

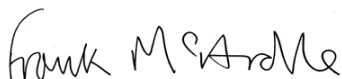
Date: 13 March 2018

Dear Councillor,

Audit-Sub Committee

A Meeting of the **Audit-Sub Committee** will be held in the **Council Chamber**, on **Wednesday, 21 March 2018 at 16:00**. You are requested to attend.

Yours faithfully,



Chief Executive

To:- **Conservative Group**
Councillor Grant (Chairman), Councillor Atkin (Vice-Chairman) and Councillor MacPherson

Labour Group
Councillors Dunn and Shepherd

AGENDA

Open to Public and Press

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

Audit Sub-Committee 13th December 2017 Open Minutes **4 - 7**
- 3** To note any declarations of interest arising from any items on the Agenda
- 4** To receive any questions by members of the public pursuant to Council Procedure Rule No.10.
- 5** To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 6** LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING **8 - 21**
- 7** CERTIFICATION OF CLAIMS AND RETURNS REPORT 2016-17 **22 - 32**
- 8** INTERNAL AUDIT PROGRESS REPORT **33 - 47**
- 9** AUDIT PLANNING REPORT FOR THE YEAR ENDING 31st MARCH 2018 **48 - 86**
- 10** PROPOSED INTERNAL AUDIT PLAN 2018-19 and AUDIT CHARTER **87 - 102**

Exclusion of the Public and Press:

- 11** The Chairman may therefore move:-
That in accordance with Section 100 (A)(4) of the Local Government Act 1972 (as amended) the press and public be excluded from the remainder of the Meeting as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that there would be disclosed exempt information as defined in the

paragraph of Part I of the Schedule 12A of the Act indicated in the header to each report on the Agenda.

- 12** To receive the Exempt Minutes of the following Meeting:-
Audit Sub-Committee 13th December 2017 Exempt Minutes
- 13** To receive any Exempt questions by Members of the Council pursuant to Council procedure Rule No. 11.

AUDIT SUB-COMMITTEE

13th December 2017

PRESENT:-

Conservative Group

Councillor Grant (Chairman) and Councillor Mrs Wyatt

Labour Group

Councillors Dunn and Shepherd

AS/27 **APOLOGIES**

The Sub-Committee was informed that no apologies had been received.

AS/28 **MINUTES**

The Open Minutes of the Meeting held on 20th September 2017 were taken as read, approved as a true record and signed by the Chairman.

AS/29 **DECLARATIONS OF INTEREST**

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

AS/30 **TO RECEIVE ANY QUESTIONS FROM MEMBERS OF THE PUBLIC PURSUANT TO COUNCIL PROCEDURE RULE NO.10**

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

AS/31 **TO RECEIVE ANY QUESTIONS FROM MEMBERS OF THE COUNCIL PURSUANT TO COUNCIL PROCEDURE RULE NO.11**

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

MATTERS DELEGATED TO SUB-COMMITTEE

AS/32 **LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING**

The external auditor presented the report to the Sub-Committee, making particular reference to the 2018/19 Financial Settlement, the Derbyshire pilot for NNDR retention, the New Homes Bonus and preparations for the earlier final accounts closure timetable for 2018.

Councillor Dunn queried two statements in the external audit report, namely the reference to council's receiving an average of '486,500 planning applications per year' and evidence to support the view that following the General Election the Article 50 EU exit negotiations could result in a more 'business-friendly Brexit'. The external auditor acknowledged that the first was an erroneous figure, the second speculation on their part.

The Strategic Director (Corporate Services) addressed the Key Questions posed in the report relating to Brexit, the 2018/19 Financial Settlement, planning application charges, adult social care, council-owned trading companies and the 2018 financial accounts early closure timetable.

The Chairman queried the impact of the Universal Credit roll-out. The Director clarified that it was estimated that it may affect up to a third of current claimants, adversely impacting on rent arrears and, as a result, the bad debt provision position was being reviewed.

RESOLVED:-

Members considered the key questions posed by the Council's External Auditors contained in their recent sector update.

AS/33 **LOCAL CODE OF CORPORATE GOVERNANCE REVIEW 2017/18**

The Monitoring Officer presented the report to the Sub-Committee.

Members queried the revisions required relating to the Conflicts of Interest Policy and issues relating to whistleblowing, both matters addressed by the Monitoring Officer.

RESOLVED:-

1.1 Members approved the review against the Council's Local Code of Corporate Governance for 2017/18, as detailed in Appendix 1 to the report.

1.2 Members approved progress on the work plan to strengthen the Council's governance arrangements in 2017/18, as detailed in Appendix 2 to the report.

AS/34 **INTERNAL AUDIT PROGRESS REPORT**

The internal auditor presented the report to the Sub-Committee.

Councillor Dunn queried the status of the dry waste recycling contract and associated risk. The Monitoring Officer confirmed that all reasonable steps had been taken to have the contract signed and that the company in question was operating to the contractual arrangements.

Councillor Shepherd requested an update on the risks associated with the backup server healthcheck. The Strategic Director (Corporate Services) reported on the current situation relating to the eight points in the report.

The Chairman queried the response time between notification of an issue and management action and what assistance the Sub-Committee could provide to ensure progress. The internal auditor suggested that the Sub-Committee concentrate its attentions to the items marked as moderate or significant risk, perhaps inviting the relevant officers to attend the Sub-Committee's meetings to detail their responses to issues as identified.

Councillor Dunn raised the Waste Less, Save More project, in particular, payments and the initial bid process. The Monitoring Officer confirmed that the payments matter had been investigated and that the bid process was due to be reviewed, with a report to be submitted to both the appropriate committee in due course. Councillor Shepherd wished for it to be noted that Members should be part of this process and kept informed of progress.

RESOLVED:-

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

AS/35 **LOCAL GOVERNMENT ACT 1972 (AS AMENDED BY THE LOCAL GOVERNMENT [ACCESS TO INFORMATION] ACT 1985)**

RESOLVED:-

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

MINUTES

The Exempt Minutes of the Meeting held on 20th September 2017 were received.

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

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

The Meeting terminated at 4.50pm.

COUNCILLOR J GRANT

CHAIRMAN

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 6
DATE OF MEETING:	21st MARCH 2018	CATEGORY: RECOMMENDED
		OPEN
REPORT FROM:	EXTERNAL AUDIT	
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/EY/quarterly update cover
SUBJECT:	LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 01

1.0 Recommendation

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

2.0 Purpose of Report

- 2.1 To provide the latest briefing from the Council's External Auditors. This is aimed at notifying the Committee on the latest developments and audit matters affecting the Local Government Sector, which may have an impact on the Council.

3.0 Detail

- 3.1 The Briefing is attached separately to the report. The key questions are detailed on Page 10 of the Briefing and include matters relating:

- Greater flexibility to increase Council Tax in 2018/19
- Business Rates Retention
- Collapse of Carillion plc
- Introduction of IFRS 15 in 2018/19
- Accelerated closedown of the Accounts for 2018/19
- The implementation of new Data Protection Regulations on 25th May 2018

4.0 Financial Implications

- 4.1 None

5.0 Corporate Implications

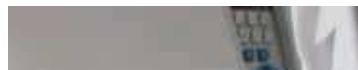
- 5.1 None

6.0 Community Implications

6.1 None

A pair of hands is shown holding a large pile of Euro coins, including 1 Euro and 2 Euro coins, over a rustic wooden surface. The coins are stacked and scattered, filling the palms and fingers. A bright yellow rectangular box is overlaid on the upper right portion of the image, containing the title text.

Local Government Audit Committee Briefing



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

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

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

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

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

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



Government and economic news

Will the UK economy hold up as Brexit nears?

The latest forecast from the EY Item Club highlights that UK GDP growth in 2017 was 1.8%, which was better than expected. However, it does compare unfavourably with 2017 GDP growth of 2.5% for the Eurozone, 2.3% for the US and an estimated 3.0% globally.

The momentum from 2017, an improving outlook for consumer spending, and the increased likelihood of a near-term Brexit transition arrangements are expected to support UK growth this year. With this, we have nudged up our UK GDP forecast for 2018 to 1.7%, up from the 1.4% we predicted in our Autumn forecast in October last year.

However, further out, the UK's limited productivity performance and ongoing Brexit and political uncertainties will see the UK achieve only mid-range growth. With this, we have slightly reduced our GDP growth projections for 2019 to 1.7% (down from 1.8%), 1.9% for 2020 (down from 2.0%), and 2.0% for 2021 (down from 2.2%). Although we have modestly downgraded our expectation of the UK's productivity performance, it remains more optimistic than the Office for Budget Responsibility's latest forecast. Specifically, we forecast output per hour to rise 0.9% in 2018 and then 1.3% annually during 2019-2021.

Much depends on how the Brexit negotiations develop.

The expectation is that the UK and EU will make sufficient progress to agree a transition arrangement lasting at least two years, from late March 2019. Since this will have to be ratified across the EU, agreement essentially needs to be reached by October 2018. Progress towards a transition deal in late 2018 should support business confidence and a gradual pick-up in investment, helping GDP growth accelerate.

Provisional 2018-19 Local Government Finance Settlement

On 19th December 2017 the Government set out the provisional funding plan for the 2018-19 financial year, which will be the third year of the four year multi-year settlement that was accepted by 97% of local authorities. The main themes of the provisional settlement were:

Council tax referendum principles – as a result of the financial settlement consultation process the government has decided to set the core referendum principle at 3% in 2018-19 and 2019-20, to match the higher than expected inflation. This change will give local authorities more flexibility in deciding how money will be raised to offset the increasing financial pressures and demand on services. Shire district councils will be allowed an increase of 3% or £5 whichever is higher.

Continuation of the adult social care precept principle of a 2% increase, with the additional flexibility in 2018-19 to increase the precept by an additional 1%, from 2% to 3%, provided that the total increase across the three years 2017-18 to 2019-20 does not exceed 6%.

Analysis by the Local Government Association has estimated that the impact of increased flexibility in council tax precepts could be worth up to £540mn to local authorities by 2019-20. However local services are facing a total funding gap of £5.8bn in 2019-20. Therefore, the increased powers to raise council tax are not sufficient to meet the future funding gap.

Business rate retention – the Government's continued intention to reform local government financing in the future by allowing authorities to retain a greater percentage of business rates instead of receiving certain grants (including RSG, public health grant) direct from central government. By 2020-21 it is estimated that the business rate retention across the local government system would be 75%, compared to the current level of 50% retention. It was also announced that the 100% business rates retention pilot schemes were going to be expanded to include a further 10 local authorities.

New homes bonus – since inception the new home bonus has allocated £7bn to local authorities to encourage the building of over 1.2 million new homes. The Government has decided to continue to set the national baseline (below which no bonus will be paid) at 0.4% for 2018/19. The national baseline represents the annual growth of Band D properties within a local authority above which the new homes bonus will be awarded. Government retained the option to adjust the baseline in future years based on housing statistics as reported through council tax base figures. This stability will provide some security for district authorities who have based their growth strategy on the New Homes Bonus.

Carillion liquidation

Major public sector building and support services contractor Carillion plc went into compulsory liquidation on 15 January 2018. Carillion's sudden collapse is being felt across the country as a range of public services, from road building to school meals, have been unexpectedly terminated in a number of local authorities.

The full extent of the affected services is yet to be determined as local authorities discuss existing contracts with the Official Receiver. Local authorities are implementing contingency plans where possible, including either finding alternative contractors or taking services back in house. For example the response from Oxfordshire County Council in relation to the provision of school meals at 90 schools supplied by Carillion was to guarantee Carillion staff who worked in schools that the county council would ensure that they were paid.

Although the Government has pledged that public services 'will be protected' after Carillion's collapse, it is unclear how or when funding from central Government will be made available to the affected local authorities.

Public sector pay

Since 2013, the Government has implemented a policy of a 1% annual pay increase cap for public sector workers; which was estimated to have saved approximately £5bn by 2019-20. In the Autumn Budget 2017 the Government confirmed the end of the 1% pay increase policy. Therefore from 2018-19, pay review bodies will be able to award pay increases of greater than 1% as they determine to be appropriate. After the long freeze in real terms of public sector pay future increases above 1% have been welcomed; and it is thought that this has been needed to retain talent within the public domain. However, this will be an additional cost pressure for local authorities that will require financing.

The national employers, who negotiate pay on behalf of 350 local authorities, suggested that most employees with salaries over £19,430 should receive a 2% increase for 2018-19 and a further 2% for 2019-20. Lower salaried workers will receive higher increases based on hourly pay; from £7.78 to £9.00 in April 2019 and increase equivalent to 15.65%. National employers have said this would add another 5.6% to the national pay bill over the two years to 2020.



Accounting, auditing and governance

IFRS 15 – revenue from contracts with customers

The new revenue standard, IFRS 15, creates a single source of revenue requirements for all entities in all industries and is a significant departure from legacy IFRS. The new standard applies to revenue from contracts with customers and replaces all of the legacy revenue standards and interpretations in IFRS, including IAS 11 Construction Contracts and IAS 18 Revenue.

IFRS 15 is principles-based but provides more application guidance and increased judgement. IFRS 15 also specifies the accounting treatment for certain items not typically thought of as revenue, such as certain costs associated with obtaining and fulfilling a contract and the sale of certain non-financial assets. The new standard will have little effect on some entities, but will require significant changes for others.

The standard describes the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services.

The principles in IFRS 15 are applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance

Entities will need to exercise judgement when considering the terms of the contract(s) and all of the facts and circumstances, including implied contract terms. Entities will also have to apply the requirements of the standard consistently to contracts with similar characteristics and in similar circumstances.

The 2018/19 Code of practice on Local Authority Accounting in the United Kingdom (the Code) will determine how IFRS 15 revenue from customers with contracts will be adopted by local government bodies. The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018 but has not yet been published. The CIPFA/LASAAC Local Authority Accounting Code

Board met on 6 June 2017 and discussed the implication of IFRS 15 on Local Government entities. The minutes of this meeting corroborate our view that for most entities income streams from contracts with customers are likely to be immaterial. The vast majority of income streams are taxation or grant based which do not fall within the scope of IFRS 15 as they are not contractually based revenue from customers.

However, this may not always be the case for some smaller English authorities or authorities where there is a high public interest in commercial activities. The following income streams are within the scope of IFRS 15 and will need special consideration if they are material to the users of the financial statements:

- ▶ Fees and charges for services under statutory requirements
- ▶ Sale of goods provided by the authority
- ▶ Charges for services provided by a local authority

EY – CIPFA Accounts Closedown Workshop 2017-18

EY and CIPFA Financial Advisory Network (FAN) are continuing to work in partnership to deliver a programme of accounts closedown workshops to support local government finance professionals across the country with separate events for police bodies and English, Welsh and Scottish local authorities. The workshop programme covers the key changes impacting on the production of the 2017/18 financial statements and the outcomes of the 'telling the story' changes to the Code of Practice on Local Authority Accounting in 2016/17. Looking forward there are significant changes to IFRS that will come through in the 2018/19 Code and later, so the workshops are also focused on the key risks in relation to the new Financial Instruments standard IFRS 9 and other future expected changes in the Code with potential to impact on the General Fund and the HRA. These workshops also aim to prepare local authority finance staff for a 'faster, smarter and more accurate' accounts closedown for 2017-18.

By the end of this May, your local authority will need to publish its unaudited statement of accounts and publish audited accounts by the end of July. These changes provide risks for

both the preparers and the auditors of the financial statements. Local Authorities will now have less time to prepare the financial statements and supporting working papers. As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Failure to meet a deadline at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- ▶ Good quality draft financial statements and supporting working papers by the agreed deadline
- ▶ Appropriate staff to be available throughout the agreed audit period
- ▶ Complete and prompt responses to audit questions

If your authority is unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Of the 150 authorities we audit, we currently consider that around a quarter have left themselves a significant amount of work to do to get there and are running a real risk of missing the deadline because they will not have quality draft accounts and supporting evidence ready for their auditors by the end of May.

In addition to our workshops with CIPFA, we have held events in each of our local offices and gathered insights from over 100 practitioners and their local audit teams on the importance of what finance teams and auditors each need to do, and collaboratively, to achieve a successful faster closure. We have put together a comprehensive list of actions to streamline processes, work more collaboratively with their auditors and draw on EY's analytics and innovative audit approach to achieve faster close. We include a summary below.

Summary of faster close activities

Finance teams are:

- ▶ Critically appraising the content of their accounts, removing unnecessary disclosures
- ▶ Closing the ledger earlier and encouraging greater discipline across the authority to comply with deadlines for accruals
- ▶ Preparing discrete sections of the accounts (e.g., narrative report and remuneration notes) and associated working papers earlier to facilitate early audit work
- ▶ Focusing on judgements and significant estimates earlier including engagement with auditors
- ▶ Reviewing the de-minimis level for accruals, including discussion with auditors
- ▶ Conducting a hard close for monthly reconciliations e.g., bank reconciliations, feeder systems, etc., with a zero-tolerance to reconciling items over a month old
- ▶ Undertaking weekly cut-off testing in April to ensure that the accounts are complete, retaining the evidence in case that item is selected for audit testing

Auditors are:

- ▶ Meeting regularly with finance staff, sharing details of the audit approach, agreeing a planned timetable of tasks, communicating changes and providing clarity on what is expected and when

- ▶ Bringing forward testing to reduce the amount needed to do in the summer. In particular, valuation of land and building and other high risk areas
- ▶ Increasing the use of analytics to interrogate ledger and payroll transaction data
- ▶ Using the online EY client portal to streamline communications with finance teams
- ▶ Attending workshops with finance teams on accounting issues and effective working papers
- ▶ Selecting items for sample testing earlier

Together finance teams and auditors are:

- ▶ Holding regular meetings throughout the year to share progress and discuss issues
- ▶ Planning respective activities to ensure sufficient capacity on both sides
- ▶ Revisiting audit issues from the prior year, agreeing how similar issues can be avoided
- ▶ Ensuring the client assistance schedule is appropriately tailored

We have produced a faster close briefing checklist that you can use to ensure that you are doing all you can, alongside working with us, to achieve the accelerated timetable. For more information please contact your local engagement lead.



Regulation news

EU General Data Protection Regulation: are you ready?

On 17 December 2015, after more than three years of negotiations and several draft versions of the General Data Protection Regulation (GDPR), an informal agreement was reached between the European Parliament and Council of the European Union. The GDPR is a significant change for organisations. It introduces more stringent and prescriptive data protection compliance challenges, backed by fines of up to 4% of global annual revenue. The regulation replaces Directive 95/46/EC, which has been the basis of European data protection law since it was introduced in 1995.

The Regulation has a significant impact on organisations in all sectors, bringing with it both positive and negative changes in terms of cost and effort.

Key changes proposed by the EU GDPR include:

- ▶ Regulators can impose fines of up to 4% of total annual worldwide turnover or €20,000,000
- ▶ Data Protection Officers (DPOs) – DPOs must be appointed if an organisation conducts large scale systematic monitoring or processes large amounts of sensitive personal data
- ▶ Accountability – organisations must prove they are accountable by establishing a culture of monitoring data processing procedures, minimising data retention and building safeguards, and documenting data processing procedures
- ▶ Organisations must undertake Privacy Impact Assessments when conducting risky or large scale processing of personal data

- ▶ Consent to process data must be freely given, explicit and individuals must be informed of their right to withdraw their consent
- ▶ Organisations must notify supervisory authorities of data breaches 'without undue delay' or within 72 hours, unless the breach is unlikely to be a risk to individuals
- ▶ Introduction of new rights – right to be forgotten, right to data portability and right to object to profiling
- ▶ Organisations should design data protection into the development of business processes and new systems and privacy setting should be set a high level by default
- ▶ Data processors become an officially regulated entity

Whilst organisations may welcome the harmonisation of laws across the 28 EU member states which will make the complex data protection landscape easier to navigate, the introductions of new rights for individuals are likely to increase the regulatory burden for organisations.

Organisations need to review their current data protection compliance programmes to determine next steps and decide on the level of investment they need to make before 2018 to address the changes.

Organisations need to act now to ensure that they are ready to comply with the new Regulation when it comes into force on 25 May 2018.

Key questions for the Audit Committee

Has your local Authority considered the changes to council tax flexibilities into the 2018-19 budget And the impact of changes to business rate retention into your Medium Term Financial Strategy?

Has your local authority been affected by the collapse of Carillion plc? How have contingency plans been implemented to maintain public services? What (if any) is the local authority's financial exposure to this event?

Has your local authority included in its budget any likely increases of employee wages above 1%?

Has your Authority considered how IFRS 15 might impact your revenue streams?

How has the local authority prepared for the accelerated accounts closedown timetable for 2017-18?

Has the Authority considered the implications of the new GDPR, and is the Authority confident that it comply with its requirements when it comes into force?

Find out more

EY ITEM Club Forecast

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

2018-19 Local Government Finance Settlement

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2018-to-2019>

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669538/LGFS_consultation_2018-19.pdf

<https://www.local.gov.uk/parliament/briefings-and-responses/provisional-local-government-finance-settlement-201819-day>

<http://www.cipfa.org/about-cipfa/press-office/archived-press-releases/2017-press-releases/cipfa-responds-to-the-provisional-local-government-finance-settlement?crdm=0>

Carillion collapse

<http://www.publicfinance.co.uk/news/2018/01/public-sector-looks-ways-plug-gap-left-carillion>

<http://www.publicfinance.co.uk/news/2018/01/public-services-will-be-protected-after-carillion-collapse>

Public sector pay

<http://researchbriefings.files.parliament.uk/documents/CBP-8037/CBP-8037.pdf>

<http://www.publicfinance.co.uk/news/2017/12/local-employers-issue-2-pay-offer-each-next-two-years>

IFRS 15 – revenue from contracts with customers

[http://www.ey.com/Publication/vwLUAssets/ey-applying-revenue-october-2017/\\$FILE/ey-applying-revenue-october-2017.pdf](http://www.ey.com/Publication/vwLUAssets/ey-applying-revenue-october-2017/$FILE/ey-applying-revenue-october-2017.pdf)

EY – CIPFA Accounts Closedown Workshop 2017-18

For Faster Close Activities Checklist: please contact your local engagement lead

For a full list of locations and dates available search for 'Accounts Closedown Workshop' at <http://www.cipfa.org/training>



About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

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REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	21st MARCH 2018	CATEGORY: RECOMMENDED
REPORT FROM:	EXTERNAL AUDIT	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/EY/grants/grants cover report
SUBJECT:	CERTIFICATION OF CLAIMS AND RETURNS REPORT 2016/17	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 01

1.0 Recommendations

- 1.1 That the Claims and Returns Report for 2016/17 is considered and the recommendations, together with management actions as detailed in Section 5 of the Auditor's Report, are noted.

2.0 Purpose of Report

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

3.0 Detail

- 3.1 The Auditor's report summarises the findings from their certification of the Housing Benefits Subsidy Claim for the DWP, together with the Pooling of Housing Capital Receipts for the MHCLG.

4.0 Financial Implications

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

5.0 Corporate Implications

- 5.1 None directly.

6.0 Community Implications

- 6.1 None directly.

7.0 Background Papers

None

Certification of claims and returns annual report 2016-17

South Derbyshire District Council

21 March 2018

Ernst & Young LLP



Building a better
working world

The Members of the Audit-sub Committee
South Derbyshire District Council
Civic Offices
Civic Way
Swadlincote
DE11 0AH

21 March 2018
Ref: EY/JB/16-17/ Grants

Direct line: + 44 20 7951 2000
Email: jbürgess3@uk.ey.com

Dear Members

Certification of claims and returns annual report 2016-17 South Derbyshire District Council

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on South Derbyshire District Council's 2016-17 Housing Benefit claim and Pooling of Housing Receipts return.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

In addition to this, we also acted as reporting accountants in relation to South Derbyshire District Council's Pooling of Housing Receipts return which is outside the PSAA's regime.

Summary

Housing Benefits

Section 1 of this report outlines the results of our 2016-17 certification work and highlights the significant issues.

We have audited and certified the housing benefits subsidy claim with a total value of £17,704k. We met the submission deadline of 30 November 2017. We issued a qualification letter to the Department of Works and Pensions (DWP) on 27 November 2017 the details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments had a minor effect on the grant due.

The certification work identified a number of error types which had occurred in previous years together with some issues which had not previously arisen. Further details are set out in section 1.

Pooling of Housing Capital Receipts

We also completed the audit of the Pooling of Housing Receipts Return, with total receipts of £1,408,845 for 2016/17 meeting the revised submission deadline of 31 January 2018. There was only one amendment which the Council corrected. There are no other matters to bring to your attention. Further details of this work are included in section 2.

Fees for certification and other returns work are summarised in section 3. The housing benefits subsidy claim fees for 2016-17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the Audit-sub Committee on 14 February 2018.

Yours faithfully

Name

Stephen Clark
Partner
Ernst & Young LLP
Birmingham

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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£17,704,900
Amended	Amended – subsidy reduced by £281
Qualification letter	Yes
Certification fees to the Council	
Fee – 2016-17	£13,590
Fee – 2015-16	£16,313
Further details are included in section 3.	

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

The certification guidance requires auditors to complete a sample of 40+ cases where for each error type identified in the audit of the previous years claim (2015/16) and for the current year (2016/17) a sample of 20 cases for each type of benefit.

The results of our testing of cases found that some error types from the 2015/16 audit had reoccurred in 2016/17, together with some new error types. However, it should be noted that the volume of errors found has decreased from 2015/16. The qualification letter for 2015/16, contained seven areas of benefit which required an extrapolation. This compared to only four in 2016/17 and the overall level of errors has reduced year on year by 10%. This is a positive outcome and is attributed to the additional training and quality assurance checks undertaken by the Benefits team.

To illustrate the ongoing improvements, we have provided below two examples arising from the 2016/17 audit.

1. In 2015/16 we tested claims which identified that the benefit entitlement contained an incorrect rental value. In 2016/17, from the cases tested, no claims were found to contain this type of error.
2. The audited identified a case where the claim was overpaid as the assessment included a deduction for a dependent member of the household who was should not have been classed as a child. This error was identified in June 2017, and the Benefits team responded immediately to introduce a process to issue letters to claimants in advance of dependants reaching their 16th and 18th birthday. This was to ensure that the claim assessment in the HB system is correct. Through the additional testing it was noted that some claims had been suspended or even cancelled where there was no response from the claimant

Furthermore, we have started to plan the audit of the 2017/18 claim and noted that Benefits team will continue to undertake further checks in a number of areas.

We have reported all underpayments, uncertainties and the extrapolated value of other errors in a qualification letter to the DWP. The DWP will determine whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid.

2. Other assurance work

During 2016-17 we also acted as reporting accountants in relation to the Pooling of Housing Receipts Return.

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

We identified one error relating to the calculation of attributable debt. The calculation is based on the financial year of the sale of Council properties. We found that this had been set to 2015/16 rather than 2016/17. The impact was to understate the return by £1,001, and the Council made the required amended.

There are no other matters to bring to your attention.

3. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016-17, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	19,271*	13,590	16,313
Pooling of Housing capital receipts	**	1,600	2,500

* We have proposed a variation of £5,681 to the fee as a result of undertaking additional testing required to complete the certification of the Housing Benefit claim. All fee variations are subject to approval by PSAA.

** the final fee is subject to final agreement.

4. Looking forward

2017/18

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2017/18 is £16,313. This was set by PSAA and is based on final 2015/16 certification fees.

Details of individual indicative fees are available at the following web address:

<https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

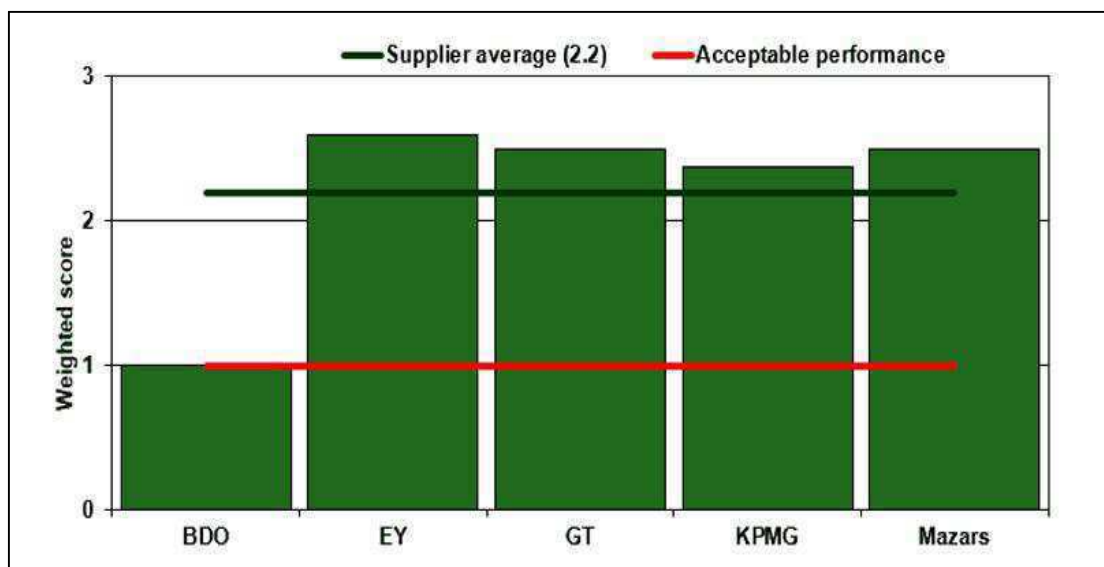
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Strategic Director (Corporate Resources) before seeking any such variation.

2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published in the near future.

We would be pleased to undertake this work for you, and are finalising a quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



As we were appointed by PSAA in December 2017 as your statutory auditor we can provide a comprehensive assurance service, making efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

5. Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

Audit Finding	Recommendation	Management Comment	Priority	Implementation Date
Common errors in the claim				
<ul style="list-style-type: none"> Income miscalculation ~ earnings and state retirement pension Incorrect claim start dates Misclassifications of overpayments 	The Council should continue to review the adequacy of the current quality assurance arrangements and training and consider increasing the number of checks performed to ensure they are focussed on the specific risk areas.	Both quality assurance checks and regular training will continue on an ongoing basis.	H	Ongoing
Specific errors in the claim				
Annual uprating of system parameters Although the parameters had been checked and reviewed as accurate, our review of the accuracy of the system parameters to the uprating circular identified one error which resulted of underpayment of benefit.	Re-review the update of the 2017/18 system parameters previously undertaken in February 2017 and ensure any errors are corrected in advance of 31/3/18. This should include an updated sign-off by the Revenues and Benefits manager.	Arrangements have been reviewed which include further independent checks prior to final sign-off	M	30/4/18
Two homes payments error This issue was identified in 2015/16 and has re-occurred and results in an unnecessary overpayment and reduction in rent allowance subsidy in six cases.	Produce system reports on a frequent basis to identify cases of this nature and take corrective action in advance of producing the 2017/18 subsidy claim.	Claims where the change of address flag has been added to date have been checked. We will continue periodically review claims to minimize overpayments being created.	M	31/3/18
Modified schemes Testing in both 2015/16 and 2016/17 identified misclassification errors.	Review 100% cases in advance of finalizing the subsidy claim.	There are only seven cases in 2017/18 and have all been checked.	M	31/3/18
Status of dependents Testing of a rent allowance case identified a dependent deduction was made for a member of the household who was no longer classed as a child.	The Council has already taken action from June 2017 through letters sent to claimants in advance of the dependent turning 16 and 18.	This check forms part of our ongoing arrangements.	M	ongoing

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REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 8
DATE OF MEETING:	21st MARCH 2018	CATEGORY: RECOMMENDED
REPORT FROM:	INTERNAL AUDIT MANAGER	OPEN
MEMBERS' CONTACT POINT:	ADRIAN MANIFOLD (01332 643281) adrian.manifold@centralmidlandsaudit.co.uk	DOC: u/ks/audit/internal audit/quarterly reports/quarterly report cover
SUBJECT:	INTERNAL AUDIT PROGRESS REPORT	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 02

1.0 Recommendations

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

2.0 Purpose of Report

- 2.1 To provide an update on progress against the approved Internal Audit Plan. This details the performance and activity of Internal Audit for 2017/18 as at 28th February 2018.

3.0 Detail

- 3.1 The detailed report is attached.

4.0 Financial Implications

- 4.1 None.

5.0 Corporate Implications

- 5.1 None directly.

6.0 Community Implications

- 6.1 None directly.

7.0 Background Papers

- 7.1 None

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Audit Sub-Committee: 21st March 2018



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Our Vision

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

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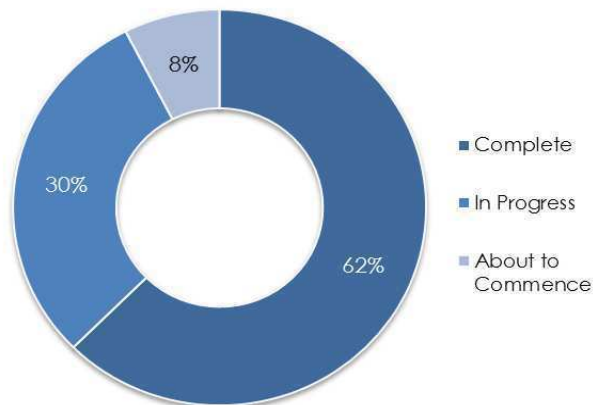


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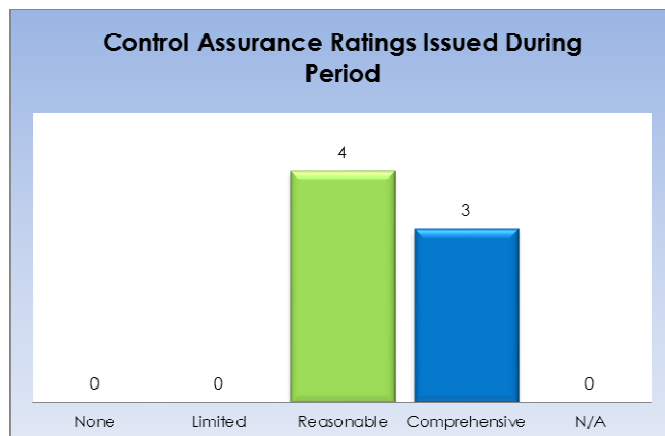
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AUDIT DASHBOARD

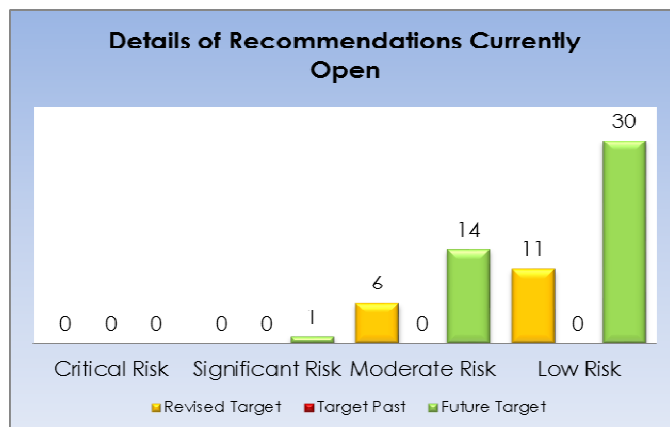
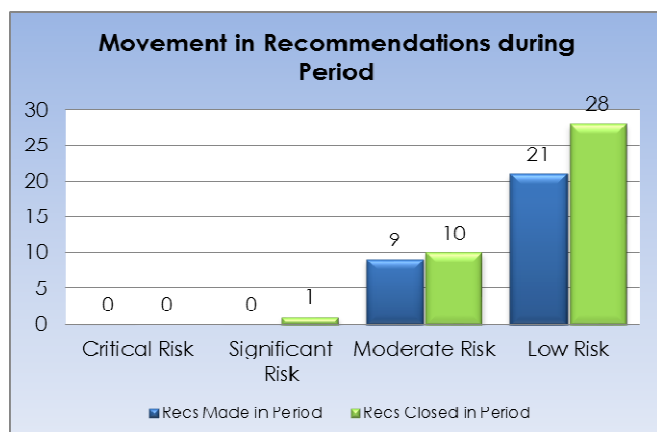
Plan Progress



Jobs Completed in Period

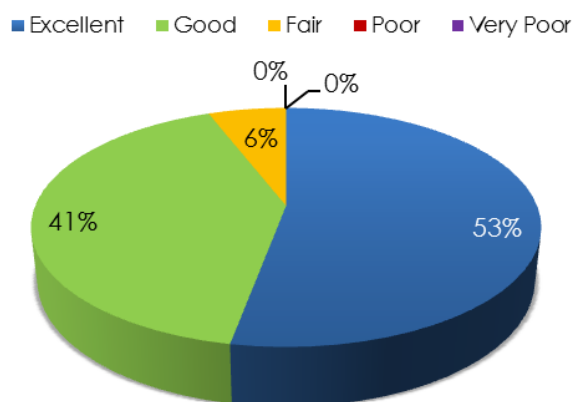


Recommendation Tracking



Customer Satisfaction

Feb 17 to Jan 18



Continuous Improvement

1. A member of the CMAP team has been participating as a Key Expert (along with other global accounting firms) in an Internal Audit project in the Republic of Tajikistan in Central Asia. Funded by the European Commission, the project is aimed at providing assistance to governments of several Eastern European and ex-USSR countries in development of modern comprehensive financial regulations and providing best practice methodology for undertaking internal audits.
2. The Audit Together Partnership (where CMAP is one of 9 member organisations) has been shortlisted for a Public Finance Innovation Award 2018 in the Innovation in Internal Audit category for its collaborative work.

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AUDIT PLAN

Progress on Audit Assignments

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

2017-18 Jobs	Status	% Complete	Assurance Rating
Business Continuity & Emergency Planning	Final Report	100%	Comprehensive
Cashiering (Agile Audit)	Final Report	100%	Reasonable
Dry Waste Recycling Contract	Final Report	100%	Reasonable
Officers Expenses & Allowances	Final Report	100%	Reasonable
Backup Server Healthcheck	Final Report	100%	Limited
Waste Less, Save More	Final Report	100%	Comprehensive
People Management	Final Report	100%	Reasonable
Backup Policy	Final Report	100%	Reasonable
Sharpes Pottery	In Progress	75%	
Express Electoral System Security Assessment	Draft Report	95%	
Organisational Culture & Ethics	Fieldwork Complete	90%	
Rent Accounting	Final Report	100%	Reasonable
Tenants Arrears	Final Report	100%	Reasonable
New Build / Affordable Housing	Allocated	5%	
Licensing	Fieldwork Complete	80%	
Health & Safety	In Progress	15%	
Follow-up of Whistleblowing Recommendations	Allocated	10%	
Main Accounting System 2017-18	Final Report	100%	Comprehensive
Risk Management	In Progress	10%	
Council Tax 2017-18	Allocated	0%	
NDR 2017-18	In Progress	65%	
Housing Benefit & Council Tax Support 2017-18	In Progress	10%	
Payroll 2017-8	In Progress	65%	
Capital Programme	Covered Elsewhere		
Procurement (Contracts Register)	Covered Elsewhere		
Data Protection & Freedom of Information	Deferred		
Records Management	Deferred		
PCI Compliance	Deferred		
Grant Certification	No Longer Needed		

2016-17 Jobs	Status	% Complete	Assurance Rating
Taxation	Final Report	100%	Comprehensive
Banking Services	Final Report	100%	Reasonable
Housing Benefit & Council Tax Support 2016-17	Final Report	100%	Reasonable
Creditors 2016-17	Final Report	100%	Reasonable
Data Quality & Performance Management	Final Report	100%	Reasonable
Fixed Assets 2015-17	Final Report	100%	Reasonable

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Leisure Centres	Final Report	100%	Reasonable
Parks & Open Spaces	Final Report	100%	Reasonable
Change & Configuration Management	Final Report	100%	Reasonable
Client Monitoring - Corporate Services Contract	Final Report	100%	Reasonable
Whistleblowing Investigation 2	Final Report	100%	Reasonable
Housing Contracts Review	Final Report	100%	Limited
Main Accounting System 2016-17	Final Report	100%	Comprehensive
Debtors 2016-17	Final Report	100%	Comprehensive
Payroll 2016-17	Draft Report	95%	
Safeguarding	Draft Report	95%	

Audit Plan Changes

None since last Sub-Committee.

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AUDIT COVERAGE

Completed Audit Assignments

Between 1st December 2017 and 6th March 2018, the following audit assignments have been finalised since the last Progress Report was presented to this Sub-Committee.

Audit Assignments Completed in Period	Assurance Rating	Recommendations Made				% Recs Closed
		Critical Risk	Significant Risk	Moderate Risk	Low Risk	
People Management	Reasonable	0	0	3	3	17%
Main Accounting System 2016-17	Comprehensive	0	0	0	4	100%
Rent Accounting 2017-18	Reasonable	0	0	1	3	25%
Debtors 2016-17	Comprehensive	0	0	0	0	n/a
Main Accounting System (Reconciliations)	Comprehensive	0	0	0	1	100%
Backup Policy	Reasonable	0	0	3	6	22%
Tenants Arrears	Reasonable	0	0	2	4	17%

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

People Management

Overall Assurance Rating: **Reasonable**

This audit focused on the overall management of people management policies by the Organisational Development Department. It compared actual practice against the policies in place for Equality and Diversity, Disciplinary and Harassment and Bullying.

From the 30 key controls evaluated in this audit review, 24 were considered to provide adequate control and 6 contained weaknesses. This report contained 6 recommendations, 3 of which were considered to present a low risk and 3 presenting a moderate risk. The following issues were considered to be the key control weaknesses:

1. In 40% of the policies sampled there were no version controls included in the document. In 50% of those policies sampled that did have a version control, the dates in the version control did not match the date appended to the footer of the actual document. (**Low Risk**)
2. There was no evidence that the Equalities Policy Statement had been reviewed since March 2012 and it was not clear if it was up-to-date. (**Moderate Risk**)
3. The Council did not have a formal process in place to ensure that written warnings were removed from personal files when they had lapsed. (**Moderate Risk**)
4. The process to follow in order to make a confidential complaint was not clear in the Harassment Policy and Procedure. (**Moderate Risk**)
5. The Council was not collecting information regarding allegations of harassment and bullying (formal and informal). (**Low Risk – Risk Accepted**)
6. Harassment and Bullying cases were managed by the Organisational Development Team and no details were reported to Members or Senior Management. (**Low Risk**)

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All 6 of the issues raised within this report were accepted and action is planned in 2018 to address 5 of the weaknesses by the end of September 2018. Management has chosen to accept the risk associated with one low risk issue.

Main Accounting System 2016-17

Overall Assurance Rating: **Comprehensive**

This audit focused on ensuring that adequate controls were in place regarding key control reconciliations, that systems were in place which allowed robust revenue and capital budget monitoring and that appropriate controls were in place with regard to the processing of journals and virements.

From the 34 key controls evaluated in this audit review, 30 were considered to provide adequate control and 4 contained weaknesses. This report contained 4 recommendations, all of which were considered to present a low risk. The following issues were considered to be the key control weaknesses:

1. The completion summary within the reconciliation control log, for recording whether reconciliations had been completed and reviewed, was not being kept up-to-date. (Low Risk)
2. Four out of the 14 reconciliations we reviewed had not been signed by the reviewing officer, to authorise the reconciliation calculation. (Low Risk)
3. Written procedures in respect of reconciling key control accounts had been established, but these were brief and did not cover all aspects of the reconciliation process. (Low Risk)
4. Checks on journals in excess of £50k were not being evidenced. (Low Risk)

All 4 issues raised within this report were accepted and action had already been taken to address 2 of the issues raised by the end of the audit. The remaining two issues were agreed to be addressed by 31st January 2018.

Rent Accounting

Overall Assurance Rating: **Reasonable**

This audit focused on the Council's rent accounting systems, concerning the administration and collection of rental income, to ensure rental controls were operating as expected.

From the 14 key controls evaluated in this audit review, 6 were considered to provide adequate control and 8 contained weaknesses. This report contained 4 recommendations, 3 of which were considered to present a low risk and 1 was a moderate risk. Another 2 minor risk issues were highlighted for management's consideration. The following issues were considered to be the key control weaknesses:

1. Historical suspense account postings had not been resolved. There were a total of 454 postings to the value of -£18,916.62, dating back as far as 2004. (Low Risk)
2. Reports evidencing actions taken to clear Suspense account postings, housing benefits reconciliations and records supporting the Housing Register, were not being signed and dated by the processing officers or by the Senior Officer upon authorisation. (Low Risk)
3. Control totals from housing benefit files, imported into the Orchard Housing system on a weekly basis, were not being matched to those from the system, following import. (Low Risk)
4. The annual rent adjustments for 2017-18 were processed prior to receiving notification from Housing Management that formal approval had been obtained from Committee. (Moderate Risk)

All 4 of the control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Positive action in respect to the moderate risk issue was due to be taken by 16th March 2018, 1 recommendation was due to be addressed by 31st March 2018, another issue was due to be addressed by the 31st May 2018 and the remaining recommendation was due to be addressed by 31st August 2018.

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Debtors

Overall Assurance Rating: Comprehensive

This audit focused on the controls in operation over the debtors function of the Council, covering customers' accounts and adjustments to them, recovery and reconciliation processes.

From the 13 key controls evaluated in this audit review, all 13 were considered to provide adequate control and none contained weaknesses. This report did not contain any recommendations.

We were able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls were in place and operating effectively and risks against the achievement of objectives were well managed.

Main Accounting System 2017-18

Overall Assurance Rating: Comprehensive

This audit focused on the reconciliation process of the Council's bank accounts and key control account reconciliations..

From the 2 key controls evaluated in this audit review, 23 were considered to provide adequate control and 1 contained a weakness. This report contained 1 recommendation, which was considered to present a low risk. The following issue was considered to be the key control weakness:

1. Some reconciliations had not being completed in accordance with the predetermined frequency and within the stipulated deadline. (Low Risk)

he issue raised in this report was accepted and action had already been taken to address the issue raised by the end of the audit.

Back-up Policy

Overall Assurance Rating: Reasonable

This audit focused on the Council's backup policies and procedures, including a review of the physical security of the disaster recovery equipment and offsite backups located at Oakland's Village.

We were unable to provide assurances on a number of areas in the original audit scope, as evidence requested in the following areas was not provided to the auditor in an acceptable timeframe:

- Evidence that hardware maintenance agreements were in place for all equipment involved in the current backup operations (e.g. storage infrastructure and tape devices).
- Evidence that backup documentation exists, was accessible, and was maintained to reduce the impact on backup and restore operations when senior engineers were unavailable.
- Evidence that service level agreements existed, and performance monitoring was in operation for the 3rd parties responsibilities for offsite collection, transfer, storage and return of tape based backups.
- Evidence that risk assessments had been performed and documented on the ISP's (Internet service provider) redundancy in their backbone to minimise risks of construction work or natural disasters affecting the link between the Civic Offices and Oakland's' DR site, and therefore the offsite storage of backup files.

From the 24 key controls evaluated in this audit review, 11 were considered to provide adequate control and 13 contained weaknesses. This report contained 9 recommendations, 6 of which were considered to present a low risk and 3 was a moderate risk. Another minor risk issue was highlighted for management's consideration. The following issues were considered to be the key control weaknesses:

1. The Council had not documented a policy specific to backup and restore. We also found that the IT team had not been provided with recovery point and time objectives on which to design an appropriate backup strategy. (Low Risk)

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2. There was no daily checklist in operation to evidence that the relevant officers had successfully performed maintenance in relation to the tape backup process, meaning oversights may go undetected by management. (Low Risk)
3. There were not 3 recovery sources for backups of critical systems. Only hardware level replication between the primary and DR storage area networks (SAN) maintained copies of backup files for all virtual servers, leaving the Council vulnerable to a complete loss of recovery sources if there was major corruption issues replicated at the storage level between both storage area networks. (Moderate Risk)
4. A small number of servers in the network were not included in backup jobs. We also found that 3rd parties would need to be contacted to determine if this was an oversight, raising concerns around the documentation of backup requirements for all server assets. (Low Risk)
5. The Council was not periodically testing restores of backups for critical information systems and servers in line with a formal schedule. (Moderate Risk)
6. Default passwords were in operation on both the primary and DR storage area networks (SAN), making both devices highly vulnerable to unauthorised access with administrator level permissions. (Moderate Risk)
7. Management were not signing off backup selection lists as part of a scoping document, or as part of 'defining the business requirements' of the service which was resident on each of the Council's servers. (Low Risk)
8. A concerning number of failed backup jobs were reported in the backup servers audit logs. Discussions with the IT technical team found that software was somewhat unreliable and prone to regular failures leading to incomplete jobs or failed backup jobs. (Low Risk)
9. The existing backup software did not provide disaster recovery (replication) functionality. (Low Risk)

All 9 of the issues raised were accepted and positive actions had been taken to address one of the issues by the end of the audit. Another 2 of the issues were agreed to be addressed by the end of March 2018, 2 more by the end of April 2018, and the remaining 4 issues by the end of August 2018.

Tenants Arrears

Overall Assurance Rating: Reasonable

This audit focused on the rent recovery activities undertaken by the Council to ensure that outstanding income was being actively chased and that escalation activities were being appropriately taken.

From the 19 key controls evaluated in this audit review, 8 were considered to provide adequate control and 11 contained weaknesses. This report contained 6 recommendations, 4 of which were considered to present a low risk and 2 presenting a moderate risk. The following issues were considered to be the key control weaknesses:

1. The Income Management Policy had not been reviewed in line with criteria laid down in the policy itself. (Low Risk)
2. A number of procedure manuals were identified and there was confusion as to which procedures were current for the service. (Low Risk)
3. Fortnightly Case Reviews, which were in place under the Interim Housing Services Team Leader, had yet to recommence under the permanent Housing Services Team Leader. This was also the case for the displaying of rent arrears performance information in the Housing Office. (Moderate Risk)
4. Levels of indebtedness for tenants' arrears and information concerning recovery activities were not being reported to senior management and Members. (Moderate Risk)

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5. The six monthly procedure for reviewing and writing-off former tenants' arrears, where debts had proved to be irrecoverable, had not been undertaken since September 2016. (Low Risk)
6. There were a number of unnecessary codes in the Orchard Housing System for either the same or similar actions and some codes were not linked into the automated workflow processes. (Low Risk)

All 6 of the control issues raised within this report were accepted and positive action in respect to 1 moderate risk issue had already been taken. The other moderate risk issue was due to be addressed by 1st July 2018. For the 4 remaining low risk issues they were agreed to be addressed by 1st April 2018, 1st June 2018, 30th September 2018 and 31st December 2018 respectively.

South Derbyshire District Council – Audit Progress Report

RECOMMENDATION TRACKING

Highlighted Recommendations

The following outstanding recommendations are detailed for Committee's scrutiny.

Corporate Resources

Risk Management

Control Issue 4 – Although the FIU Annual Report acted as a Fraud Plan and an Internal Audit Plan was developed on an annual basis, there was not a clear link between the two, and officers working in the Fraud Investigation Unit indicated that there was opportunity for closer working with Internal Audit.

Risk Rating – Low Risk

Status Update – The DCC Fraud Service is in place but have yet to develop formal plans. Agreement between SDDC and Internal Audit that this will be picked up for the 2018-19 planning cycle to allow the Fraud Service an opportunity to develop a longer term plan and then align this with the work of Internal Audit. Fraud work stream within CMAP will also provide a closer link between Internal Audit and Counter Fraud team. The partnership is drawing up a fraud plan but it needs to dovetail with the IA plan.

Original Action Date 31 Dec 15 **Revised Action Date** 27 Apr 18

Information@Work

Control Issue 8 – The page verification on a number of databases, including the live Images database, was TORN_PAGE_VERIFICATION. To effectively identify and deal with database corruption before the Council faces potential data loss situations, it is recommended that this configuration is set to CHECKSUM.

Risk Rating – Low Risk

Status Update – The 3rd party DBA support have been contacted for advice on how to apply.

Original Action Date 31 Oct 16 **Revised Action Date** 30 Mar 18

NDR 2016-17

Control Issue 1 – NDR procedures were aged and mixed with Council Tax documents.

Risk Rating – Low Risk

Status Update Started to review the procedures, but task is not completed yet: annual billing and other projects are priority at the moment, so will not be done before end of the financial year.

Original Action Date 31 Dec 17 **Revised Action Date** 30 Apr 18

Control Issue 4 – Accounts put on hold were not being regularly reviewed and holds were not being removed where no longer required.

Risk Rating – Low Risk

Status Update High value accounts on hold have been reviewed, and appropriate action taken. However, a formal process for undertaking the review on a regular basis has not been introduced: this is due to a delay in restructuring within the team and an intention to split liability order and post liability order work.

Original Action Date 30 Sep 17 **Revised Action Date** 30 Apr 18

South Derbyshire District Council – Audit Progress Report

Housing Benefit & Council Tax Support 2016-17

Control Issue 1 – The Council was not using all available exception reports in the Academy system to highlight potential areas of error and fraud.

Risk Rating – Low Risk

Status Update Implementation was subject to a Team restructuring that has been delayed (JEQs and grades only agreed in Nov 17).

Original Action Date 30 Nov 17 **Revised Action Date** 30 Mar 18

Control Issue 2 – Recovery rates quoted in the Housing and Council Tax Benefits Overpayments leaflet were out-of-date.

Risk Rating – Low Risk

Status Update Implementation was subject to a Team restructuring that has been delayed (JEQs and grades only agreed in Nov 17).

Original Action Date 30 Nov 17 **Revised Action Date** 30 Mar 18

Control Issue 3 – The Council was failing to pursue Housing Benefit overpayments in an efficient and timely manner which could contribute to the failure to recover money that it was owed.

Risk Rating – Moderate Risk

Status Update Implementation was subject to a Team restructuring that has been delayed (JEQs and grades only agreed in Nov 17).

Original Action Date 30 Nov 17 **Revised Action Date** 30 Mar 18

Council Tax 2016-17

Control Issue 2 – Older postings to the suspense accounts were not being resolved resulting in inaccurate data being held in the system.

Risk Rating – Low Risk

Status Update Date extended to the end of the year - majority are miscoded DWP payments so need to wait until year-end to resolve which are still due and which are not.

Original Action Date 30 Sep 17 **Revised Action Date** 31 Mar 18

Control Issue 3 – Supervisory checks on transactions which moved monies out of the suspense account were not being carried out on a regular basis.

Risk Rating – Low Risk

Status Update Checks undertaken to show balances still remaining in suspense account and showing year by year breakdown for clarification, removing the transactions which are remaining. However these are still to be balanced by my team member, with the amounts showing in the suspense account and also cross referenced with the 'suspense action transactional record' spreadsheet.

Original Action Date 31 Dec 17 **Revised Action Date** 31 May 18

Client Monitoring – Information Governance

Control Issue 2 – The Information Governance function was still being determined within the Council.

Risk Rating – Moderate Risk

Status Update – Substantial progress has been made with Derby (acting as support service to the Council) having undertaken a detailed assessment ahead of the new Data Protection Regulations in May 2018. Consequently, an action plan is currently being worked through to prepare the Council with a draft agreement being considered for a shared service arrangement.

Original Action Date 30 Nov 17 **Revised Action Date** 25 May 18

South Derbyshire District Council – Audit Progress Report

Economic & Central Services

Land Charges

Control Issue 2 – Completed applications for Land Charges searches were not stored in a secure filing environment, but in a storeroom with free access to officers from other departments and in the Land Charges office which was not locked when not in use.

Risk Rating – Low Risk

Status Update – Current Searches - There is a lockable store cupboard within LLC office for securely storing live searches overnight. Completed Searches - We are in the process of moving all archived searches into a secure store room. This is an on-going process due to the amount of files and limited staff resource for this somewhat dirty and weighty task. We aim to have moved all the files within the next three months

Original Action Date 24 Dec 17 **Revised Action Date** 30 Apr 18

Service Delivery

Leisure Centres

Control Issue 1 – The Contractor had not included all the areas which it was responsible for maintaining within the planned preventative maintenance schedule and this had not been highlighted by the Council.

Risk Rating – Moderate Risk

Status Update – Discussed at contract meeting. Transition to WAM system more labour intensive than originally envisaged. Now expecting completion in April.

Original Action Date 1 Oct 17 **Revised Action Date** 30 Apr 18

Control Issue 2 – The Council had not undertaken inspections on the exterior fabric of the building as per the contract summary of maintenance responsibilities.

Risk Rating – Moderate Risk

Status Update – The long term future of the Public Building Officer post has still not been settled and an interim arrangement with a housing office picking up related duties put in place. This officer has been contacted with a view to them undertaking the inspections pending settlement of the longer term arrangements with this post.

Original Action Date 1 Oct 17 **Revised Action Date** 1 Apr 18

Control Issue 4 – Repairs and maintenance issues were being recorded in different places with no central register bringing all the issues together.

Risk Rating – Low Risk

Status Update – Active Nation are still working on transition to WAM, large amount of data to enter. Matter discussed at contract meetings. Suggest revised date of end of Mar 2018.

Original Action Date 1 Oct 17 **Revised Action Date** 31 Mar 18

South Derbyshire District Council – Audit Progress Report

Parks & Open Spaces

Control Issue 1 – Comprehensive risk assessments of play equipment were not available for inspection. A limited number of non-descript risk assessments were located with play equipment listed as a hazard, suggesting that risk assessments had not been completed for all playgrounds and equipment across the district.

Risk Rating – **Moderate Risk**

Status Update – Due to officer departure from the Council, we don't believe any action has been taken to date so deadline will need moving back probably to end March for now. We now have an interim 3 day replacement and will be convening to discuss how we take the audit recommendations forward.

Original Action Date 31 Dec 17 **Revised Action Date** 31 Mar 18

Whistleblowing Investigation 2

Control Issue 2 – A formal process was not being followed for extending Housing Contracts.

Risk Rating – **Low Risk**

Status Update - Anything that Housing had in place has now effectively been superseded. There is now a corporate process in place with the new Procurement Service. However, since the Audit, there hasn't, until now, been a requirement to review a contract with a view to it being extended. However, at the moment, a review into extending the General Maintenance Contract is being undertaken and Procurement has been asked that they share the process when this exercise has been completed as practical evidence to show how it works and how it is all documented.

Original Action Date 1 Sep 17 **Revised Action Date** 30 Apr 18

Housing Contracts Review

Control Issue 7 – Procurement Checklists were not being completed to ensure that the required procurement processes were being undertaken.

Risk Rating – **Low Risk**

Status Update – A Procurement Checklist has been trialled by the new Procurement Service, but it is far too onerous for the Council's needs as it includes detail which is not thought to be relevant for the Council's purposes at this stage. It may only be necessary for works above £10k but below £25k. Procurement has been asked to streamline it and provide what would be a bespoke document for South Derbyshire. This will be trialled before approving.

Original Action Date 26 Jan 18 **Revised Action Date** 30 Mar 18

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 9
DATE OF MEETING:	21st MARCH 2018	CATEGORY: RECOMMENDED
REPORT FROM:	EXTERNAL AUDITOR	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/EY/audit plan cover
SUBJECT:	AUDIT PLANNING REPORT FOR THE YEAR ENDING 31st MARCH 2018	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 01

1.0 Recommendations

- 1.1 That the proposed Audit Plan for the year ending 31st March 2018 is considered and the proposed approach to undertaking audit work for the year is approved.

2.0 Purpose of Report

- 2.1 For Ernst and Young LLP, as the Council's appointed auditors, to present their Audit Plan and approach for the year ending 31st March 2018.

3.0 Detail

- 3.1 The Audit Plan sets out how the Council intends to carry out their responsibilities as auditor. Its purpose is to provide the Committee with a basis to review their proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.
- 3.2 It is also to ensure that the audit is aligned with the Committee's service expectations.
- 3.3 The Plan summarises the Auditor's initial assessment of the key risks driving the development of an effective audit for the Council and outlines planned audit strategy in response to those risks.

4.0 Financial Implications

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

5.0 Corporate Implications

5.1 None directly.

6.0 Community Implications

6.1 None directly.

7.0 Background Papers

None



South Derbyshire District Council Audit planning report

Year ended 31 March 2018

21 March 2018



Private and Confidential

21 March 2018

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

Dear Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Sub-Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

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

We welcome the opportunity to discuss this report with you on 21 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Steve Clark

For and on behalf of Ernst & Young LLP

Enc

Contents



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



01

Overview of our 2017/18 audit strategy



Overview of our 2017/18 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk/ Significant risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of revenue and expenditure revenue recognition. The risk is focused on the year-end balance sheet, specifically the completeness and valuation of payables and existence and valuation of receivables.
Risk of management override	Fraud risk/ Significant risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. The risk is focused around items of income and expenditure that are non-routine and involve management judgement and estimation to determine items such as accruals and provisions.
Valuation of Property Plant and equipment	Other financial statements risk	No change in risk or focus	PPE accounts for a significant proportion of the Council's assets (£143m at 31 March 2017). The valuation of land and buildings is subject to a number of assumptions and judgements, which if inappropriate, could increase the risk of a material impact on the financial statements.
Valuation of the Pension liability	Other financial statements risk	No change in risk or focus	<p>Funding of the Council's participation in the local government pension scheme will continue to have an impact on both its cash flows and the liability in the balance sheet.</p> <p>The pension fund liability at 31 March 2017 totalled £32,895m and is the most significant liability on the balance sheet.</p> <p>The estimation of the defined benefit obligations, are subject to a sensitive range of assumptions, such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. A small movement in these assumptions could have a material impact on the valuation in the balance sheet.</p>

Overview of our 2017/18 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of South Derbyshire District Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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



02

Audit risks



Our response to significant risks

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

Risk of fraud in revenue and expenditure recognition	What is the risk?	Our audit approach
<p>Financial statement impact</p> <p>Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure account. Total gross service expenditure in the 2016/17 financial statements totalled £45m.</p> <p>We consider that the risk impacts on the following account balances.</p> <ul style="list-style-type: none"> • Year-end trade receivables and payables and the calculation of estimates, accruals and provisions which impact on the completeness and valuation assertions. • The completeness of other income and operating expenditure. 	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>Due to the nature and value of income which comprises of Government Grants, income from council tax, business rates, housing rents and fees and charges, our view is that the risk is not significant in this area, but is relevant to the completeness of other income and other expenditure.</p> <p>.</p>	<p>We will</p> <ul style="list-style-type: none"> • Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding. • Review and discuss the management any accounting estimates on revenue or expenditure recognition for evidence of bias. • Sample testing material revenue and expenditure streams • Sample test accruals and provisions based on established testing thresholds; • Review and test cut-off at the period end date; and • Perform a search for unrecorded trade payables at period year.

Our response to significant risks (continued)

Risk of management override of controls	What is the risk?	Our audit approach
<p>Financial statement impact</p> <p>We consider that the risk impacts on the following balances in the financial statements:</p> <ul style="list-style-type: none"> • Year-end trade payables and the calculation of estimates, accruals and provisions which impacts on the completeness and valuation assertions. • Operating expenditure impacting on the completeness assertion. • The accounting adjustments processed and disclosed in the movement in reserves statements and supporting notes. 	<p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>We consider the risk most focussed around items of expenditure that are non-routine and involve management's judgement and estimation to determine items such as year-end accruals and provisions.</p> <p>We also consider the risk to manifest in the potential to inappropriately capitalise revenue spend.</p>	<p>We will</p> <ul style="list-style-type: none"> ▪ Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding. ▪ Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▪ Review the calculation of management's accruals, estimates and provisions for evidence of management bias; ▪ Evaluate the business rationale for significant unusual transactions ▪ Understand the oversight given by those charged with governance of management process over fraud; ▪ Sample test accruals and provisions based on established testing thresholds; ▪ Review capital expenditure on property plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. ▪ Review the accounting adjustments processed in the movement in reserves to ensure consistency with other supporting disclosure notes.

Other areas of audit focus

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

What is the risk/ area of focus?	Our audit approach
<p>Valuation of Property, Plant and Equipment</p> <p>The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▪ Test the revaluation cycle, including instructions and completeness of information provided to the Council's external valuer ▪ Review the classification of assets and assess how the Council has determined that the correct valuation methodology has been applied by the expert ▪ Consider the approach adopted by the external valuer and their findings
<p>Valuation of Pension Liability</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The pension liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions could have a material impact on the balance sheet.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▪ Review the output of the report from the Administering Council's actuary ▪ Review the assumptions used by the actuary to determine whether they are in our expected range ▪ Test the journal entries for the pensions transactions to check that they have been accurately processed in the financial statements

Other areas of audit focus

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

What is the risk/ area of focus?	What will we do?
<p>Earlier deadline for production of the financial statements</p> <p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.</p> <p>These changes provide risks for both the preparers and the auditors of the financial statements.</p> <p>The Council now has less time to prepare the financial statements and supporting working papers. As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.</p> <p>To mitigate this risk we will require:</p> <ul style="list-style-type: none"> ▪ good quality draft financial statements and supporting working papers by the agreed deadline; ▪ appropriate Council staff to be available throughout the agreed audit period; and ▪ complete and prompt responses to audit questions. <p>If you are unable to meet key dates within our agreed timetable, we will need to be notified at the earliest opportunity in order that we can review and discuss with you the timing of the audit.</p> <p>Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▪ Work with the Council to engage early to facilitate early substantive testing where appropriate. ▪ Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed. ▪ Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year. ▪ Work with the Council to implement EY Client Portal, this will: <ul style="list-style-type: none"> • Streamline our audit requests through a reduction of emails and improved means of communication; • Provide on-demand visibility into the status of audit requests and the overall audit status; • Reduce risk of duplicate requests; and • Provide better security of sensitive data. ▪ Agree the team and timing of each element of our work with you. ▪ Agree the supporting working papers that we require to complete our audit.



03

Value for Money Risks





Value for Money

Background

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

For 2017/18 this is based on the overall evaluation criterion:

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

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

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

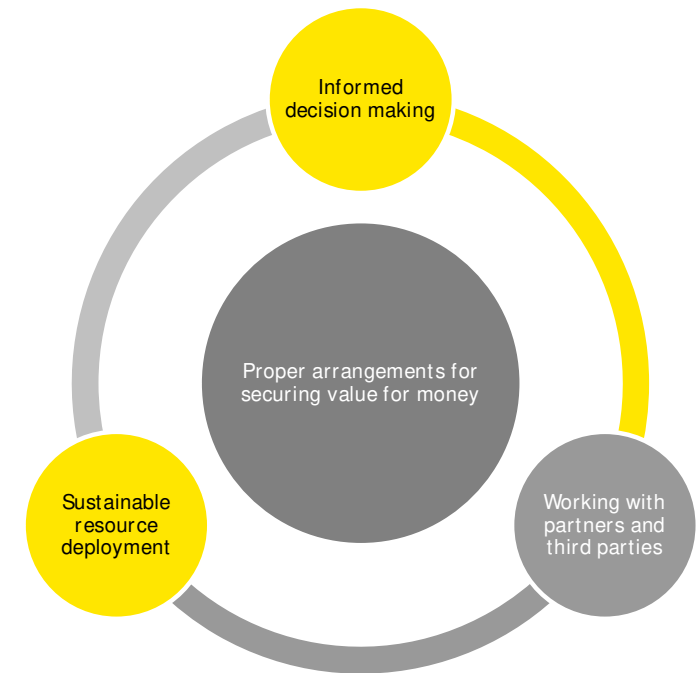
In considering your proper arrangements, we will draw on the requirements of the CIPFA/ SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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

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

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

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





Value for Money Risk

What is the significant value for money risk?	What arrangements does the risk affect?	Our audit approach
Securing financial resilience	<p>From the medium term financial plan, updated in January 2018, the Council has identified it will experience budget deficits from 2018/19 to 2022/23 with the general fund depleting from £9.1m to £2.7m but remaining above the £1m minimum level.</p> <p>Going forward the Council will need to continue to scrutinise its financial plans to achieve budget savings of £1m in 2019/20.</p>	<p>We will focus on:</p> <ul style="list-style-type: none">▪ Reviewing the MTFS including the adequacy of major assumptions▪ Reviewing the Council's arrangements to develop a robust savings plan to address the future financial challenges.
Procurement and related contract issues in the Housing and Environment Services Directorate	<p>In our 2016/17 Audit Results Report, we reported that the value for money conclusion was qualified on the basis the Housing and Environment Services Directorate had control weaknesses in its procurement and contract management arrangements which included having significant service contracts unsigned. As the Council started to implement recommendations part way through 2017/18, we have determined that the risk in this area remains relevant for the financial year.</p>	<p>We will focus on;</p> <ul style="list-style-type: none">▪ Reviewing the outcomes of the work undertaken by Internal Audit to establish if the recommendations have been fully implemented by management▪ Understanding, if there are any incomplete recommendations, the extent of and impact they have on system of internal control and managements plans to address them▪ Review the adequacy of managements governance arrangements to move to a shared procurement service.

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

04

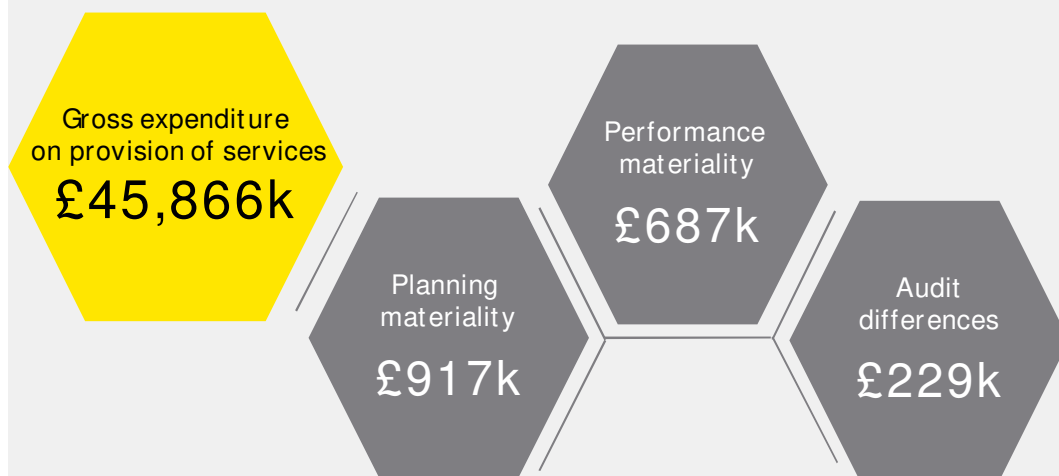
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £917k. This represents 2% of the Council's budgeted gross expenditure on provision of services. It will be reassessed throughout the audit process. This basis and percentage is in line with the materiality levels in the prior period audit. We have provided supplemental information about audit materiality in Appendix D.



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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £687k which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection that have an effect on income or that relate to other comprehensive income.

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

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

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



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

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

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

Procedures required by standards

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

Procedures required by the Code

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

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

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

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

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



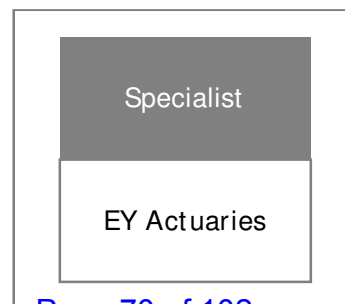
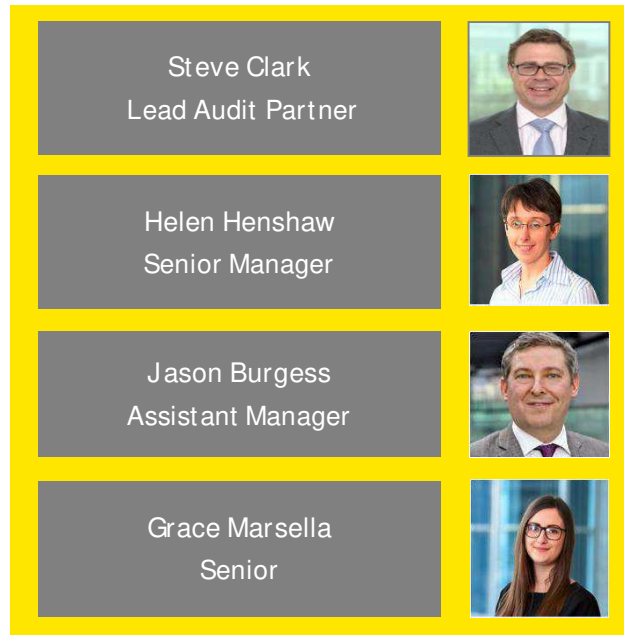
06

Audit team



Audit team

Audit team structure:



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* Key Audit Partner

Use of specialists

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

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

Area	Specialists
Valuation of land and buildings	Council's external valuer
Pensions	PSAA consulting actuary and the actuary of the Derbyshire Pension Fund

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

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

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



07

Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

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

Audit phase	Timetable	Audit Sub-Committee timetable	Deliverables
Planning:	January 2018	21 March 2018	2017/18 Audit Planning Report
Risk assessment and setting of scopes. Interim audit which includes early substantive testing and Walkthrough of key systems and processes.	February 2018		
	March 2018	21 March 2018	Interim audit update
	May 2018	30 May 2018	Q1 Local Government Sector briefing Q2 Local Government Sector briefing
Year end audit	June 2018		
Year end audit Audit Completion procedures	July 2018	25 July 2018	Audit Results Report to those charged with governance Audit report (including our opinion on the financial statements and overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return
Conclusion of reporting	Sept/ Oct 2018	To be presented to Full Council. Date TBC.	Annual Audit Letter.



08

Independence



Introduction

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

Required communications

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

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

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no self interest threats.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved and that are in compliance with PSAA Terms of Appointment –if applicable.

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

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

Relationships, services and related threats and safeguards

Self review threats

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

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

Management threats

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

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

Other threats

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

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

Other communications

EY Transparency Report 2017

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017>

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09

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee – Code work	49,275	49,275	* 57,264
Total audit	49,275	49,275	* 57,264
Certification of claims and returns	15,190	15,190	* 20,871
Total other non-audit services	15,190	15,190	* 20,871
Total fees	65,588	65,588	* 78,135

All fees exclude VAT

* We have proposed a variation of £7,989 to the planned code work fee as a result of additional procedures undertaken to address the significant risk identified for the value for money conclusion and £5,681 for additional testing required to complete the certification of the Housing Benefit claim.

All fee variations are subject to approval by PSAA.

The agreed fee presented is based on the following assumptions:

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

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

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




Regulatory update

In previous reports to the Audit Committee, we highlighted the issue of regulatory developments. The following table summarises progress on implementation:




Earlier deadline for production and audit of the financial statements from 2017/18	
Proposed effective date	Effective for annual periods beginning on or after 1 April 2017.
Details	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May 2018 and the publication of the audited accounts by 31 July 2018.
Impact on South Derbyshire District Council	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>We held a faster close workshop for clients on in November 2017 to facilitate early discussion and sharing of ideas and good practice.</p> <p>We are now working with the Council on ideas coming from the workshop, for example:</p> <ul style="list-style-type: none"> • Streamlining the Statement of Accounts removing all non-material disclosure notes; • Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations; • Providing training to departmental finance staff regarding the requirements and implications of earlier closedown; • Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure; • Establishing and agreeing working materiality amounts with the auditors.

Required communications with the Audit Committee

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

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Sub-Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report (March 2018)
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report (July 2018)

Required communications with the Audit Committee (continued)





		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit results report (July 2018)
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report (July 2018)
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit Sub-Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit results report (July 2018)
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations Page 82 of 102 • Difficulty in identifying the party that ultimately controls the entity 	Audit results report (July 2018)

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Planning Report (March 2018)</p> <p>Audit Results Report (July 2018)</p>
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report (July 2018)
Consideration of laws and regulations	<ul style="list-style-type: none"> • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit Sub-Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Sub-Committee may be aware of 	Audit results report (July 2018)
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	Audit results report (July 2018)

Appendix C

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Representations	Written representations we are requesting from management and/ or those charged with governance	Audit results report (July 2018)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report (July 2018)
Auditors report	<ul style="list-style-type: none"> Key audit matters that we will include in our auditor's report Any circumstances identified that affect the form and content of our auditor's report 	Audit results report (July 2018)
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report (March 2018) Audit results report (July 2018) Annual Audit Letter (Sept/Oct 2018)
Certification work	Summary of certification work undertaken	Certification report (Early 2019)

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

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

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

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 10
DATE OF MEETING:	21st MARCH 2018	CATEGORY: RECOMMENDED
REPORT FROM:	INTERNAL AUDIT MANAGER	OPEN
MEMBERS' CONTACT POINT:	ADRIAN MANIFOLD (01332 643281) Adrian.manifold@centralmidlandsaudit.com	DOC: u/ks/internal audit/derby city/annual plans/covering report
SUBJECT:	PROPOSED INTERNAL AUDIT PLAN 2018-19 and AUDIT CHARTER	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 02

1.0 Recommendations

- 1.1 That the proposed Internal Audit Plan for 2018-19 is considered and approved for implementation, subject to any changes agreed by the Committee.
- 1.2 That the Audit Charter is approved.

2.0 Purpose of Report

- 2.1 To consider the proposed Audit Plan for 2018/19. This is in accordance with the Public Sector Internal Audit Standards (PSIAS) which requires Internal Audit to develop a risk-based plan to direct their work in the forthcoming financial year.

3.0 Detail

- 3.1 The Plan has been drawn up by the Audit Manager. This follows consultation with the Council's Leadership Team and Senior Managers representing all service areas. The Plan details where audit are proposing to allocate their resources over the financial year 2018-19.
- 3.2 This includes an assessment of the Council's risk areas which helps to inform how audit will allocate resources. The allocation is also based on regulatory requirements to review key financial systems each year.
- 3.3 The Plan also details the audit approach and coverage that the Council can expect from the Internal Audit Service. The Audit Sub Committee is requested to consider priorities and the proposed allocation of audit resources for 2018/19.

4.0 Financial Implications

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

5.0 Corporate Implications

- 5.1 The proposed Audit Plan will cover a range of services across the Council during 2018/19.

6.0 Community Implications

- 6.1 None directly.

7.0 Background Papers

- 7.1 None

South Derbyshire District Council – Internal Audit Plan 2018-19 & Audit Charter

Audit Sub-Committee: 21st March 2018



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Our Vision

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

Contacts

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central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

Introduction

Purpose of Report

The purpose of this report is for the Audit Sub-Committee to approve the Internal Audit Charter and Annual Internal Audit Plan for 2018-19.

Role of Internal Audit

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

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

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

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

The Three Lines of Defense Model



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

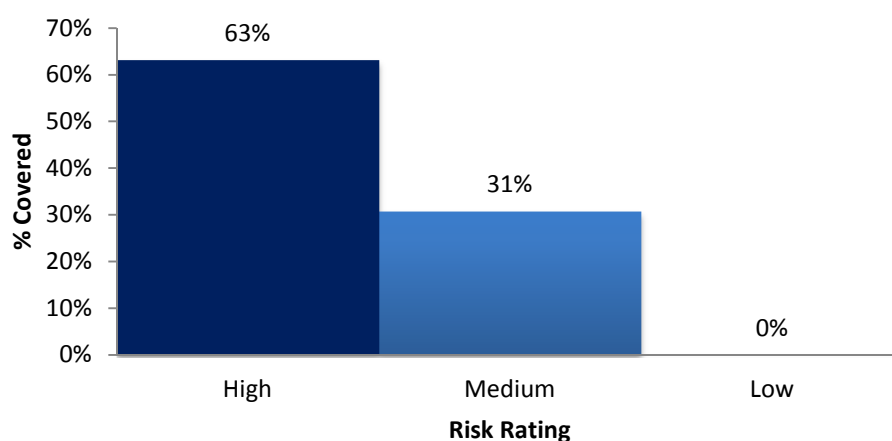
Internal Audit Plan

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

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

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

2018-19 Coverage of Auditable Areas by Risk Rating Category



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

Internal Audit Charter

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

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

Approach to Audit Planning

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

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

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

Once the scores for each of the 73 auditable areas identified have been input to the risk model, along with the date when the area was last audited, the risk model will automatically generate a plan of suggested audit coverage. Senior management are consulted on the proposed plan and their views are taken account of before producing the final, ranked list of areas to audit. This year's risk assessment identified 19 High risk areas, 52 Medium risk areas and 2 Low risk areas.

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

Types of Audit Work

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

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

Control categories with examples

Preventive Segregation of duties, access controls, authorisation	Detective Exception Reports, reconciliations, control totals, error reports	Directive Accounting manuals, documented procedures, training and supervision	Corrective Error, incident and complaint handling, virus isolation				
Segregation of Duties Division of duties between the appointment and payment of staff	Organisational Budgets, Performance taregts and KPI's	Authorisation Authority Levels, spending limits, passwords and user ID	Personnel Recruitment and selection, staff appraisal procedures	Supervision Day-to-day oversight of staff and physical activities	Physical Door entry systems, restricted access to files	Accounting Control account and bank reconciliation	Management Team meetings and briefings, CRSA

Source: Chartered Institute of Internal Auditors – Resources – **Control**

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

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

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

South Derbyshire District Council – Audit Plan 2018-19

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

Client Support Work

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

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

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

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

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

Brought Forward Jobs - A number of incomplete audits from the 2017-18 Audit Plan will need to be concluded in 2018-19.



South Derbyshire District Council – Audit Plan 2018-19

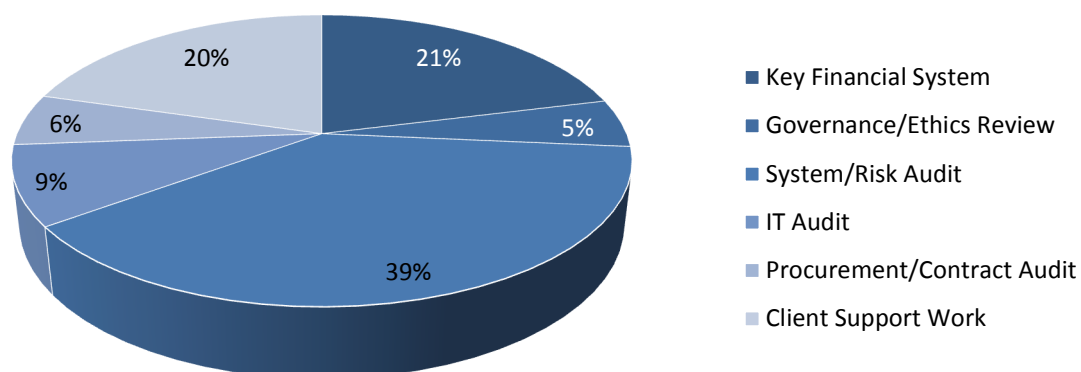
Appendix A - Audit Plan Detail

Our risk assessment of the organisation activities, in consultation with senior management, has concluded that the following audits will be undertaken in 2018-19:

Audit Plan Assignments	Risk Rating	Indicative Quarter
Key Financial Systems Reviews		
Treasury Management	High	Q4
Insurance	Medium	Q1
Payroll	High	Q3/Q4
Creditors	High	Q3/Q4
Council Tax	High	Q4
NDR	High	Q4
Housing Benefit & Council Tax Support	High	Q3
Governance/Ethics Reviews		
Data Protection & Freedom of Information	Medium	Q2
Corporate Governance	Medium	Q3/Q4
System/Risk Reviews		
Records Management	Medium	Q2
Waste Management	High	Q1
Fleet Management	Medium	Q4
Street Cleansing	Medium	Q1/Q2
Section 106 Agreements	Medium	Q1
Development Control	Medium	Q3
Pollution Control	Medium	Q1
Food Safety	Medium	Q4
Sport & Health Funding	Medium	Q4
Rosliston Forestry Centre	High	Q3
Gas/Electric/Asbestos/Legionella/Fire Inspections	High	Q1/Q2
Allocations & Homelessness	Medium	Q2
Sheltered Housing / Careline	Medium	Q2
Community Safety Partnership	Medium	Q1
IT Audit Reviews		
PCI Compliance	Medium	Q2/Q3
IT Applications	High	Q3
IT Infrastructure	High	Q3
Procurement/Contract Reviews		
Capital Programme	Medium	Q3
Housing Repairs (Planned & Responsive Maintenance)	High	Q2/Q3

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

Audit Plan 2018-19 per Type of Audit



Appendix B - Audit Charter

Purpose & Mission

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

Standards for the Professional Practice of Internal Auditing

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

Authority

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

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

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

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

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

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

Independence & Objectivity

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

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

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

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

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

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.

- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

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

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

Scope of Internal Audit Activities

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

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

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

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

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

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

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

Responsibility

The Audit Manager has the responsibility to:

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

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

Quality Assurance & Improvement Programme (QAIP)

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

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



Central Midlands
Audit Partnership