risk assessment

Question	Management response
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	The Council gives access to all its staff and contractors to various HR Policies and Procedures, including whistleblowing and the Employee Code of Conduct; these are all available through a separate portal on the Council's intranet. Specific updates are also provided to Departmental Management Teams where necessary and published in the workforce magazine.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	As above, staff are given access to the whistleblowing and fraud policies through the intranet. There are posters on noticeboards and information on the intranet to inform staff of the process on reporting fraud. To encourage staff, the Council also report outlines of fraud cases which proceed to prosecution. Fraud awareness training also encourages staff to report concerns.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	No. The Council each year requests a separate disclosure from all Members and Senior Management of related party transactions. Any disclosures are reviewed by the Chief Finance Officer in conjunction with the Monitoring Officer to ascertain whether anything should be reported in the financial statements.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2013?	<p>There have been several instances in 2013/14 which have been investigated. Following investigation, some cases were unsubstantiated, although policies and procedures were reviewed by Internal Audit and strengthened where necessary. In some instances, cases have been taken forward for prosecution. Activities and service areas affected were:</p> <ul style="list-style-type: none"> <li>• Housing Allocations</li> <li>• Housing Benefits</li> <li>• Improvement Grants</li> <li>• Small Business Rates Relief</li> <li>• Council Tax</li> <li>• Empty Properties</li> </ul>

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# Laws and regulations

## Issue

### Matters in relation to laws and regulations

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

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

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

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

# Impact of Laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The Council have appointed the Legal and Democratic Services Officer as its Chief Legal and Monitoring Officer. All potential areas of non compliance should be raised with this Officer before they are acted upon.
How does management gain assurance that all relevant laws and regulations have been complied with?	Through this Officer with their knowledge and experience, together with consultation with Law Public, the Council's retained advisory service.
How is the Audit Sub-Committee provided with assurance that all relevant laws and regulations have been complied with?	Compliance is reported in the Annual Governance Statement to the Audit Committee. If specific changes in law and regulations do come about, for example in the recent Localism Act, this would be reported to the Audit Committee to show the potential impact and any changes required. This was done as the Act became law and the Committee monitored actions required by the Act through to implementation.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2013, or earlier with an on-going impact on the 2013/14 financial statements?	Yes, in relation to a tendering process associated with waste management. This was subject to a challenge by a contractor which was subsequently resolved. It was reported to the Council in May 2013 and led to compensation and legal costs being incurred. However, these were not material and have been charged to the accounts in 2013/14. It is considered that there is no on-going impact on the 2013/14 financial statements.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	These are assessed by the Chief Legal Officer and Law Public (if necessary) and then reported to the Chief Finance Officer who determines the accounting treatment.
Is there any actual or potential litigation or claims that would affect the financial statements?	None.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None.

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# Going Concern

## Issue

### Matters in relation to Going Concern

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

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

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

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

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# Going Concern Considerations

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

# Going Concern Considerations

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

# Accounting estimates

## Issue

### Matters in relation to accounting estimates

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

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

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

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

Question	Management response
Are the management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgment?	There is nothing of significance.
Are the management arrangements for the accounting estimates, as detailed in Appendix 1 reasonable?	Yes. The Council follows relevant accounting standards as set out in the Accounting Code of Practice. No changes are proposed in the accounting estimates as detailed in the Appendix.
How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	Through the annual financial statements report and any specific reports. For example, with the implementation of IFRS in 2011/12, the Committee received several reports on associated changes to accounting estimates.

# Related Parties

## Issue

### Matters in relation to Related Parties

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

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

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

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

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

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

## Appendix A: Accounting Estimates

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

## Appendix A Accounting Estimates (continued)

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

## A Appendix A Accounting Estimates (continued)

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



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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 10</b>
<b>DATE OF MEETING:</b>	<b>2nd APRIL 2014</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE &amp; CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:Kevin.stackhouse@south-derbys.gov.uk">Kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/audit/grant Thornton/financial resilience/benchmarking cover
<b>SUBJECT:</b>	<b>BENCHMARKING THE COUNCIL'S ARRANGEMENTS FOR SECURING FINANCIAL RESILIENCE</b>	
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 01</b>

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## **1.0 Recommendations**

1.1 That the report is considered and noted.

## **2.0 Purpose of Report**

2.1 To compare the Council's performance in securing financial resilience with other councils. This is part of the Auditor's statutory responsibility to assess whether the Council generally provides value for money.

## **3.0 Detail**

3.1 As set out in the Auditors' report.

## **4.0 Financial Implications**

4.1 None

## **5.0 Corporate Implications**

5.1 None

## **6.0 Community Implications**

6.1 None

## **7.0 Background Papers**

7.1 None

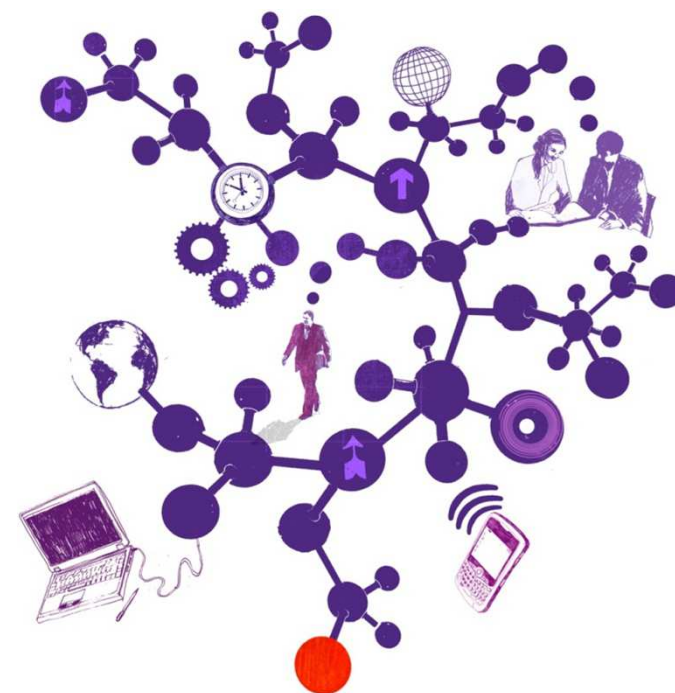
# Benchmarking your arrangements for securing Financial Resilience – South Derbyshire District Council

18 March 2014

**Kyla Bellingall**  
Director  
T 0121 232 5359  
E [kyla.bellingall@uk.gt.com](mailto:kyla.bellingall@uk.gt.com)

**Tony Parks**  
Audit Manager  
T 0121 232 5301  
E [tony.l.parks@uk.gt.com](mailto:tony.l.parks@uk.gt.com)

**Avtar Sohal**  
Executive  
T 0121 232 5279  
E [avtar.sohal@uk.gt.com](mailto:avtar.sohal@uk.gt.com)



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

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# Contents

<b>1 Your financial resilience history</b>	<b>Page 3</b>
<b>2 How did you perform?</b>	<b>Page 4</b>
<b>3 How do you compare?</b>	<b>Page 5</b>

# Your financial resilience history

## Value for Money conclusion

Our work supporting the Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if councils have proper arrangements in place for securing financial resilience.

In so doing we consider whether councils have robust financial systems and processes in place to manage their financial risks and opportunities, and to secure a stable financial position that enables them to continue to operate for the foreseeable future

The definition of foreseeable future for the purposes of these financial resilience reviews is 12 months from the date of our reports to clients.

## Benchmarking for South Derbyshire District Council

This benchmarking pack should be considered alongside our national report on financial resilience in the sector "*2016 tipping point? Challenging the current*".

The benchmarking compares the Council's historical performance with the total population of over 130 Councils and also with sub-populations as follows:

- Derbyshire only;
- District Council type only.

For the first two years of our reviews (relating to the 2010/11 and 2011/12 VfM conclusions) we audited 7% of English local authorities. For the third year of our reviews (relating to the 2012/13 VfM conclusions) we audited 40% of English local authorities.

## Our Financial Resilience Ratings

We use a red/amber/green (RAG) rating with the following definitions

Green	<b>Arrangements meet or exceed adequate standards.</b> Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	<b>Potential risks and/or weaknesses.</b> Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	<b>High risk:</b> The Council's arrangements are generally inadequate or may have a high risk of not succeeding

# How did you perform?

## What is the picture over the last three years?

Each year since 2010-11 we have reviewed:

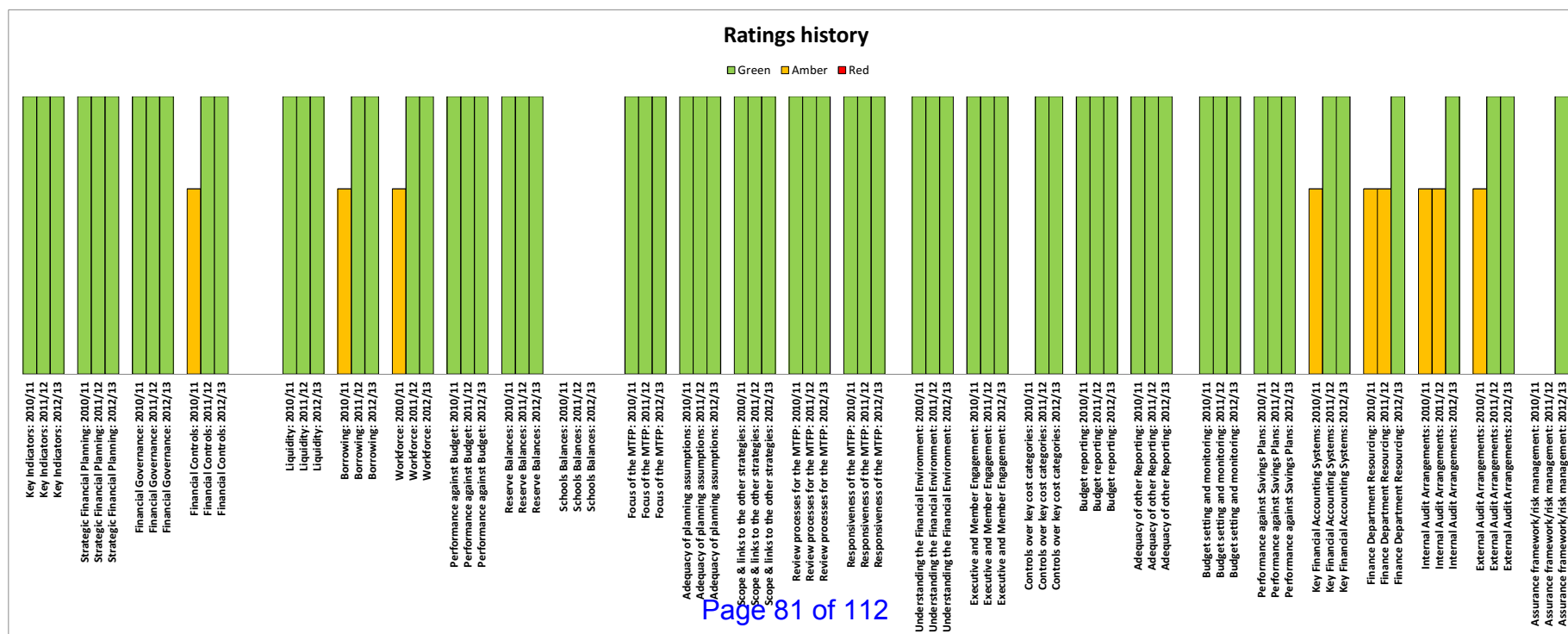
- key indicators of financial performance;
- strategic financial planning;
- financial governance; and
- financial control.

Within these thematic areas we have looked at 22 different categories and the graph below shows how your performance in these categories has changed over the past 3 years. To the left are the overall ratings for the four themes, and to the right are the 22 categories [note that the final category was new for 2012-13 and that for *Controls over key cost categories* no ratings were awarded in 2010-11].

South Derbyshire District Council has received no red ratings, and comparatively few amber ratings.

The Council started with 6 amber categories in 2010-11- *borrowings*, workforce, *key financial accounting systems*, *finance department resourcing*, *internal audit arrangements* and *external audit arrangements* resulting in an overall amber score for the *financial control* theme.

The Council has constantly improved with only two amber ratings in 2011-12- *finance department resourcing* and *internal audit arrangements* and you achieved an overall green rating in 2011-12. All your categories were green in 2012-13 and were one of only 24 Councils to achieve this result out of the 139 that were reviewed across the country. Our audit team did not identify any residual risks for 2012-13.



Page 81 of 112

# How do you compare?

## Benchmarking against all Councils

The graph below shows how the Council performs against the results for all Councils since 2010-11. Your scores are plotted as the black squares overlying the population performance: the colour that your black square lies in indicates the level you achieved.

You can draw the following conclusions about the population:

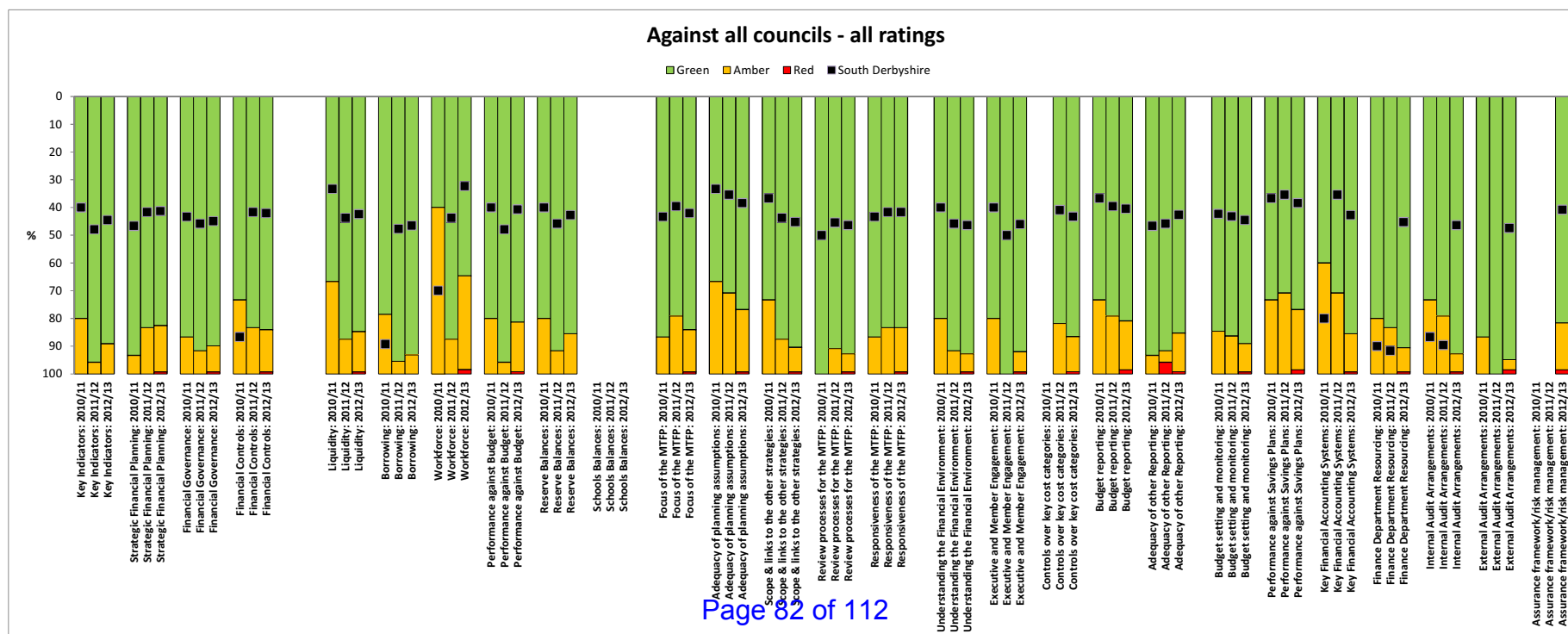
- local government's performance overall is good – in all categories in every year at least half of councils achieved green status, and most amber categories affect a third of councils or less.
- in many categories performance is improving [the green bars get longer over time].

- 20 categories and three themes have seen a small proportion of red ratings in 2012-13, which is evidence of some polarisation between the large proportion of good councils and those performing less well.

You can draw the following conclusions about your own performance

- your amber categories in 2010-11 were in areas where at least 20% of the population were amber
- by 2012-13 improvement in these areas has been made and now there are no areas where the Council is in an amber zone.

*(Note in previous reports not all areas were rated and this is highlighted in the graph where there is no rating for the Council)*



# How do you compare?

## Benchmarking against Derbyshire Councils only

The graph below shows how you perform against the results since 2010-11 for the Derbyshire Councils that we audit.

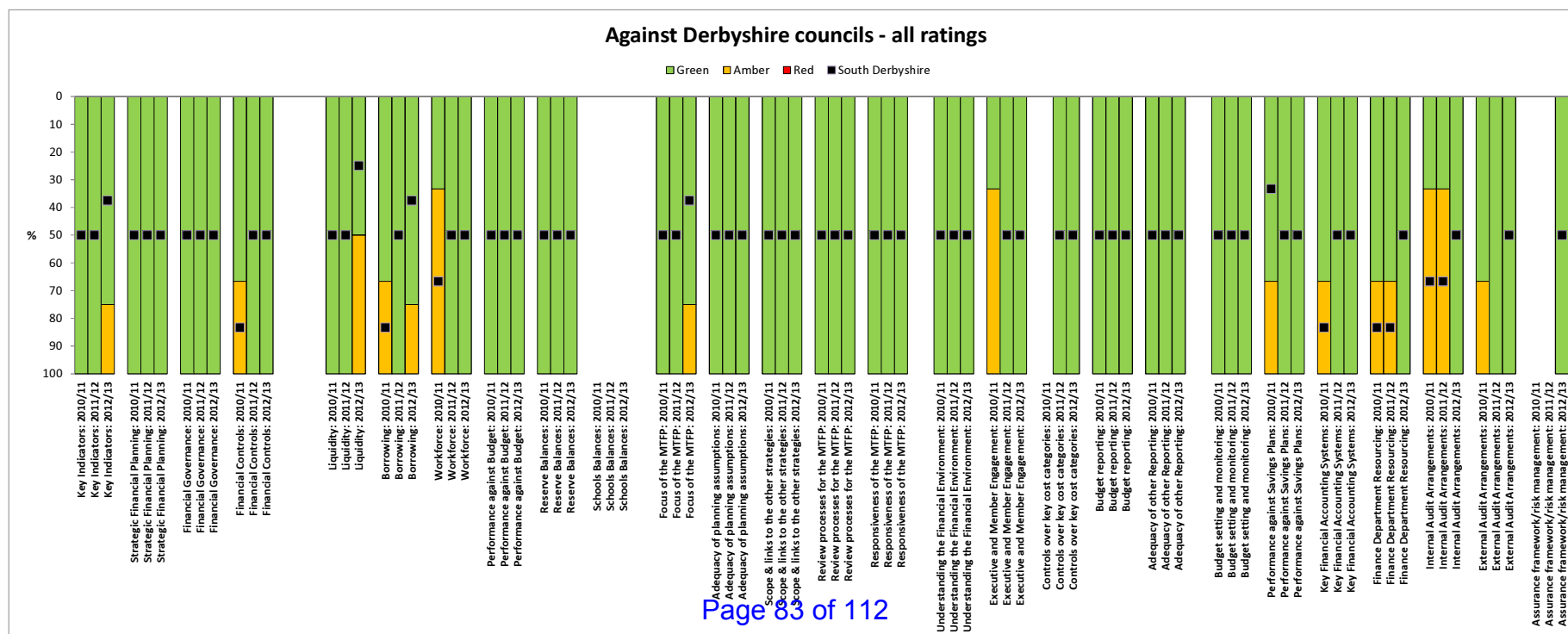
You can draw the following conclusions about this new population:

- Derbyshire Councils tended to have larger proportions of amber areas in earlier years with eight in 2010-11 compared with three in 2012-13
- There have been no red areas in Derbyshire councils and in almost every category there has been performance improvement, with the exception of liquidity and focus of the Medium Term Financial Plan for 2012-13.

You can draw the following conclusions about your performance:

- the Council is scoring a green rating in all areas in 2012-13. This shows the improvement the Council has made from 2010-11 to 2012-13.

*(Note in previous reports not all areas were rated and this is highlighted in the graph where there is no rating for the Council)*



# How do you compare?

## Benchmarking against District Council type only

The graph below shows how you perform against the results since 2010-11 for our District Council clients.

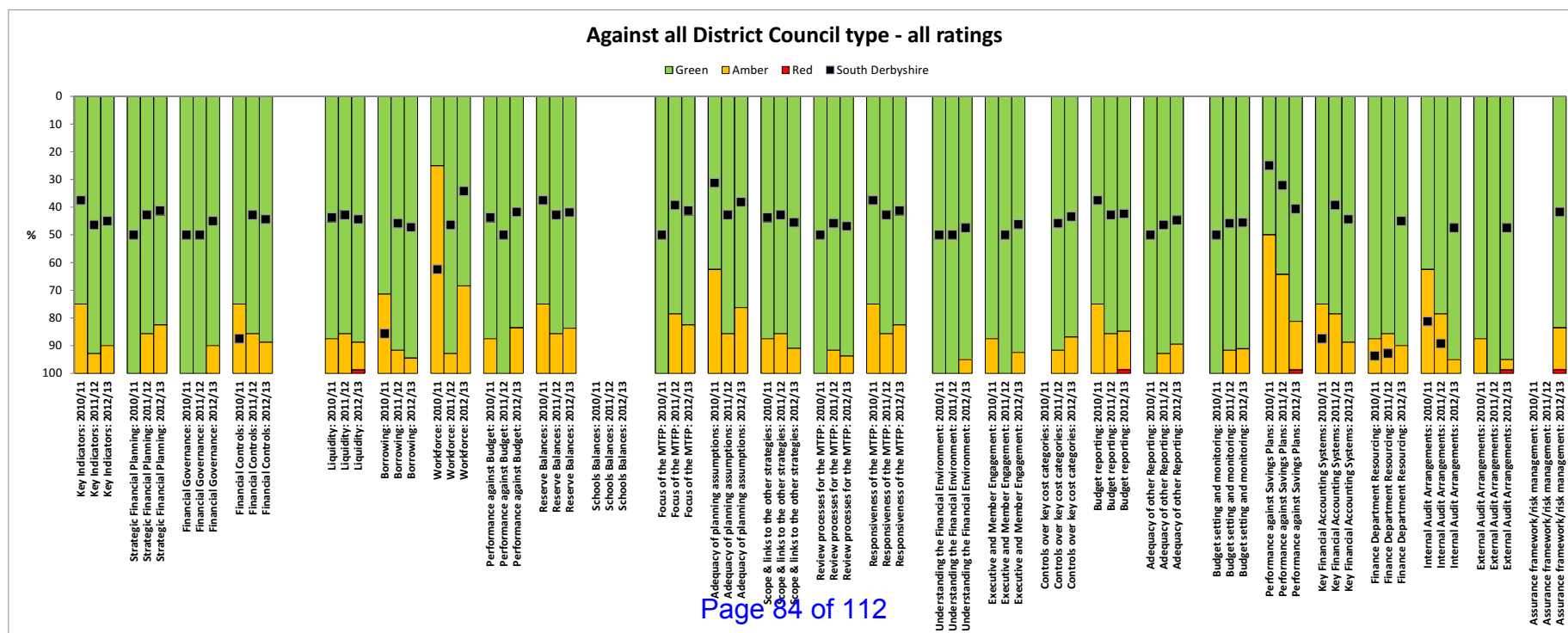
You can draw the following conclusions about this new population:

- across district councils in 2010-11 there were 15 amber areas across the population
- in 2012-13 there were five red areas compared with none in 2010/11. These are in the areas of liquidity, budget reporting, performance against savings plans, external audit arrangements and assurance framework/risk management.

You can draw the following conclusions about your performance:

- significant improvement has occurred in 2012/13 and the Council compares well against other district councils.

*(Note in previous reports not all areas were rated and this is highlighted in the graph where there is no rating for the Council)*



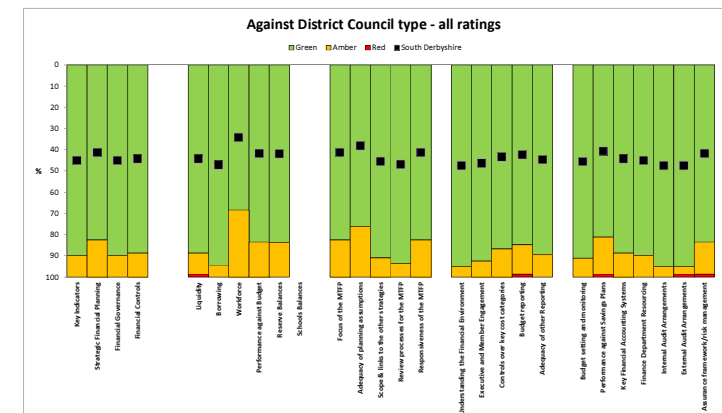
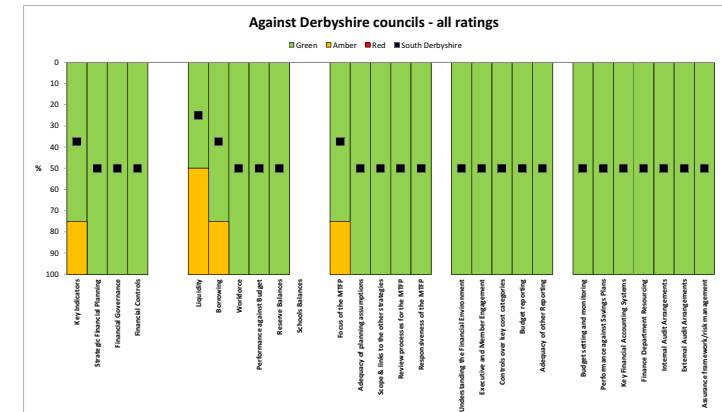
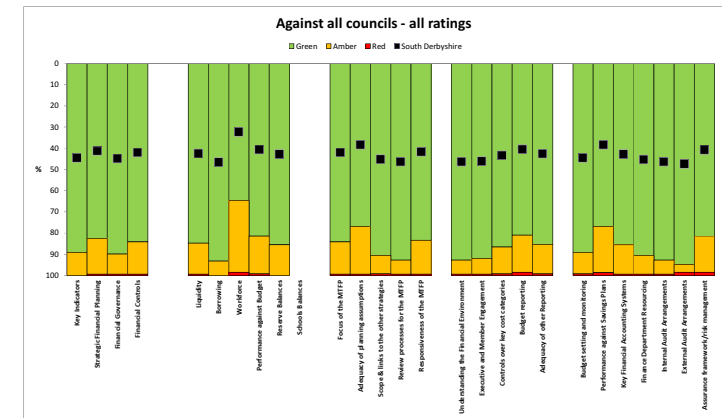
# How do you compare?

## Benchmarking the 2012-13 results

The graphs to the right – and the summary on the next slide – show how you performed in 2012-13 against the results for all Councils, for all Derbyshire Councils, and for all our District Council clients.

You can draw the following conclusions from these graphs:

- the patterns for all councils and all district councils are very similar, but districts have fewer red ratings
- Derbyshire councils performed better in general but are weaker on liquidity and borrowing which is reflected in the overall amber for Key Indicators. In your case, our auditors benchmarked you using the Audit Commission's Value for Money tools and did not identify any issues
- workforce is the single weakest category for all councils and all district councils, however across Derbyshire councils this is a green rating
- South Derbyshire District Council performed well in the following areas:
  - Performance against the budget: you had an underspend against the budget of £0.4m
  - Reserve Balances: your general fund balance has increased in 2012-13 compared to levels in prior years
  - Focus of the MTFS: the Council has taken all appropriate local and national issues into account, with a good understanding of risk and uncertainty
  - Financial Resilience: the Council has adequate arrangements for securing financial resilience. Its overall financial position is challenging with projected budget gaps in each of the years covered by the Medium Term Financial Plan (to 2017/18). The Council's arrangements mean that it is well placed to address this challenge.



# How do you compare?

## Benchmarking the 2012-13 results

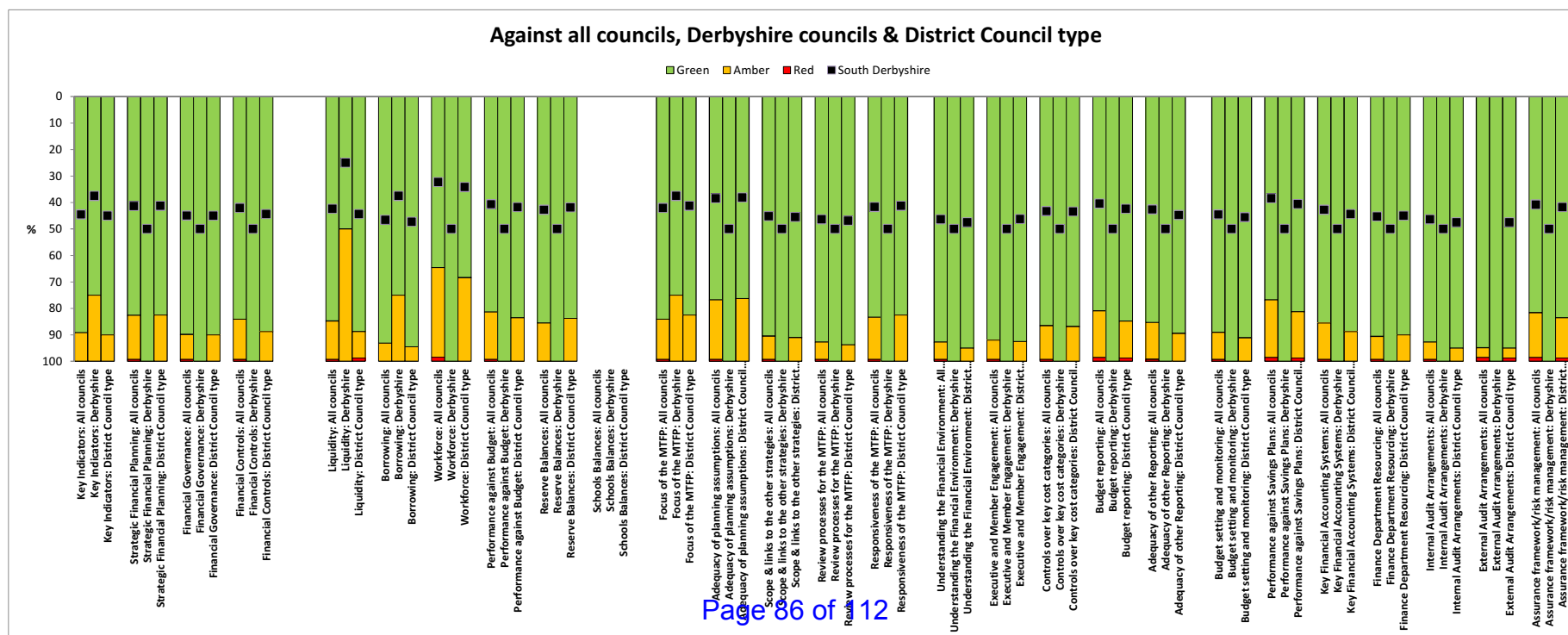
The graph below summarises the previous slide in a single chart

### Overall message

This report needs to be read in the context that the third year of our financial resilience reviews (2012-13) was the second year of the four-year SR10 period, where some of the potential risks and challenges over the medium term may have yet to materialise for the Council and the wider sector.

The Council appears to be well positioned in comparison with the various peer groups but you continue to face some significant risks and challenges during 2013-14 and beyond

*(Note in previous reports not all areas were rated and this is highlighted in the graph where there is no rating for the Council)*





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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 11</b>
<b>DATE OF MEETING:</b>	<b>2nd APRIL 2014</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE AND CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:kevin.stackhouse@south-derbys.gov.uk">kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/internal audit/derby city/annual plans/covering report
<b>SUBJECT:</b>	<b>INTERNAL AUDIT PLAN 2014-15</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 02</b>

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## **1.0 Recommendations**

- 1.1 That the proposed Internal Audit Plan for 2014-15 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 2014/15. This is in accordance with the Code of Practice for Internal Audit which governs local authorities.

## **3.0 Detail**

- 3.1 The Plan has been drawn up by the Audit Manager, in consultation with the Director of Finance. The attached Plan details where audit are proposing to allocate their resources over the coming financial year 2014-15.
- 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 to a certain degree 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 Committee is requested to consider priorities and the proposed allocation of resources for 2014/15.

## **4.0 Financial Implications**

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

## **5.0 Corporate Implications**

- 5.1 Just less than 60% of the proposed plan relates to corporate activities in order that the key financial, IT, HR, procurement and governance systems, etc. that underpin service delivery are covered. These areas are subject to audit each year, although the focus of each annual review may be different.
- 5.2 Direct service areas are covered on a cyclical basis to ensure that all activities are subject to some degree of audit over a 5-year period. Although some areas will have an inherent higher risk rating, they may not be audited each and every year unless special circumstances exist.
- 5.3 It is proposed to undertake detailed audits in the following service areas during 2014/15, which have received minimal coverage in recent years.
- Council House Sales
  - Electoral Services (focusing on new requirements for Individual Registration)
  - Bereavement Services
  - Community Safety Partnership
  - Economic Development
  - Development Control and Section 106
  - Fleet Management
  - Environmental Health
- 5.4 Contingencies are also included for special investigations and to provide advice on emerging issues that may arise during the year.

## **6.0 Community Implications**

- 6.1 None directly.

## **7.0 Background Papers**

- 7.1 None

## South Derbyshire District Council – Audit Plan 2014-15

Audit Sub Committee: 2<sup>nd</sup> April 2014



## Our Vision

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

## Contents

## Page

Introduction	3
Content of the Audit Plan	5
Overview Charts of Planned Coverage	8
Detailed Audit Plan Proposal	9

## Contacts

Richard Boneham  
Head of the Audit Partnership  
c/o Derby City Council  
Council House  
Corporation Street  
Derby  
DE1 2FS  
Tel. 01332 643280  
[richard.boneham@derby.gov.uk](mailto:richard.boneham@derby.gov.uk)

Adrian Manifold  
Audit Manager  
c/o Derby City Council  
Council House  
Corporation Street  
Derby  
DE1 2FS  
Tel. 01332 643281  
[adrian.manifold@centralmidlandsaudit.gov.uk](mailto:adrian.manifold@centralmidlandsaudit.gov.uk)



## South Derbyshire District Council – Audit Plan 2014-15

### Introduction

#### Reasons for an Audit Plan

The new Public Sector Internal Audit Standards state that annually the Head of Audit is responsible for developing a risk-based plan.

A fundamental role of Internal Audit is to provide members and senior management with independent assurance on the South Derbyshire District Council's overall control environment, comprising the systems of governance, risk management, and internal control and to highlight control weaknesses together with recommendations for improvement. The annual Audit Plan sets out proposals on how this will be achieved in the year ahead.

The Audit Plan must incorporate sufficient work to enable the Head of Audit to give an opinion on the adequacy of the South Derbyshire District Council's overall control environment. Internal Audit must therefore have sufficient resources to deliver the Audit Plan.

The audit work planned for 2014/15 will inform the Head of Audit's opinion on the internal control environment that exists within South Derbyshire District Council. The Head of Audit reports his overall opinion to the Audit Sub-Committee on an annual basis.

This report provides Committee with an opportunity to challenge and approve the planned work of the Internal Audit service. As well as satisfying themselves that the methodology and arrangements for preparing the annual Audit Plan are robust.

#### Approach to Audit Planning

The Audit Manager is responsible for delivering the audit service. To ensure that this can be achieved there are appropriate arrangements for audit planning to make sure that the plan is adequately resourced with the necessary level of skilled and experienced staff.

The Head of 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, the Head of Audit uses his own judgment of risks after consideration of input from senior management and the Council. The Head of Audit must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.



As such, the service will be delivered on the principle of a risk based Audit Plan compiled by the Audit Manager in consultation with South Derbyshire District Council's Management, using a risk assessment model which allocates a risk factor of high, medium or low to all the areas for audit review to be undertaken.

## South Derbyshire District Council – Audit Plan 2014-15

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We will also consider South Derbyshire District Council's risk management arrangements to inform our risk assessment. We will endeavour to meet with relevant managers to further understand the risk areas where internal audit assurance will be appropriate. The Audit Plan sets out the number of days required for Internal Audit to adequately review the areas involved and indicates the priority level for each planned audit assignment. The overriding objective of this approach is to ensure that the Head of the Audit Partnership is able to present an annual opinion on the organisation's overall control environment by directing adequate resources based on the relative risks of operations, resources and services involved.

The audit plan balances the following requirements:

- The need to ensure the plan is completed in line with the agreed performance targets.
- The need to ensure the core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control.
- The need to appropriately review both strategic risk and operational risk areas.
- The need to have a sufficient contingency element to deal with unplanned issues and investigations that arise during the year.
- To enable positive, timely input to assist corporate and service developments.
- To meet the requirements of the managed audit arrangements with the external auditors to ensure that they can comply with the International Auditing Standard, including system documentation and evaluation for all business critical systems and validation of performance indicator outturns.

Progress in completing the Audit Plan, as well as achieving its performance targets will be submitted to the Audit Sub-Committee as part of regular Internal Audit Progress reports.

### Aims of Audit Coverage

The objectives of Internal Audit's planned coverage are as follows:

- Provide an assurance on the organisation's internal control system, and hence there is need to audit areas of financial and non-financial risk as this will encompass some of the key governance systems.
- Audit the main financial systems and other systems related to possible material mis-statements, regardless of comparative risk.
- Deliver risk based assurance on those controls that manage significant risks.
- Fully conforms to the new Public Sector Internal Audit Standards (PSIAS) which came into force on 1 April 2013.
- Better integrate the outcomes and other information gathered as part, of the internal audit process, with the organisation's risk management process.
- Maintain on-going effective relationships with the External Auditors and deliver complementary plans of work so as to deliver an efficient audit service collectively.
- Ensure that appropriate resources, suitably experienced, and with skills to deliver the whole plan of work are maintained within Internal Audit.
- Improve the efficiency and effectiveness of operations of the service.
- Promote good corporate governance and control practices and contribute to a good governance culture.
- Work in a positive manner alongside clients, supporting them in the effective management of risk and service delivery.
- Contribute to embedding risk management throughout the organisation's processes.
- Contribute to the development and maintenance of an effective counter fraud culture within the organisation.

# South Derbyshire District Council – Audit Plan 2014-15

## Content of the Audit Plan

### Audit Resources

It is anticipated that the Central Midlands Audit Partnership will provide South Derbyshire District Council with a sustainable service, with comprehensive coverage and an enhanced quality of service. It is envisaged that as the Partnership grows, greater efficiencies may be achieved which could result in further cost reductions to Partner organisations over time.

The Partnership uses a modern risk-based approach to internal audit, which focuses audit reviews on the key risks faced by South Derbyshire District Council. We will utilise our bespoke database systems and automated working papers package that greatly assist with the conduct of audits and the audit management process. These systems cover audit working papers and reports, job control and progress tracking, time recording, recommendation tracking and automated follow-ups, together with performance monitoring and management reporting.

This new approach will result in more efficient ways of undertaking, documenting and managing the audit services. This will lead to a reduction in the number of days required for audit reviews to deliver the required assurances to management, as more audit work will be achieved within a given resource allocation than would have been the case in previous years.

South Derbyshire District Council's planned audit coverage should not experience reductions or additional costs through long-term absences or vacancies, etc. and will benefit from the specialist audit skills and experience already contained within the Partnership (e.g. computer auditing) which was previously only available at a premium.

The general management and administrative overheads associated with the internal audit service will not be detailed in this report as they relate to the Partnership as a whole and are typically not directly attributable to any single organisation. This report will only detail the resource allocations to 'productive' audit work which can be attributed to this organisation.

### Plan Contingencies

The Audit Plan is a flexible document and it is inevitably subject to some changes during the year as a result of emerging issues deemed as a high risk, the need to divert audit resources to investigation work and changes in staffing resources available for audit work.

To ensure changes to the Plan are minimised, within the Plan there are a number of days set aside as "contingencies". These are split as follows:

- **Emerging Issues** - Not all audit work can be planned one year in advance. Accordingly, a contingency of days has been built into the Plan to address issues that occur during the year which Audit need to be aware of and assess the risk implications for South Derbyshire District Council
- **Advice** - On an ad-hoc basis, Audit is called upon to provide risk and control advice on issues throughout South Derbyshire District Council. 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 customers.
- **Investigations** - Internal Audit 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 South Derbyshire District Council). Under the Code of Practice this is deemed a non-assurance function, and therefore such work will only be undertaken if the availability of resources allows it. The level of investigation work cannot easily be predicted, but given the level of coverage in recent years we would normally set the contingency of days to approx. 5% of days available.
- **Follow-up Audits** - Internal Audit is committed towards ensuring that control improvements are achieved and all agreed actions are acted upon. To this end, audit time has been allocated to develop our system for ensuring that agreed actions to audit recommendations are implemented. We have developed a recommendation tracking

## South Derbyshire District Council – Audit Plan 2014-15

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 2013/14 Plan will need to be concluded in 2014/15. It has been assumed that brought forward and carry forward figures will remain fairly consistent from year to year. As such, related days will no longer be included in the Plan.

### Types of Audit Work

**Key Financial Systems Audit** - The main area for internal audit work is the reviews of South Derbyshire District Council's fundamental financial systems, which are the key to the running of the organisation. Hence the majority of audits planned in the department are reviews of the central control elements and associated risks of the fundamental financial systems. External Audit will review the work on the fundamental financial systems to assist them when determining their opinion on South Derbyshire District Council's annual accounts. The Plan covers the key financial systems including the Main Accounting System, Budgetary Control, Reconciliations, Asset Management, Creditors, Debtors and, Payroll. The consequences of these system processes going wrong could lead to service failure and wasted resources.

**Systems / Risk Based Audits** - The auditor's prime role is to review the internal control system and report upon the adequacy of controls. 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. It follows that one of the main ways that auditors will form a view on the overall control system is by carrying out reviews of the component systems and processes. These are commonly known as systems-based audits. They enable auditors to:

- Assess how internal controls are operating in a system to manage risk, thereby forming a view on whether reliance can be placed upon the system.

- Provide management with assurances that systems are adequately meeting the purposes for which they were designed.
- Provide constructive and practical recommendations to strengthen systems and address identified risks.
- Use findings to feed into an overall opinion on the control framework.
- Provide evidence for external audit and other review agencies.

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

- **Infrastructure** - Infrastructure audits cover perimeter defences, authentication, management and monitoring, and devices. Broken down further, IT Infrastructure Audits typically address Anti-Virus, Intrusion Detection Systems, Firewalls, Routers, Switches, Operating Systems, Directory Services (Active Directory), Group Policy, Virtual Private Networks, Database Platforms, Web Server Platforms, Application Server Platforms, Network Management, Network Design, Networking Hardware, Centralised Storage, Virtualization, Telecommunications and IT Telephony, Remote Access Solutions (Citrix) amongst others. 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 South Derbyshire District Council 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 (confidentiality, integrity, availability and accountability risks). This can be broken down to look at application deployment and use, to ensure the applications and hosting servers are protected, and design and configuration ensure attackers cannot exploit vulnerabilities to gain unauthorised access to sensitive corporate data.

**Governance Reviews** - The governance framework comprises the systems and processes, and culture and values, by which South

## South Derbyshire District Council – Audit Plan 2014-15

Derbyshire is directed and controlled, and by which it accounts to, engages with and leads the community. It includes arrangements to monitor the achievement of its strategic objectives and to consider whether this has led to the delivery of appropriate, cost-effective services. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness. Internal Audit undertakes reviews of key aspects of the South Derbyshire District Council's governance framework by looking at corporate systems such as Risk Management, Health & Safety, Data Quality, Anti –Fraud etc.

**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 South Derbyshire District Council's corporate procurement strategy and associated management structures and processes, including contract procedure rules and detailed procurement guidance. Internal Audit should focus resources on those areas perceived on an annual basis to be of highest risk. To identify such areas, it will be necessary to have information regarding the current spending on procurement by each area within the authority, together with its plans for the future (including any major service contracts that are due for re-letting).

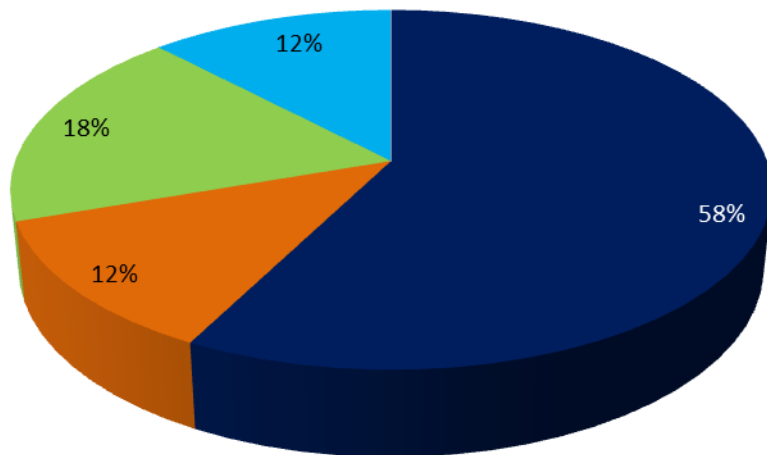


## South Derbyshire District Council – Audit Plan 2014-15

### Overview Charts of Planned Coverage

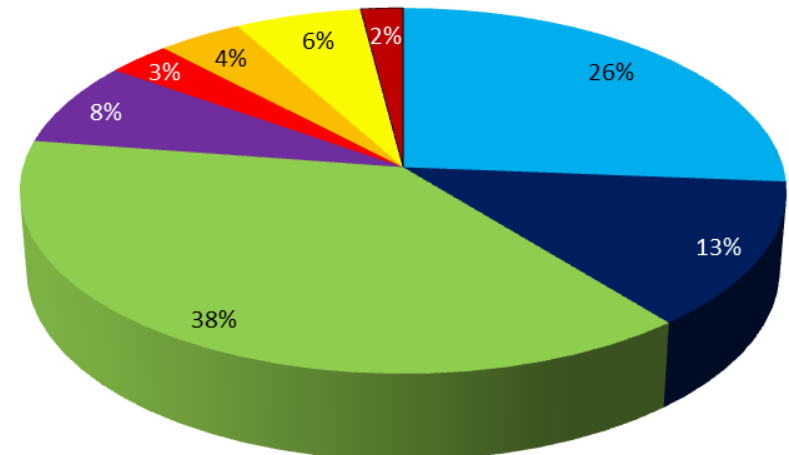
Audit Plan 2014-15  
Time Allocated to Each  
Department

- Corporate Services
- Community & Planning Services
- Housing & Environmental Services
- Contingencies



Audit Plan 2014-15  
Time Allocation per Type of Audit

- Key Financial System
- Governance Review
- Systems/Risk Audit
- IT Audit
- Procurement/Contract Audit
- Investigation
- Advice/Emerging Issues
- Follow-up



# South Derbyshire District Council – Audit Plan 2014-15

## Detailed Audit Plan Proposal

South Derbyshire District Council – Audit Plan 2014-15	Risk Score	Risk Rating	Plan Days	Type of Audit
Corporate Services				
Financial Services				
Main Accounting System / Budgetary Control / Bank Reconciliation	59	High	20	Key Financial System
Treasury Management / Insurance	58	High	15	Key Financial System
Capital Programme	49	Medium	0	
Grant Certification	35	Medium	0	
Banking Services / VAT	50	Medium	0	
Client Services				
Council Tax / NNDR / Cashiering	55	High	25	Key Financial System
Housing & Council Tax Benefit	60	High	20	Key Financial System
Payroll / Officers Expenses & Allowances	64	High	15	Key Financial System
Creditors / Debtors	56	High	20	Key Financial System
Procurement (Contracts Register)	58	High	15	Procurement/Contract Audit
People Management (Policies, Recruitment, Equalities, Training, Disciplinary etc.)	54	Medium	0	
PCI Compliance	53	Medium	12	IT Audit
IT Applications	68	High	17	IT Audit
IT Infrastructure	74	High	20	IT Audit
Client Monitoring - Corporate Services Contract	58	High	0	
Corporate Services Admin				
Data Protection & Freedom of Information	50	Medium	0	
Records Management	50	Medium	0	
Partnership Governance	48	Medium	12	Governance Review
Risk Management	61	High	20	Governance Review
Corporate Governance	51	Medium	0	
Declarations of Interest	41	Medium	0	
Petty Cash & Inventories	37	Medium	0	
Data Quality & Performance Management	55	High	20	Governance Review
Business Continuity & Emergency Planning	50	Medium	0	
Anti-Fraud & Corruption (incl. NFI, Data Matching, Anti Fraud Policies )	54	Medium	12	Governance Review
Safeguarding	56	High	15	Governance Review

# South Derbyshire District Council – Audit Plan 2014-15

Corporate Assets				
Fixed Assets	52	Medium	15	Key Financial System
Commercial Rents	38	Medium	0	
Land Sales	41	Medium	0	
Legal & Democratic Services				
Council House Sales	40	Medium	12	Systems/Risk Audit
Electoral Services	44	Medium	0	
Members' Allowances	38	Medium	0	
Land Charges	29	Low	0	
Corporate Services Total Days			285	
Community & Planning Services				
Culture & Safer Communities				
Bereavement Services	45	Medium	12	Systems/Risk Audit
Community Safety Partnership	48	Medium	12	Systems/Risk Audit
Economic Development				
Economic Development	48	Medium	12	Systems/Risk Audit
Planning, Development & Building Control				
Planning & Building Control Fees	39	Medium	0	
Section 106 Agreements	43	Medium	12	Systems/Risk Audit
Development Control	50	Medium	12	Systems/Risk Audit
Sport & Health Development				
Leisure Centres	50	Medium	0	Systems/Risk Audit
Rosliston Forestry Centre	40	Medium	0	
Community & Planning Services Total Days			60	
Housing & Environmental Services				
Repairs & Improvements				
Housing Repairs (Planned & Responsive Maintenance)	55	High	15	Systems/Risk Audit
Service Contracts	56	High	0	
Cleaning Services	34	Low	0	
Performance & Business				
Rechargeable Repairs	38	Medium	0	
Rent Accounting	55	High	0	
Tenants Arrears	49	Medium	0	

Page 22 of 112

# South Derbyshire District Council – Audit Plan 2014-15

Housing Operations				
Allocations & Homelessness	0	Medium	0	
Income & Tenancy Management	42	Medium	0	
Sheltered Housing	38	Medium	0	
Direct Services				
Parks & Open Spaces	36	Medium	0	
Grounds Maintenance	41	Medium	0	
Waste Management (Collection, Trade, Recycling)	55	High	15	Systems/Risk Audit
Fleet Management	47	Medium	12	Systems/Risk Audit
Street Cleansing	38	Medium	0	
Gypsy Sites	36	Medium	0	
Strategic Housing				
Improvement Grants (Energy, Disabled Facilities etc.)	46	Medium	12	Systems/Risk Audit
Environmental Health Enforcement				
Pollution Control	50	Medium	12	Systems/Risk Audit
Food Safety	48	Medium	12	Systems/Risk Audit
Licensing	46	Medium	12	Systems/Risk Audit
Pest Control	34	Low	0	
Warden Controlled Services	38	Medium	0	
Health & Safety	59	High	0	
<b>Housing &amp; Environmental Services Total Days</b>			<b>90</b>	
Contingencies				
Other Audit Work				
Travelling Allowance				SDDC Management
Investigations			20	Investigation
Advice & Emerging Issues			20	Advice/Emerging Issues
Audit Sub Committee			10	Advice/Emerging Issues
Follow-ups			10	Follow-up
<b>Contingencies Total Days</b>			<b>60</b>	
<b>South Derbyshire District Council Total Days</b>			<b>495</b>	

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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 12</b>
<b>DATE OF MEETING:</b>	<b>2 April 2014</b>	<b>CATEGORY:</b>
<b>REPORT FROM:</b>	<b>HEAD OF THE AUDIT PARTNERSHIP</b>	<b>RECOMMENDED</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>RICHARD BONEHAM (01332 643280)</b> <a href="mailto:Richard.boneham@derby.gov.uk">Richard.boneham@derby.gov.uk</a>	<b>DOC:</b> u/ks/audit/audit committee/committee guidance April 2014
<b>SUBJECT:</b>	<b>CIPFA – PRACTICAL GUIDANCE FOR AUDIT COMMITTEES</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 02</b>

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## **1.0 Recommendations**

- 1.1 To note the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance.
- 1.2 To carry out a self assessment based on the CIPFA template (Appendix 3).

## **2.0 Purpose of Report**

- 2.1 This report provides members with a synopsis of the latest Chartered Institute of Public finance and Accountancy (CIPFA) guidance on Audit Committees, together with the self-assessment on good practice.

## **3.0 Detail**

- 3.1 In December 2013 CIPFA published “Audit Committees – Practical Guidance for Local Authorities and Police”. This document sets out CIPFA’s guidance on the function and operation of audit committees, giving their view of best practice. It includes their 2013 Position Statement which replaces the one issued in 2005. The Position Statement (see appendix 1) emphasise the importance of audit committees and their role as a key component of governance.
- 3.2 The Guidance states that the purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.

- 3.3 The Guidance sets out the CIPFA position statement, then expands on:
- The Purpose of Audit Committees
  - The Core Functions of an Audit Committee
  - Possible Wider functions of an Audit Committee
  - Independence and Accountability
  - Membership and Effectiveness – including potential causes of difficulty and potential improvement options
- 3.4 The Guidance specifies the key regulations which could be addressed by the terms of reference of an Audit Committee and provides some suggested Terms of Reference
- 3.5 A knowledge and skills framework for Audit Committee members is also provided (see Appendix 2) and a Self -assessment of good practice (see Appendix 3)

#### **4.0 Financial Implications**

4.1 None

#### **5.0 Legal Implications**

5.1 None

#### **6.0 Corporate Implications**

6.1 None

#### **7.0 Community Implications**

7.1 None

#### **8.0 Background Papers**

8.1 None

**CIPFA Position Statement : Audit Committees in Local Authorities and Police**

1. **Audit Committees are a key component of an authority's governance framework.** Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
2. **The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.** By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
3. **The core functions of an audit committee are to:**
  - be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it and demonstrate how governance supports the achievement of the authority's objectives.
  - In relation to the authority's internal audit functions:
    - Oversee its independence, objectivity, performance and professionalism
    - Support the effectiveness of the internal audit process
    - Promote the effective use of internal audit within the assurance framework.
  - Consider the effectiveness of the authority's risk management arrangements and the control environment. Review the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships with other organisations.
  - Monitor the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to the risks of fraud and corruption.
  - Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.
  - Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
  - Review the financial statement, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

**4. Audit committees can also support their authorities by undertaking a wider role in other areas including:**

- Considering governance, risk or control matters at the request of other committees or statutory officers
- Working with local standards committees to support ethical values and reviewing the arrangements to achieve those values
- Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury management Code of Practice
- Providing oversight of other public reports, such as the Annual Report

**5. Although no single model of audit committee is prescribed, all should:**

- Act as the principal non-executive, advisory function supporting those charged with governance
- In local authorities, be independent of both the executive and the scrutiny functions: in police bodies, be independent of the executive or operational responsibilities of the Police and Crime commissioner or Chief Constable.
- Have clear rights of access to other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.
- Be properly accountable to the authority's board or equivalent bodies.
- Meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.
- Be able to meet privately and separately with the external auditor and with the head of internal audit.
- Include, as regular attendees, the chief financial officer(s) or appropriate senior and qualified substitute, the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the authority as required.
- Report regularly on their work and, at least annually, report an assessment of their performance.

**6. Good audit committees are characterised by:**

- A membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role
- A membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives

- Unbiased attitudes – treating auditors, the executive and management fairly
- The ability to challenge the executive and senior managers when required.

## Audit Committee Members – Knowledge and Skills Framework

### Core areas of knowledge

Knowledge Area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Organisational knowledge	An overview of the governance structures of the authority and decision-making processes. Knowledge of the organisational objectives and major functions of the authority	This knowledge will be core to most activities of the audit committee including review of the Annual Governance Statement, internal and external audit reports and risk registers
Audit Committee role and functions	An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements. Knowledge of the purpose and role of the audit committee	This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others.
Governance	Knowledge of the six principles of the CIPFA/SOLACE Good Governance Framework and the requirements of the Annual Governance Statement (AGS). Knowledge of the local code of governance	The committee will plan the assurances it is to receive in order to adequately support the AGS. The committee will review the AGS and consider how the authority is meeting the principles of good governance.
Internal audit	An awareness of the key principles of the <i>Public Sector Internal Audit Standards</i> and the <i>local Government Application Note</i> . Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled.	The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards. The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional standards. In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed.
Financial management and accounting	Awareness of the financial statement that a local authority must produce and the principles it must follow to produce the Statement. Understanding of good financial management principles. Knowledge of how the organisation meets the requirements of the role of the chief financial officer, as required by the <i>CIPFA Statement on the Role of the Chief Financial Officer in Local Government</i> .	Review the financial statements prior to publication asking questions. Receive the external audit report and opinion on the financial audit. Reviewing both external and internal audit recommendations relating to financial management and controls. The audit committee should consider the role of the CFO and how this is met when reviewing the AGS.
External Audit	Knowledge of the role and functions of the external auditor and who currently undertake this role. Knowledge of the key reports and assurances that external audit will provide. Knowledge about arrangements for	The audit committee should meet with the external auditor regularly and receive their reports and opinions. Monitoring external audit recommendations and maximising benefit from audit process. The audit committee should monitor the relationship between the external auditor

Knowledge Area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
	the appointment of auditors and quality monitoring undertaken.	and the authority and support the delivery of an effective service.
Risk management	<p>Understanding of the principles of risk management, including linkage to good governance and decision making.</p> <p>Knowledge of the risk management policy and strategy of the organisation.</p> <p>Understanding of risk governance arrangements, including the role of members and of the Audit Sub-Committee.</p>	<p>In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces.</p> <p>Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee.</p> <p>The committee should also review reports and action plans to develop the application of risk management practice.</p>
Counter- fraud	<p>An understanding of the main areas of fraud risk the organisation is exposed to.</p> <p>Knowledge of the principles of good fraud risk management practice (Red Book 2)</p> <p>Knowledge of the organisation's arrangements for tackling fraud.</p>	<p>Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy. An assessment of arrangement should support the AGS and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment.</p>
Values of good governance	<p>Knowledge of the Seven Principles of Public Life.</p> <p>Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff.</p> <p>Knowledge of the whistleblowing arrangements in the authority.</p>	<p>The audit committee member will draw on this knowledge when reviewing governance issues and the AGS.</p> <p>Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported.</p>
Treasury management (only if it is within the terms of reference of the committee to provide scrutiny)	<p><i>Effective Scrutiny of Treasury management</i> is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are:</p> <ul style="list-style-type: none"> <li>• Regulatory requirements</li> <li>• Treasury risks</li> <li>• The organisation's treasury management strategy</li> <li>• The organisation's policies and procedures in relation to treasury management</li> </ul>	<p>Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny.</p>

## **Specialist Knowledge that adds value to the Audit Committee**

<b>Knowledge area</b>	<b>Details of supplementary knowledge</b>	<b>How the audit committee member is able to add value to the committee</b>
Accountancy	Professional qualification in accountancy	More able to engage with the review of the accounts and financial management issues coming before the committee. Having an understanding of the professional requirements and standards that the finance function must meet will provide helpful context for discussions of risks and resource issues. More able to engage with the external auditors and understand the results of audit work.
Internal audit	Professions qualification in internal audit	This would offer in-depth knowledge of professional standards of internal audit and good practice in internal auditing. The committee would be more able to provide oversight of internal audit and review the output of audit reports.
Risk management	Risk management qualification. Practical experience of applying risk management. Knowledge of risks and opportunities associated with major areas of activity.	Enhanced knowledge of risk management will inform the committee's oversight of the development of risk management practice. Enhanced knowledge of risks and opportunities will be helpful when reviewing risk registers.
Governance and legal	Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law,	Legal knowledge may add value when the committee considers areas of legal risk or governance issues.
Service knowledge relevant to the functions of the organisation	Direct experience of managing or working in a service area similar to that operated by the authority. Previous Scrutiny Committee experience.	Knowledge of relevant legislation, risks and challenges associated with major service areas will help the audit committee to understand the operational context.
Programme and project management	Project management qualifications or practical knowledge of project management principles.	Expert knowledge in this area will be helpful when considering project risk management or internal audit reviews.
IT systems and IT governance	Knowledge gained from management or development work in IT	Knowledge in this area will be helpful when considering IT governance arrangements or audit reviews of risks and controls.

## **Core Skills**

<b>Skills</b>	<b>Key elements</b>	<b>How the audit committee member is able to apply the skill</b>
Strategic thinking and understanding of materiality	Able to focus on material issues and overall position, rather than being side-tracked by detail	When reviewing audit reports, finding will include areas of higher risk, or materiality to the organisation, but may also contain more minor errors or control failures. The audit committee member will need to pitch their review at an appropriate level to avoid spending too much time on detail.
Questioning and constructive challenge	Able to frame questions that draw out relevant facts and explanations. Challenging performance and seeking explanation while avoiding hostility or grandstanding.	The audit committee will review reports and recommendations to address weaknesses in internal control. The audit committee member will seek to understand the reasons for weaknesses and ensure a solution is found.

<b>Skills</b>	<b>Key elements</b>	<b>How the audit committee member is able to apply the skill</b>
Focus on improvement	Ensuring there is a clear plan of action and allocation of responsibility	The outcome of the audit committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities. Where errors or control failures have occurred, then the audit committee should seek assurances that appropriate action has been taken.
Able to balance practicality against theory	Able to understand the practical implications of recommendations to understand how they might work in practice.	The audit committee should seek assurances that planned actions are practical and realistic.
Clear communication skills and focus on the needs of users	Support the use of plain English in communications, avoiding jargon, acronyms, etc.	The audit committee will seek to ensure that external documents such as the Annual Governance Statement and the explanatory foreword to the accounts are well written for a non-expert audience.
Objectivity	Evaluate information on the basis of evidence presented and avoiding bias or subjectivity.	The audit committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses and the committee member will need to weigh up differing views.
Meeting management skills	Chair the meeting effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting.	These skills are essential for the Audit Committee Chairman to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members.

## Self-assessment of Good Practice and Effectiveness

Good practice questions	Yes	Partly	No
<b>Audit committee purpose and governance</b>			
1 Does the authority have a dedicated audit committee?			
2 Does the audit committee report directly to full council?			
3 Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?			
4 Is the role and purpose of the audit committee understood and accepted across the authority?			
5 Does the audit committee provide support to the authority in meeting the requirements of good governance?			
6 Are the arrangement to hold the committee to account for its performance operating satisfactorily?			
<b>Functions of the committee</b>			
7 Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement? <ul style="list-style-type: none"> <li>• Good governance</li> <li>• Assurance framework</li> <li>• Internal audit</li> <li>• External audit</li> <li>• Financial reporting</li> <li>• Risk management</li> <li>• Value for money</li> <li>• Counter-fraud and corruption</li> </ul>			
8 Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			
9 Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?			
10 Where coverage of core areas has been found to be limited, are plans in place to address this?			
11 Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?			
<b>Membership and support</b>			
12 has an effective audit committee structure and composition of the committee been selected? This should include: <ul style="list-style-type: none"> <li>• Separation from the executive</li> <li>• An appropriate mix of knowledge and skills among the membership</li> <li>• A size of committee that is not unwieldy</li> <li>• Where independent members are used, that they have been appointed using an appropriate process.</li> </ul>			
13 Does the chair of the committee have appropriate knowledge and skills?			
14 Are arrangements in place to support the committee with briefings and training?			

Good practice questions	Yes	Partly	No
15 Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
16 Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?			
17 Is adequate secretariat and administrative support to the committee provided?			
18 Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
19 Has the committee evaluated whether and how it is adding value to the organisation?			
20 Does the committee have an action plan to improve any areas of weakness?			

## **Evaluating the effectiveness of the audit committee**

### **Key**

- 5 Clear evidence is available from a **number** of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are **clearly identifiable**.
- 4 clear evidence from **some** sources that the committee is actively and effectively supporting improvement across some aspects of this area
- 3 The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also **significant gaps**
- 2 There is some evidence that the committee has supported improvements, but the **impact** of this support is **limited**.
- 1 **No evidence** can be found that the audit committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation examples – areas of strength and weakness	Overall assessment; 5 – 1 (see key above)
Promoting the principles of good governance and their application to decision making	Providing robust review of the AGS and the assurances underpinning it. Working with key members to improve their understanding of the AGS and their contribution to it. Supporting review/audits of governance arrangements. Participating in self-assessments of governance arrangements. Working with partner audit committees to review governance arrangements in partnerships.		
Contributing to the development of an effective control environment	Monitoring the implementation of recommendations from auditors. Encouraging ownership of the internal control framework by appropriate managers. Raising significant concerns over controls with appropriate senior managers.		
Supporting the establishment of arrangements for the governance of risk and for	Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking.		

effective arrangements to manage risks.	Monitoring improvements. Holding risk owners to account for major / strategic risks.		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	Specifying its assurance needs, identifying gaps or overlaps in assurance. Seeing to streamline assurance gathering and reporting. Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit.		
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	Reviewing the audit charter and functional reporting arrangements. Assessing the effectiveness of internal audit arrangements and supporting improvements.		
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk control and assurance arrangements.	Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. Reviewing the effectiveness of performance management arrangements.		
Supporting the development of robust arrangements for ensuring value for money.	Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee. Considering how performance in value for money is evaluated as part of the AGS.		
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangement against the standards set out in CIPFA's <i>Managing the Risk of Fraud</i> (Red Book 2) Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. Assessing the effectiveness of ethical governance arrangements for both staff and governors.		
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability	Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.		