

17th July 2018

Dear Councillor,

Audit-Sub Committee

A Meeting of the **Audit-Sub Committee** will be held in the **Council Chamber (Special)**, on **Wednesday, 25 July 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 note any declarations of interest arising from any items on the Agenda
- 3** To receive any questions by members of the public pursuant to Council Procedure Rule No.10.
- 4** To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 5** AUDIT RESULTS REPORT FOR THE YEAR ENDING 31st MARCH 2018 **3 - 53**
- 6** INTERNAL AUDIT PROGRESS REPORT **54 - 72**
- 7** COMMITTEE WORK PROGRAMME **73 - 76**

Exclusion of the Public and Press:

- 8** 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.
- 9** To receive any Exempt questions by Members of the Council pursuant to Council procedure Rule No. 11.

REPORT TO:	AUDIT SUB COMMITTEE: SPECIAL	AGENDA ITEM: 5
DATE OF MEETING:	25th JULY 2018	CATEGORY: RECOMMENDED
REPORT FROM:	STRATEGIC DIRECTOR CORPORATE RESOURCES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) Kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/accounts/final accounts 1718/ISO Report July 2018
SUBJECT:	AUDIT RESULTS REPORT FOR THE YEAR ENDING 31st MARCH 2018	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 05

1.0 Recommendations

1.1 That the report of the External Auditor is considered and noted.

2.0 Purpose of Report

2.1 For Ernst and Young (EY) as the Council's appointed auditors, to present their statutory annual report on the Council's Accounts and Financial Statements for the financial year 2017/18. This is in accordance with their duty to report their findings to management and those charged with governance under International Auditing Standard (ISA) 260.

3.0 Detail

3.1 The Auditor's report is contained in a separate document. Audit Managers of EY will attend the meeting and present their report to the Committee.

3.2 In summary, the report provides details on, together with any issues arising from, the Audit of the Council's Accounts, Financial Statements and its governance arrangements for 2017/18.

3.3 The report provides an opinion on the Council's Accounts. Subject to any issues remaining unresolved and after consideration by the Committee, the Accounts and Financial Statements themselves will be presented to the Finance and Management Committee on 26th July 2018 for formal adoption and publication.

Value for Money

- 3.4 In addition, the Auditor is also required to consider whether the Council has put in place “proper arrangements to secure economy, efficiency and effectiveness on its use of resources.” overall value for money arrangements at the Council.

Letter of Representation

- 3.5 At the end of the Audit, the Council is required to provide a Letter of Representation. This is included in the Auditor’s report. It requires the Council’s Chief Finance (Section 151) Officer to provide assurances about the status of the accounts and financial statements.
- 3.6 It also confirms that the appropriate law, regulations and codes of practice have been complied with and that no irregularities exist that could have a material effect on the financial statements.
- 3.7 Essentially, it confirms that there are no material issues or transactions known, other than those already reported and disclosed that could materially affect the accounts for 2017/18.
- 3.8 Following this and subject to any issues raised, the Section 151 Officer will officially sign the letter to finalise the Audit work for the year.

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

None

**South Derbyshire
District Council
Audit results report**

Year ended 31 March 2018

19 July 2018



Private and Confidential

19 July 2018

Dear Audit-Sub Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of South Derbyshire District Council for 2017/18.

We have substantially completed our audit of South Derbyshire District Council for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 4, before the statutory deadline of 31 July 2018.

We are reporting a number of matters about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit-Sub Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report or any other issues with you at the Audit-Sub Committee meeting on 25 July 2018.

Yours faithfully

Stephen Clark
Partner

For and on behalf of Ernst & Young LLP

Encl

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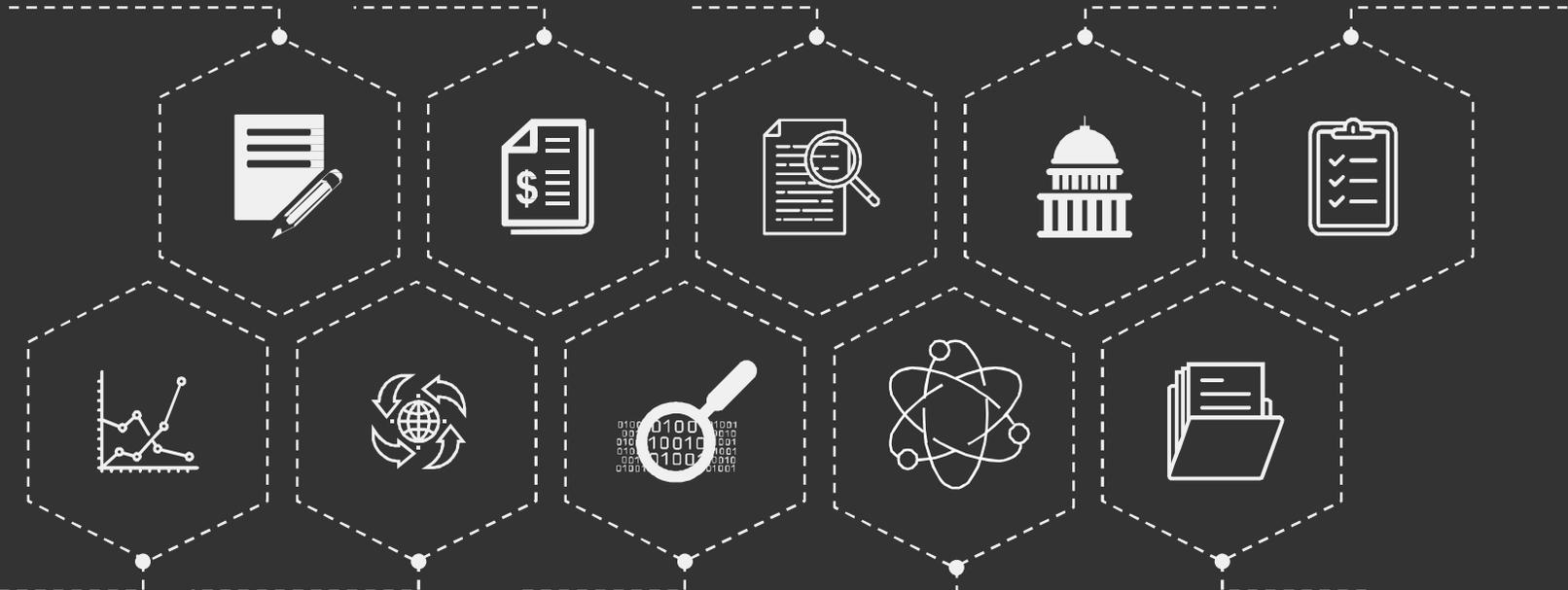
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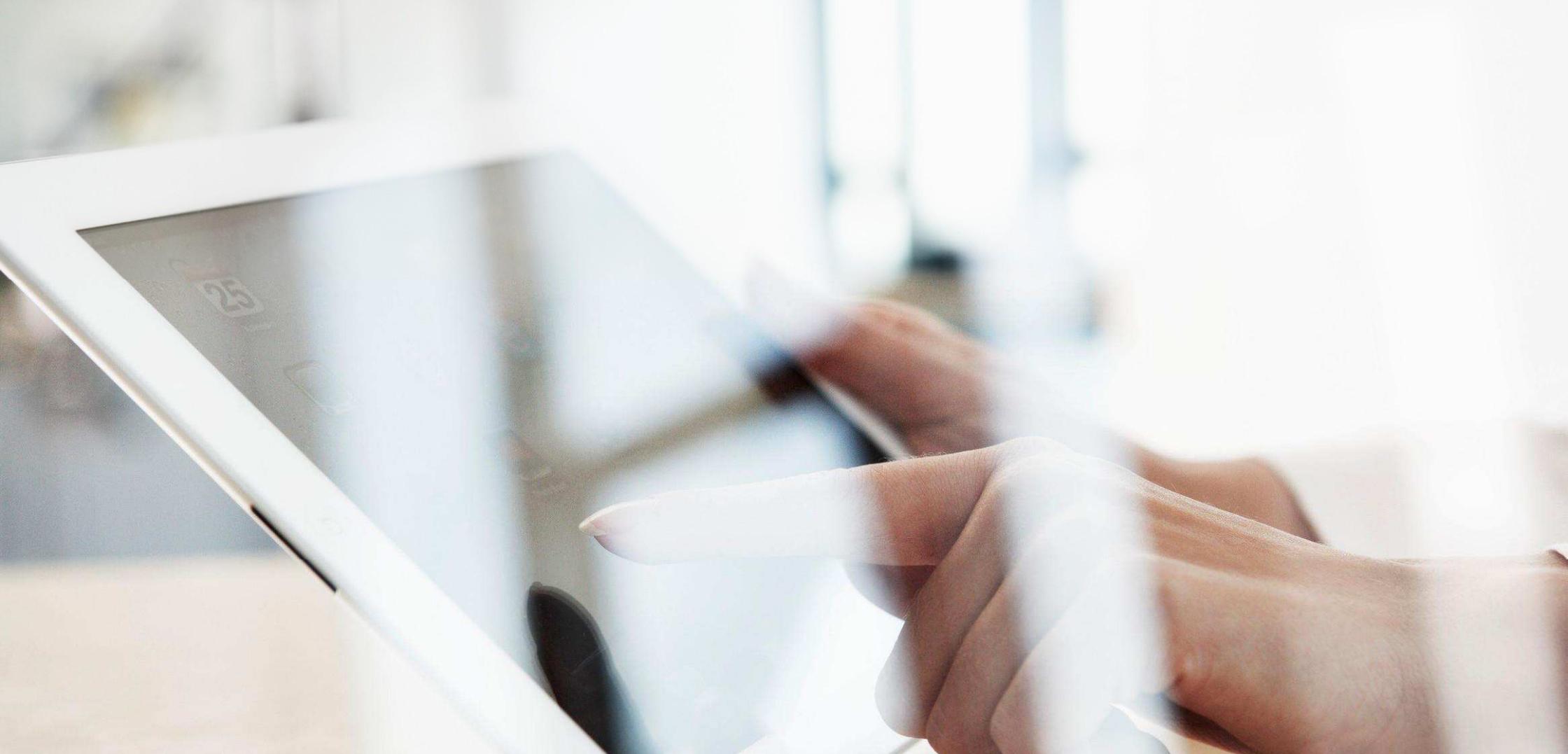
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11 Appendices

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



01

Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 21 March 2018 Audit-Sub Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality
- We planned our procedures using materiality of £917k. We have reassessed this using 2% of the actual year-end gross revenue expenditure and updated our materiality threshold to £940k. The threshold for reporting differences has increased to £235k.

Status of the audit

We have substantially completed our audit of South Derbyshire District Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

Follow up of queries for testing of operating expenditure

Completion of expenditure testing of the Housing Revenue Account and agreement of the income feeder

Completion of Grant income testing

Follow up of queries for both debtors and creditors

Receipt of third party confirmations for investments and bank disclosure

Complete the assessment of going concern

Property plant and equipment - completion of our procedures with respect to the valuations work

Whole of Government Accounts (WGA) completion of procedures required by the National Audit Office (NAO)

Management letter of representation

Completion of subsequent events enquiries

Review of all immaterial disclosure notes

Review of the final version of the financial statements

We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

We identified a number of unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit-Sub Committee and included in the Letter of Representation.

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We have also identified audit differences with which have been adjusted by management. Details of the audit differences can be found in Section 4.

Executive Summary

Audit differences (continued)

We wish to draw Audit-Sub Committee's attention to two issues which are currently ongoing;

1. In section 4 we reported the error for treatment of the Council Tax and Non-Domestic Rates debtors, The bad debt provision of £3,650k and £3,887k, respectively had seen the provision incorrectly treated resulting in debtor and creditor balances for both Council Tax and Non-Domestic Rates being overstated. The provision should have reduced the debtors for both balances. We are currently reviewing if the error requires a prior period adjustment for 2016/17 and also 2015/16.
2. Our testing for the completeness of liabilities in 2017/18 has identified that a refund of £500k was made in 2018/19 but related to 2017/18. We have confirmed no accrual was made for this expenditure in the collection fund. We are currently undertaking further testing to establish if there are any further transactions which not have been accounted for in 2017/18.

We will update the Audit-Sub Committee on 25 July 2018 with the results on the above matters.

Objections

We have not received any objections to the 2017/18 accounts from members of the public.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of South Derbyshire' District Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit-Sub Committee.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. During the performance of our substantive procedures we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risks:

What is the significant value for money risk?	What arrangements does the risk affect?	Our audit approach
<p>Securing financial resilience</p>	<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.
<p>Procurement and related contract issues in the Housing and Environment Services Directorate</p>	<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.



Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the South Derbyshire District Council.

We have still to complete our submission of the Whole of Government Accounts to the National Audit Office . We do not anticipate any matters to highlight to you.

We have no other matters to report.

Independence

Please refer to Section 9 for our update on Independence.



02

Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

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

What judgements are we focused on?

We are focused on whether the income and expenditure has been recorded in the appropriate financial year. Items spanning financial year end are at greater risk of inappropriate recognition due to either deliberate manipulation of financial reporting or human error when closing down the financial statements under tight deadlines.

What did we do?

- We documented our understanding of the processes and controls in place to mitigate the risks identified, and walked through those processes and controls to confirm our understanding.
- We reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias.
- We sample tested material revenue and expenditure streams
- We sampled tested accruals and provisions based on established testing thresholds;
- We reviewed and test cut-off at the period end date; and
- We performed a search for unrecorded trade payables at period year.

What are our conclusions?

Income from sales, fees and charges:
To gain assurance over the occurrence and measurement of other income we obtained a schedule of other income included within the Comprehensive Income and Expenditure statement. We then substantively tested items of income on a sample basis.

Other operating expenditure:
The risk is around the completeness of operating costs in the 17-18 financial year.
We performed cut-off testing on the balance sheet side which we extended out to the end of June 2018 (3 months after the balance sheet date).

We concluded that the financial statements are free from material misstatement with respect to the recognition of income and expenditure.



Significant risk

Management override of controls

What is the risk?

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

As identified in ISA (UK 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.

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. We also consider the risk to manifest in the potential to inappropriately capitalise revenue spend.

What did we do?

- We documented 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;
- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- We reviewed the calculation of management's accruals, estimates and provisions for evidence of management bias;
- We evaluated the business rationale for significant unusual transactions;
- We documented the oversight given by those charged with governance of management process over fraud;
- We sample tested accruals and provisions based on established testing thresholds;
- We reviewed capital expenditure on property plant and equipment to ensure it meets the relevant accounting requirements to be capitalised; and
- We reviewed the accounting adjustments processed in the movement in reserves to ensure consistency with other supporting disclosure notes.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.
We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business





Areas of Audit Focus

Other areas of audit focus



Valuation of land and buildings

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the financial statements 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.

- We tested the revaluation cycle, including instructions and completeness of information provided to the Council's external valuer;
- We reviewed the classification of assets and assess how the Council has determined that the correct valuation methodology has been applied by the expert; and
- We considered the approach adopted by the external valuer and their findings.

This work is currently ongoing and we will update the Audit-Sub Committee on 25 July 2018 with the final results from this work.



Areas of Audit Focus

Other areas of audit focus



Pension liability valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Derbyshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The Pension Scheme Actuary calculates the value of the Council's share of the total scheme to be included in the financial statements. In performing our audit procedures on the notified balances we observed that there was a large difference between the asset value of the total fund which the Actuary had used in their calculations, and the asset value of the fund as disclosed in the Derbyshire County Council Pension Scheme draft financial statements as at 31 March 2018. We performed a calculation of the estimated impact that this would have on the accounts of South Derbyshire District Council as follows:

	£
Actuary's estimate of total fund value	4,606,000,000
Actual fund value per draft statement of accounts for Derbyshire County Council Pension Scheme	4,619,376,000
Difference	(13,376,000)
South Derbyshire District Council's share of difference (Calculated using the Actuary's report : Estimated individual fair value / estimated whole fund fair value).	259,522

We have included this judgemental estimation difference in our summary of misstatements at section 4 as it is of a size which warrants reporting to the Audit-Sub Committee. However, the misstatement does not impact cash nor the outturn for the year.



Areas of Audit Focus

Other areas of audit focus



Earlier deadline for production of the financial statements

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.

These changes provide risks for both the preparers and the auditors of the financial statements.

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.

- We have engaged early with the Council to facilitate early substantive testing in areas such as income and expenditure and PPE valuations.
- We invited the Council's Finance Team to our 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.
- The Council has adopted use of the EY Client Portal which has resulted in :
 - streamlining all audit requests which has seen a reduction in the use of emails ensuring that communications have improved;
 - provides the Council with greater visibility into the status of audit requests and the overall audit status;
 - reduced the risk of duplicate requests; and
 - provided better security of sensitive data.
- Agreed the supporting working papers required in advance of the commencement of the audit.

We can confirm that the draft financial statements including the Annual Governance Statement were prepared by the 31 May 2018. The Council also submitted the general ledger and payroll data to our data analytics team in accordance with the agreed timetable.

The 2017/18 audit has identified a higher number of errors compared to the previous year. It is our view that these are related to the earlier deadline. We recommend that the close down plan for 2018/19 is reviewed to make improvements to ensure that errors in the accounts are minimised.



03 Audit Report

Draft audit report

Our DRAFT opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH DERBYSHIRE DISTRICT COUNCIL

Opinion

We have audited the financial statements of South Derbyshire District Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

[The options below should be tailored according to local circumstances and follow on from 'comprise the', above

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement, and related notes 1 to 35
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and related notes 1 to 10
- Collection Fund and the related notes 1 to 6

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of South Derbyshire District Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where

- the Strategic Director (Corporate Resources) use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or



Audit Report

Our opinion on the financial statements

- the Strategic Director (Corporate Resources) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2017/18 set out on pages 3 to 37, other than the financial statements and our auditor's report thereon. The Strategic Director (Corporate Resources) is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis for Qualified Conclusion

- Working with partners and other third parties

In April 2016, the Council received a series of complaints under its whistleblowing procedures which related to procurement and contract management arrangements.

During 2016/17 other investigations revealed that:

- The Council had been operating with a number of key contracts unsigned.
- Documentation to support procurement decisions undertaken in the Housing and Environmental Services department was weak or non-existent.
- The Council's contract register was incomplete and poorly maintained.

Throughout 2017/18 the Council has been working to fully identify and seek to resolve the control weaknesses in relation to procurement and contract management arrangements meaning that improvements are not yet fully embedded at 31 March 2018.

The issues above are evidence of weaknesses in proper arrangements for procuring supplies and services effectively to support the delivery of strategic priorities.



Audit Report

Our opinion on the financial statements

Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, with the exception of the matter(s) reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, South Derbyshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if :

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Strategic Director (Corporate Resources)

As explained more fully in the Statement of the Strategic Director (Corporate Resources) Responsibilities set out on page 14, the Strategic Director (Corporate Resources) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Strategic Director (Corporate Resources) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.



Audit Report

Our opinion on the financial statements

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the South Derbyshire District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the South Derbyshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the South Derbyshire District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of South Derbyshire District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of South Derbyshire District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.



Audit Report

Our opinion on the financial statements

Stephen Clark (Audit Partner)
Ernst & Young LLP (Local Auditor)
Birmingham
July 2018

The maintenance and integrity of the South Derbyshire District Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04

Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

There have been a number misstatements greater than £235k which have been corrected by management that were identified during the course of our audit. We have highlighted below the following misstatements in the financial statements or related disclosures identified during the audit which have been corrected by management.

- In note 9 we identified a disclosure error where Other services expenditure and Fees, charges and other service income were overstated by £739k. The net impact was NIL.
- Testing of the Council Tax and Non-Domestic Rates debtors identified that the bad debt provision of £3,650k and £3,887k, respectively had seen the provision incorrectly treated resulting in debtor and creditor balances for both Council Tax and Non-Domestic Rates being overstated. The provision should have reduced the debtors for both balances.
- Income totalling £1,350k from recycling credits, waste collection and ground maintenance has been incorrectly classified as grant income. The income has been reclassified as service income.

Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the **Audit-Sub Committee** and provided within the Letter of Representation:

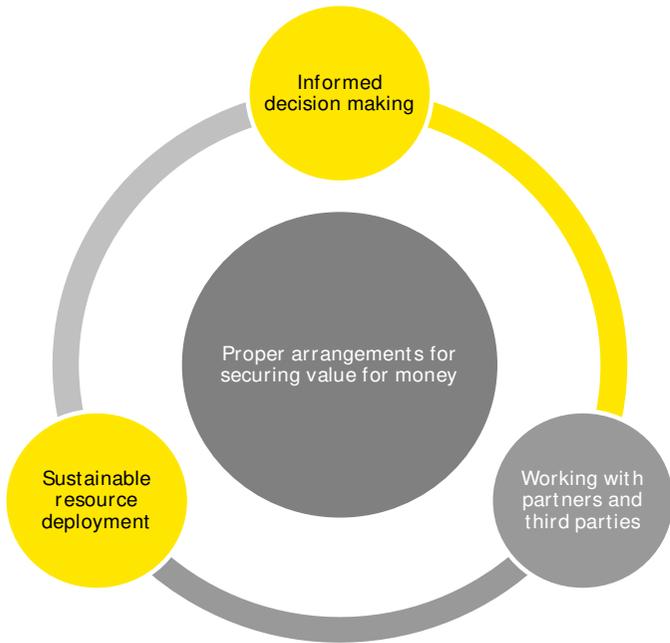
Uncorrected misstatements 31 March 2018 (£000)	 Effect on the current period:	 Balance Sheet (Decrease)/ Increase				
	Comprehensive income and expenditure statement Debit/ (Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)	Reserves Debit/ (Credit)
Errors						
Known differences:						
<ul style="list-style-type: none"> Note 9 other services expenditure fees, charges and other service income 	739 (739)					
<ul style="list-style-type: none"> Payment made to settle supplier invoice before 31/3/18. Creditors and cash and bank both overstated. 		(779)		779		
<ul style="list-style-type: none"> Note 18 – Short term debtors includes an unsubstantiated debtor entry 	141	(141)				
<ul style="list-style-type: none"> Understatement of Local Government Pension Scheme (LGPS) assets valuation 			260			(260)
<ul style="list-style-type: none"> Cash received from customer to settle an invoice before 31/3/18. Debtors and cash and bank are overstated. Debtors (overstated) Cash (overstated) 	60 (60)					



05

Value for Money Risks





Background

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

For 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.

Overall conclusion

We identified two significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning report and any other significant weaknesses or issues we want to bring to your attention.

We expect to issue a qualified except for issue a qualified “except for” opinion on the Councils arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined 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 enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report

What is the significant value for money risk?	What arrangements does the risk affect?	Our audit approach
<p>Securing financial resilience</p>	<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 have performed the following procedures:</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. <p>Based on results of our procedures we are satisfied that appropriate arrangements are in place to manage this significant risk. Further analysis is provided over the page.</p>
<p>Procurement and related contract issues in the Housing and Environment Services Directorate</p>	<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 have performed the following procedures</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. <p>Our work has revealed that the Council has made a great deal of progress during 2017/18, but not all of the recommendations have been implemented and those that have are yet to be fully embedded.</p>



06

Other reporting issues



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters arising to the Audit-Sub Committee.

Determining the effect of the adoption of the new revenue recognition standard (International Reporting Standard (IFRS) 15

This standard relates to revenue from customers with contracts. In our 2016/17 Audit Results Report we highlighted that the Code of Practice on Local Authority Accounting in the UK, would adopt IFRS 15 for 2018/19 and apply for accounting periods starting on or after 1 April 2018/19. For South Derbyshire District Council, the income streams in scope are fees and charges, sale of goods and charges for services provided. It should be noted that income from Council Tax and Business rates is not in the scope of the standard. Our review confirms the Council has as yet taken any actions to prepare for the new standard. Management has advised that the required procedures will commence after the statutory audit of the 2017/18 financial statements has been completed. We also acknowledge that the 2017/18 financial statements include a disclosure to confirm the Council's position.

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Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the [Authority]'s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations;

All matters on which we have information to report are included in this document.

A blurred office desk scene featuring a laptop, several glasses of water, and documents with charts. A yellow hexagonal graphic is overlaid on the bottom left.

07

Assessment of Control Environment and other audit matters

Assessment of Control Environment and other audit matters

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Other audit matters

During the course of the audit we have identified a number of audit issues which we require to bring to your attention:

1. Rounding differences

Our casting of the draft financial statements identified 29 rounding differences ranging between £1k and £3k. This is a high number of errors which need to be addressed in 2018/19.

2. Journal entries without descriptions

In 2016/17 we reported to you that there thirteen journals where the journal description field was blank. We recommended that all journal entries contain a valid description. However, our interim testing of journals covering periods 1 to 9 in 2017/18 also identified that thirteen journals that did not contain a description. We noted that there was a compensating control which is to complete the journal log, maintained by the finance team which is reviewed by the financial services manager. We have confirmed that the log included the thirteen journal which showed that there was adequate detail to enable the journal to be authorised.

3. Accounts payable control account reconciliation

Our review of the year-end control account reconciliation identified that there a number of reconciling items. This has been caused by posting rounded amounts into general ledger rather than the absolute value.

4. Processing of supplier invoices

Our testing of operating expenditure identified two invoices totalling £250 were received on 7 March 2017 but were posted to the accounts payable system in early April 2017. The costs were recognised in the wrong financial year. We recommend that all supplier invoices are recorded on a timely basis to ensure the expenditure is recognised in the correct financial year.



08

Data Analytics



Use of Data Analytics in the Audit

► Data analytics — Journal entry testing and employee expenses

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

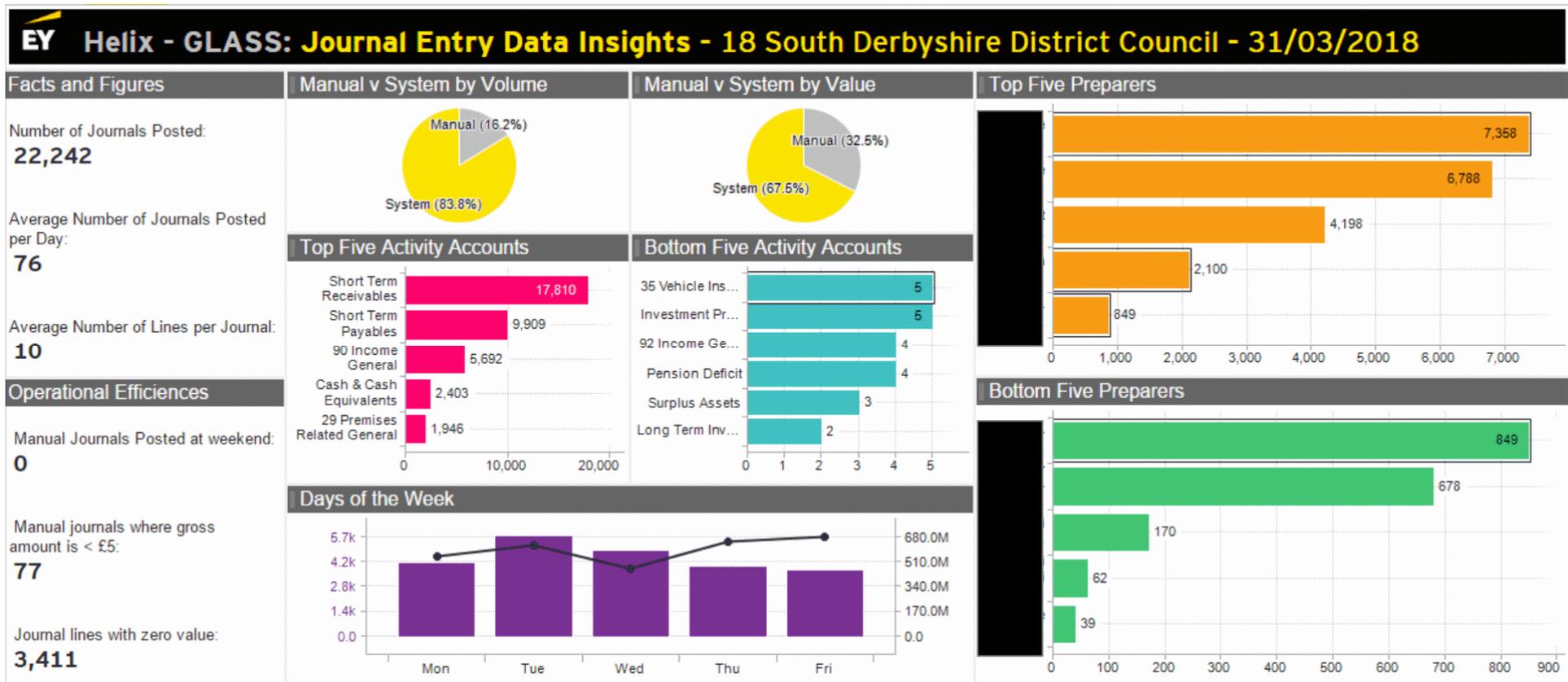


Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the Council's journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.





Journal Entry Testing

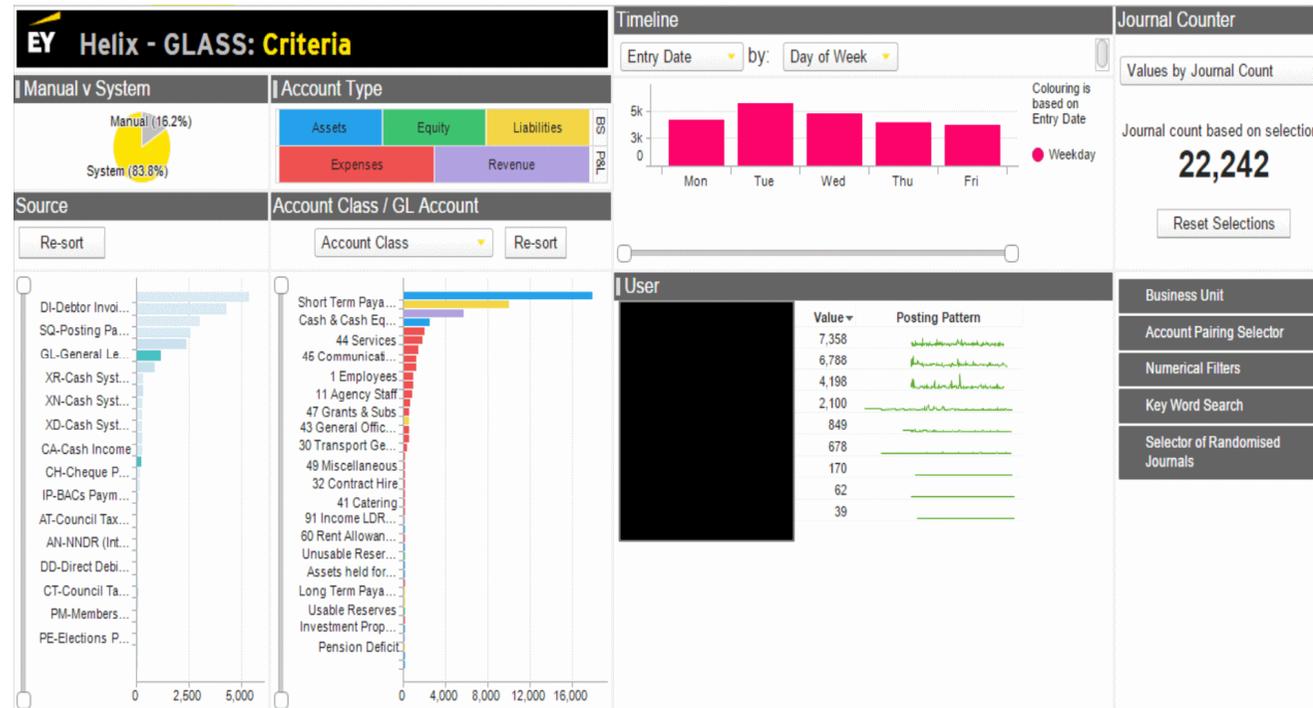
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria —31 March 2018

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

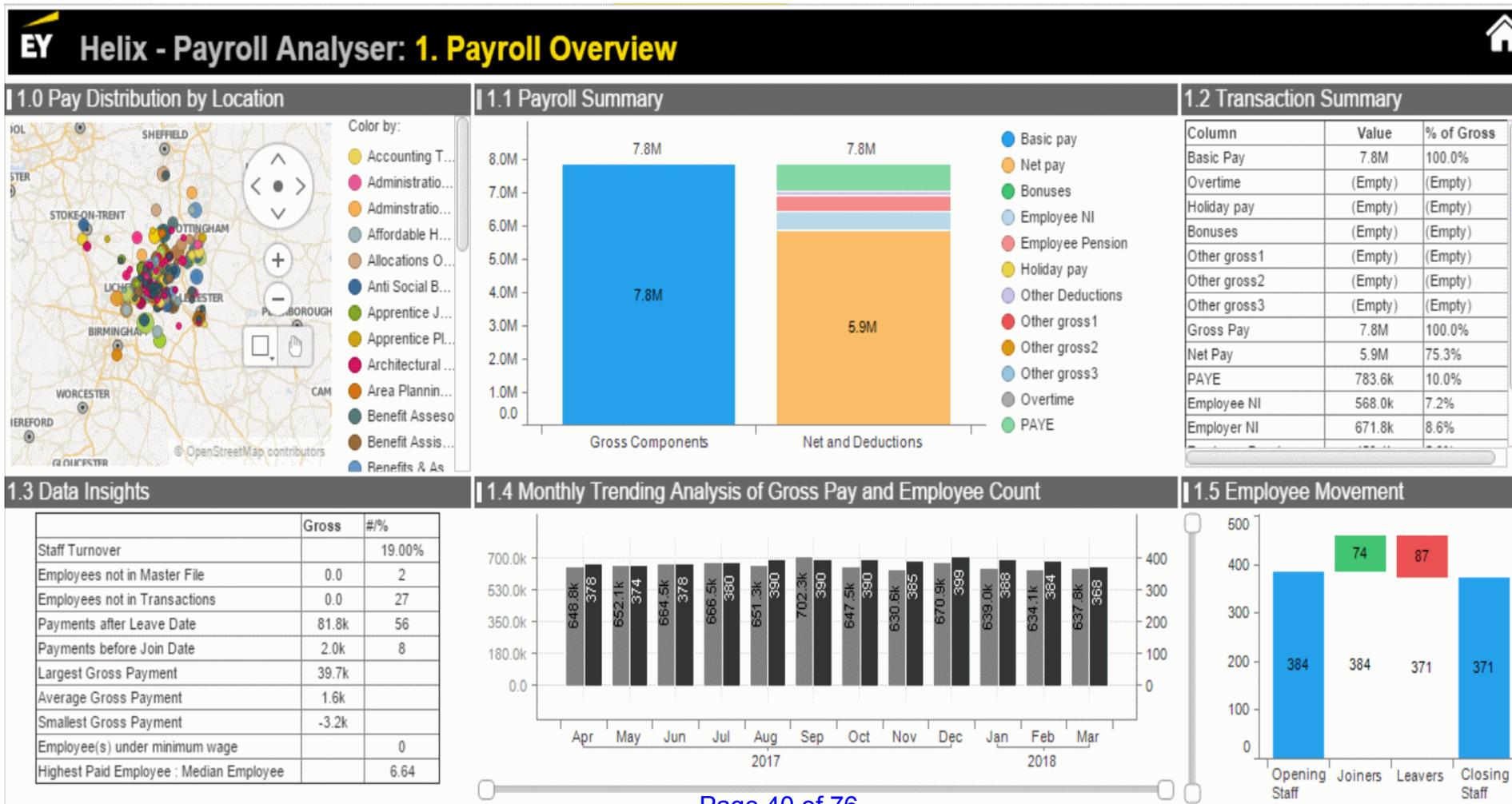
What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



Payroll Analyser Insights

The graphic outlined below summarises the Council's payroll data for 2017/18. We review transactions for payroll at a more granular level, which allows us to identify items with a higher likelihood of containing material misstatements or to identify unusual patterns within a population of data and to design tests of details.





09

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated 21 March 2018.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and the Audit-Sub Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit-Sub Committee 25 July 2018.

We confirm that we have undertaken non-audit work outside the PSAA Code requirements.



Independence

Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services has been provided on a contingent fee basis.

We confirm that non-audit work outside the PSAA Code requirements will be in relation to our work on the certification of the Pooling of Housing Capital Receipts. relation to the jointly controlled operations. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	50,945 *	49,275	49,275	57,264
Non-audit work (Pooling of housing capital receipts)	TBC	1,890	N/A	1,800
Total non-audit services	TBC	51,165	49,275	59,064

TBC = To be confirmed.

* This includes additional work totalling £1,670 in relation to the value for money conclusion which has been agreed with management and approved by Public Sector Audit Appointments Limited.



10

Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 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.	Audit planning report 21 March 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report 21 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 18 July 2018

Appendix A

		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 	No conditions or events were identified, either individually or together to raise any doubt about South Derbyshire' District Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report 18 July 2018
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Audit-Sub Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	
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 Council • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit-Sub Committee responsibility. 	Audit results report 18 July 2018

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Council's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Council 	Audit results report 18 July 2018
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>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report 21 March 2018 and</p> <p>Audit results report 18 July 2018</p>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	<p>Audit results report 18 July 2018</p> <p>Annual Audit Letter Sept/Oct 2018</p>

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
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. 	We have not received external confirmations from the Council's bankers and one short term investment.
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations]
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report 18 July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report 18 July 2018
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report 18 July 2018
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report 21 March 2018 Audit results report 18 July 2018
Certification work	<ul style="list-style-type: none"> Summary of certification work 	13 February 2019

Management representation letter

Management Rep Letter

Ernst & Young LLP
1 Colmore Square
Birmingham
B4 6HQ

Dear Stephen

This letter of representations is provided in connection with your audit of the financial statements of South Derbyshire District Council for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council's financial position of South Derbyshire District Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.
5. When there are unadjusted audit differences in the current year or we determine that the current year effects of correcting prior year differences are significant. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatements.

Management representation letter

Management Rep Letter

- Note 21 - overstatement of cash at bank and creditors £779k
- Understatement in the Council's share of the valuation of the LGPS £260k
- Overstatement of debtors and income £141k
- Overstatement of creditors and cash at bank £60k

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters: [Page 50 of 76](#)

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Council and committees or summaries of actions of recent meetings for which minutes have not yet been prepared held through the period 1 April 2018 to the most recent meetings.

Management representation letter

Management Rep Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year-end. These transactions have been appropriately accounted for and disclosed in the financial statements Note 2

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent. No , guarantees that we have been given to third parties.

E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Annual Governance

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Note 17 to the financial statements, we have no other line of credit arrangements

H. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

Management representation letter

[Insert specific management rep letter for the client]

Management Rep Letter

I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property plant and equipment and the valuation of the defined benefit pension scheme assets and liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

J. Estimates

National Non-Domestic Rates Appeals Provision Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the significant assumptions used in making the National Non-Domestic Rates Appeals provision [insert name of the accounting estimate] appropriately reflect all information we have regarding appeals lodged and likely success rates.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events.

K. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Strategic Director (Corporate Services)

Chairman of the Audit-Sub Committee)

About EY

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ED None

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REPORT TO:	AUDIT SUB COMMITTEE – SPECIAL	AGENDA ITEM: 6
DATE OF MEETING:	25th JULY 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 30th June 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

South Derbyshire District Council – Audit Progress Report

Audit Sub-Committee: 25th July 2018



South Derbyshire
District Council



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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

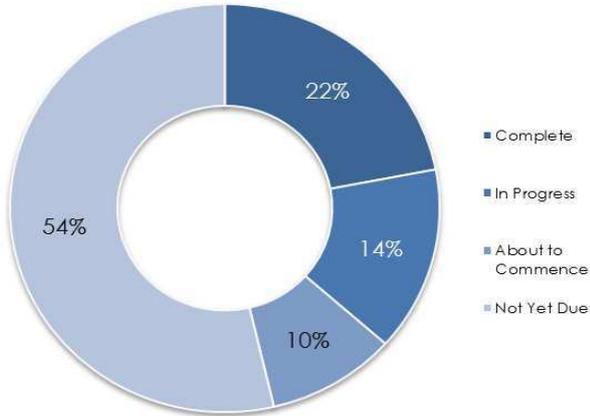
Richard Boneham
Head of the Audit Partnership
c/o Derby City Council
Council House
Corporation Street
Derby
DE1 2FS
Tel. 01332 643280
richard.boneham@centralmidlandsaudit.co.uk

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

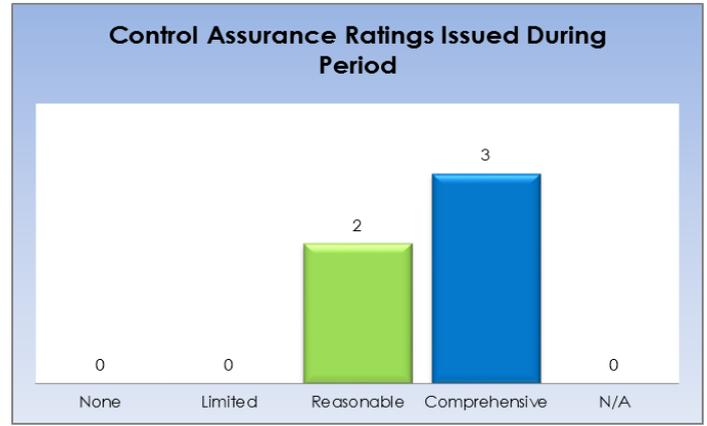


AUDIT DASHBOARD

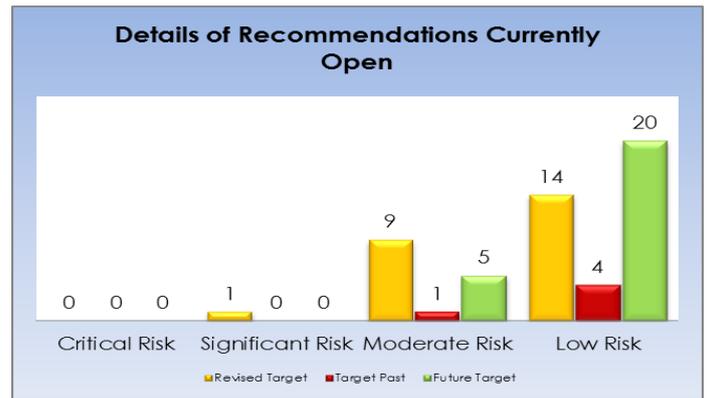
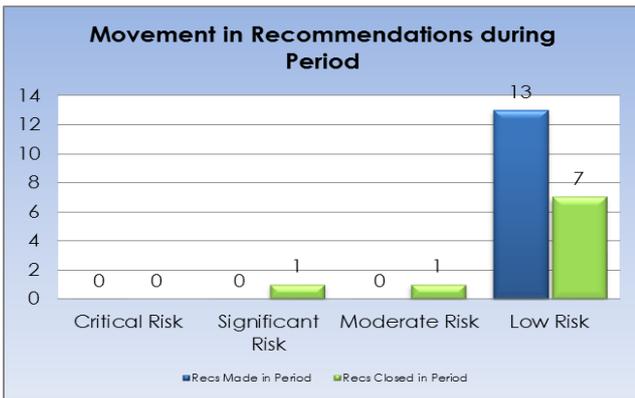
Plan Progress



Jobs Completed in Period



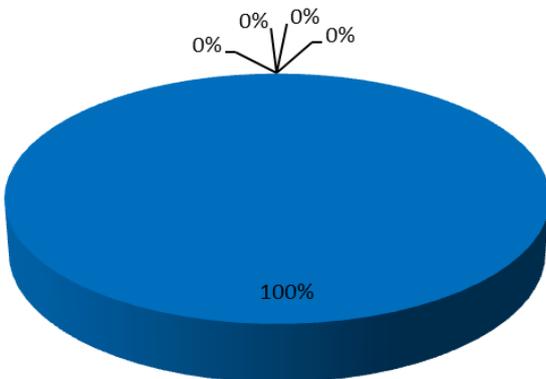
Recommendation Tracking



Customer Satisfaction

April - June 18

Excellent Good Fair Poor Very Poor



Continuous Improvement

1. Improvements continue to be made to committee reports to reduce the quantity of information presented to better focus on the priority risks and issues.
2. The re-structure of CMAP is progressing. Richard Boneham has been 'slotted' into the post of Head of Audit Partnership and will also be the Head of Internal Audit for Derby City Council. The role of Head of Internal Audit for South Derbyshire District Council will be one of the 2 Audit Managers, either Adrian Manifold or Mandy Marples.

South Derbyshire District Council – Audit Progress Report

AUDIT PLAN

Progress on Audit Assignments

The following table provide Audit Sub-Committee with information on how audit assignments were progressing as at 12th July 2018.

2018-19 Jobs	Status	% Complete	Assurance Rating
Data Protection & Freedom of Information	Not Allocated	0%	
Treasury Management 2018-19	Not Allocated	0%	
Capital Programme	Not Allocated	0%	
Payroll 2018-19	Not Allocated	0%	
Creditors 2018-19	Not Allocated	0%	
Council Tax 2018-19	Not Allocated	0%	
NDR 2018-19	Not Allocated	0%	
Housing Benefit & Council Tax Support 2018-19	Not Allocated	0%	
PCI Compliance	Not Allocated	0%	
IT Applications	Not Allocated	0%	
IT Infrastructure	Not Allocated	0%	
Waste Management (Collection, Trade, Recycling)	Allocated	0%	
Fleet Management	Not Allocated	0%	
Street Cleansing	Not Allocated	0%	
Development Control	Not Allocated	0%	
Food Safety	Not Allocated	0%	
Sport & Health Funding	Not Allocated	0%	
Rosliston Forestry Centre	Not Allocated	0%	
Housing Repairs (Planned & Responsive Maint.)	Not Allocated	0%	
Gas/Electric/Asbestos/Legionella/Fire Safety Insp.	Not Allocated	0%	
Allocations & Homelessness	Not Allocated	0%	
Sheltered Housing / Careline	Not Allocated	0%	
Community Safety Partnership	Allocated	0%	
Corporate Governance	Not Allocated	0%	
Records Management	Allocated	5%	
Insurance 2018-19	In Progress	5%	
Pollution Control	Allocated	0%	
Section 106 Agreements	In Progress	65%	

South Derbyshire District Council – Audit Progress Report

B/Fwd Jobs	Status	% Complete	Assurance Rating
Risk Management	In Progress	50%	
Council Tax 2017-18	In Progress	65%	
Health & Safety	In Progress	65%	
Housing Benefit & Council Tax Support 2017-18	Final Report	100%	Comprehensive
Follow-up of Whistleblowing Recommendations	Final Report	100%	Reasonable
Payroll 2017-18	Draft Report	95%	Reasonable
NDR 2017-18	Final Report	100%	Comprehensive
Organisational Culture & Ethics	Final Report	100%	Reasonable
Express Electoral System Security Assessment	Final Report	100%	Reasonable
Sharpe's Pottery	Final Report	100%	Comprehensive
New Build / Affordable Housing	Final Report	100%	Comprehensive
Licensing	Final Report	100%	Comprehensive
Safeguarding – Pre-Employment Checks	Final Report	100%	Reasonable

Audit Plan Changes

None since the last Sub-Committee meeting.

South Derbyshire District Council – Audit Progress Report

AUDIT COVERAGE

Completed Audit Assignments

Between 25th May 2018 and 12th July 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	
South Derbyshire - New Build / Affordable Housing	Comprehensive	0	0	0	1	0%
SD - Safeguarding – Pre-Employment Checks	Reasonable	0	0	0	8	0%
South Derbyshire - Follow-up of Whistleblowing Recs	Reasonable	0	0	0	0	n/a
SD - Housing Benefit & Council Tax Support 2017-18	Comprehensive	0	0	0	1	0%
South Derbyshire – NDR 2017-18	Comprehensive	0	0	0	3	33%

Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
	Robust governance arrangements are in place for the Council's new build and affordable housing programme.	11	10	1
TOTALS	11	10	1	0
Summary of Weakness		Risk Rating	Agreed Action Date	
Strategic documents, such as the Housing Strategy, may not be aligned with the latest ideas on programme delivery.		Low Risk	30/06/2018 Being Implemented 31/07/2018	

New Build/ Affordable Housing



South Derbyshire District Council – Audit Progress Report

Safeguarding – Pre-Employment Checks				
Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
The Council has a framework in place that ensures the adequacy of safeguarding checks undertaken as part of the recruitment and selection process.	14	3	9	2
TOTALS	14	3	9	2
Summary of Weakness		Risk Rating	Agreed Action Date	
Application forms were not being properly completed, signed and dated by all applicants in accordance with the Council's Recruitment and Selection Policy.		Low Risk	31/10/2018	
Internal applicants were not subject to the same pre-employment checks as those required to be undertaken for external applicants, where the information was not already held.		Low Risk	30/06/2018 Awaiting Evidence of Implementation	
The register for logging and tracking Disclosure Baring Service checks had not been properly completed and it could not be confirmed that the checks had been returned satisfactorily.		Low Risk	28/09/2018	
Audit testing found for 3 employees there was no scanned image of a passport or other documentation on file to verify the individual's name and national insurance number and their eligibility to work in the UK.		Low Risk	30/06/2018 Awaiting Evidence of Implementation	
The Council did not have a policy or a process in place that required financial pre-employment checks were undertaken for prospective employees of financially sensitive posts that ensured the successful applicants were suitably vetted and regularly checked.		Low Risk	24/12/2018	
The checks to verify the employees had the relevant qualifications stated on the job specifications were undertaken in an inconsistent manner and the images scanned and put on the individual's personnel file was not standard.		Low Risk	30/06/2018 Awaiting Evidence of Implementation	
Audit testing identified that for 2 posts, application forms had not been completed and references for some employees had not been obtained in accordance with the Council's Recruitment and Selection Policy.		Low Risk	30/06/2018 Awaiting Evidence of Implementation	
Personnel records held on the Council's Resource Link system were also held in duplicate on the Council's network that could be accessed by unauthorised members of staff.		Low Risk	21/12/2018	

South Derbyshire District Council – Audit Progress Report

Follow-up of Whistleblowing Recommendations	 Assurance Rating			
Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
Previous recommendations from the Systems Weaknesses report concerning the original Whistleblowing Investigation, dated January 2017, have been acted upon and are becoming embedded.	16	13	3	0
Previous recommendations from the Systems Weaknesses report concerning the second Whistleblowing investigation, dated August 2017, have been acted upon and are becoming embedded.	8	7	1	0
Previous audit recommendations from the Wider Housing Contracts Review following the Whistleblowing Investigations, dated November 2017, have been acted upon and are becoming embedded.	8	3	5	0
TOTALS	32	23	9	0
Summary of Weakness	Risk Rating	Agreed Action Date		
This issue concerned the on-going monitoring by the Housing Section over off-contract spend with contractors, to identify where it would be beneficial to establish formal contracts.	Low Risk	01/09/2018		
This issue concerned the regular reviewing of information recorded in asbestos surveys, the planned undertaking of additional surveys and the required actions for the management of asbestos, including the suitable dissemination of information.	Low Risk	01/09/2018		
This issue concerned the recording of suitable asbestos related information against properties on the Housing Asset Management System, for officers to maintain and record suitable records, i.e. details of annual checks, etc.	Moderate Risk	01/09/2018		
This issue concerned the undertaking of annual contract reviews by Contract Managers to ensure contracts were operating effectively, providing value for money and were not overspent against official contract values.	Moderate Risk	01/08/2018		
This issue concerned the Procurement Section not taking an active role in enforcing annual contract reviews throughout the Council, to ensure that contracts were being legally managed and extended in accordance with legislation.	Moderate Risk	01/09/2018		
This issue concerned contract opportunities for adaptations (where collective works were over the £25,000 threshold) not being advertised on the Contracts Finder website, in line with the requirements of the Public Contract Regulations 2015.	Moderate Risk	01/08/2018		
This issue concerned formal systems and procedures not being in place for maintaining the Contracts Register.	Low Risk	01/09/2018		
This issue concerned Procurement Checklists not being completed and duly signed off to evidence that the required processes were being undertaken.	Low Risk	01/09/2018		

South Derbyshire District Council – Audit Progress Report

This issue concerned the Council not publishing the required data for contracts and other legally enforceable agreements, in line with the Local Government Transparency Code 2015.	Low Risk	01/09/2018
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Housing Benefit & Council Tax Support 2017-18				
Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
To ensure claims for benefit are supported by an application and validated evidence in order to ensure benefit is awarded correctly.	13	13	0	0
To ensure benefit overpayments are actively identified, correctly calculated and classified, and recovered in accordance with regulations and procedures, with all reductions or write-offs being suitably validated.	13	12	1	0
TOTALS	26	25	1	0
Summary of Weakness		Risk Rating	Agreed Action Date	
Accounts escalated to the 'Refer to Overpayments Officers' stage in the recovery process, were not being escalated further and remained at that stage for sometimes lengthy periods, without explanation.		Low Risk	01/01/2019	

NDR 2017-18				
Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
To ensure relief and exemption information was monitored, kept up to date and verified prior to calculating NDR liability, and when entitlement ceased, to ensure accounts were updated promptly and accurately.	14	12	2	0
To ensure that recovery action was initiated promptly, was legitimate, appropriate and in accordance with statutory requirements.	10	8	0	2
TOTALS	24	20	2	2

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Summary of Weakness	Risk Rating	Agreed Action Date
Application for discretionary relief had been revisited bi-annually, but in one instance the decision notice to confirm continued eligibility had not been retained on file.	Low Risk	12/07/2018 Implemented
There was no review by Senior Officers of arrangements made by Customer Services and Debt Collection Officers for payment by instalments, to ensure that they were commensurate with the level of debt, the ratepayer’s circumstances and that they conformed to Policy.	Low Risk	01/01/2019
All Officers within the Customer Services, Billing and Recovery teams had system access that allowed the suppression of debt collections. The application of debt suppressions was not being checked by management.	Low Risk	01/01/2019

South Derbyshire District Council – Audit Progress Report

RECOMMENDATION TRACKING

Final Report Date	Audit Assignments with Open Recommendations	Assurance Rating	Recommendations Open		
			Action Due	Being Implemented	Future Action
07-Dec-16	Land Charges	Reasonable	-	1	-
27-Jan-17	Whistleblowing Investigation	Limited	-	3	-
06-Jun-17	Leisure Centres	Reasonable	-	1	-
07-Aug-17	Parks & Open Spaces	Reasonable	1	4	-
21-Aug-17	Whistleblowing Investigation 2	Reasonable	-	1	-
09-Oct-17	Business Continuity & Emergency Planning	Comprehensive	-	-	1
19-Oct-17	Dry Waste Recycling Contract	Reasonable	-	1	-
13-Nov-17	Officers Expenses & Allowances	Reasonable	-	-	2
17-Nov-17	Backup Server Healthcheck	Limited	-	3	-
23-Nov-17	Housing Contracts Review	Limited	-	5	-
19-Dec-17	People Management 2017-18	Reasonable	-	1	2
19-Jan-18	Rent Accounting 2017-18	Reasonable	-	1	1
02-Mar-18	Backup Policy	Reasonable	-	-	4
06-Mar-18	Tenants Arrears 2017-18	Reasonable	-	1	3
03-Apr-18	Express Electoral System Security Assessment	Reasonable	-	1	-
25-Apr-18	Organisational Culture & Ethics	Reasonable	-	-	2
18-May-18	Sharpes Pottery	Comprehensive	-	-	3
25-May-18	New Build / Affordable Housing	Comprehensive	-	1	-
29-Jun-18	Safeguarding – Pre-Employment Checks	Reasonable	4	-	4
11-Jul-18	Housing Benefit & C. Tax Support 2017-18	Comprehensive	-	-	1
12-Jul-18	NDR 2017-18	Comprehensive	-	-	2
		Totals	5	24	25

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

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

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

South Derbyshire District Council – Audit Progress Report

Audit Assignments with Recommendations Due	Action Due			Being Implemented		
	Significant Risk	Moderate Risk	Low Risk	Significant Risk	Moderate Risk	Low Risk
Land Charges	-	-	-	-	-	1
Whistleblowing Investigation	-	-	-	-	2	1
Leisure Centres	-	-	-	-	1	-
Parks & Open Spaces	-	1	-	-	1	3
Whistleblowing Investigation 2	-	-	-	-	1	-
Dry Waste Recycling Contract	-	-	-	1	-	-
Backup Server Healthcheck	-	-	-	-	1	2
Housing Contracts Review	-	-	-	-	2	3
People Management 2017-18	-	-	-	-	1	-
Rent Accounting 2017-18	-	-	-	-	-	1
Tenants Arrears 2017-18	-	-	-	-	-	1
Express Electoral System Security Assessment	-	-	-	-	-	1
New Build / Affordable Housing	-	-	-	-	-	1
Safeguarding – Pre-Employment Checks	-	-	4	-	-	-
Totals	-	1	4	1	9	14

Highlighted Recommendations

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

Action Due Recommendations

People Management 2017-18	Rec No. 4
Summary of Weakness / Recommendation	Risk Rating
<p>The process to follow in order to make a confidential complaint was not clear in the Harassment Policy and Procedure.</p> <p>We recommend that the Harassment Policy clearly states the procedure to be followed if an individual wishes to make a confidential complaint of harassment, bullying or victimisation. The Policy should include the contact details of the officer nominated to receive such complaints.</p>	Moderate Risk
Management Response/Action Details	Action Date
The Policy will be reviewed to make it clear where confidential complaints can be sent to, including the contact details. It should be noted that in addition, confidential complaints can also be recorded in using the Whistleblowing Policy.	30/06/2018
Status Update Comments	Revised Date
Section 7 of the Policy makes it clear where employees can go for confidential advice and support. A review of the Policy is underway and will be completed in September.	28/09/2018

South Derbyshire District Council – Audit Progress Report

Parks & Open Spaces		Rec No. 8
Summary of Weakness / Recommendation		Risk Rating
<p>Park Keepers and other members of the Grounds Maintenance team undertaking inspections of play equipment had not received appropriate training.</p> <p>We recommend that the Park Keepers and any other members of the Grounds Maintenance team who would be expected to undertake inspections of play equipment, undertake appropriate training on playground inspections. This is in accordance with the Grounds Maintenance Contract Specification which states that routine visual inspections should be undertaken on a daily basis by appropriately trained and accredited staff.</p>		Moderate Risk
Management Response/Action Details		Action Date
Identify relevant staff. Training of all relevant staff to be carried out and documented, including regular refresher training		31/03/2018
Status Update Comments		Revised Date
<p>We would look to book the relevant operatives onto a course as soon as possible in the new financial year. We are now in that period so will look for an appropriate course for the staff to attend.</p> <p>Unfortunately, we are currently down to only one of the tree Park Keepers at present, one has been off long term sick and the second put in his notice to retire so has finished work. We will be interviewing a replacement. It didn't seem practical to only look for the one operative! Revised action date requested.</p>		<p>30/06/2018</p> <p>No further response from Responsible Officer.</p>

Being Implemented Recommendations

Dry Waste Recycling Contract		Rec No. 1
Summary of Weakness / Recommendation		Risk Rating
<p>There was limited information available to support the tender evaluation process which could lead the contract award open to challenge.</p> <p>We recommend that in all future tendering exercises the Council ensure that they assess bids in line with the scoring methodology prescribed in the Invitation to Tender. Full and complete records of tender evaluations should be retained, including all assessments completed by individual members of the Assessment Panel, in order to provide evidence of a clear and transparent process. All documentation associated with contracts should be retained for 6 years after the end of the contract in order to meet the requirements of the Limitation Act 1980.</p>		Significant Risk
Management Response/Action Details		Action Date
This is normal practice. Unfortunately, individual scoring sheets could not be located for this particular tender. All relevant staff are aware of this requirement. The Council is currently reviewing the provision of procurement services and we will ensure that this issue is considered as part of that process.		19/09/2017
Status Update Comments		Revised Date
This recommendation was followed-up by CMAP in May 2018, while we consider that progress has been made against implementation, further actions are required for this matter to be fully addressed and embedded into Council systems, following recent changes to the structure and service provision in Housing and Procurement. A revised action date has been agreed with Officers against this recommendation.		01/09/2018

South Derbyshire District Council – Audit Progress Report

Housing Contracts Review	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
<p>The Procurement Section were not taking an active role in enforcing annual contract reviews throughout the Council, to ensure that contracts were being legally managed and extended in accordance with legislation.</p> <p>We recommend that the Head of Procurement devise a system for overseeing the various contract management activities within the Council and for actively monitoring them. This should ensure that the on-going monitoring of contracts is not only taking place, but also being evidenced and that it informs subsequent contract management activities. This function should also ensure that contracts are being extended correctly and that formal exemptions are being utilised, where required.</p>	Moderate Risk
Management Response/Action Details	Action Date
<p>As part of the proposed Shared Service, the Council will benefit from a fully automated Contracts Register. This will provide the functionality to aid contract management, which will for example, provide alerts regarding key dates for each major Contract and quarterly meetings with service leads.</p> <p>If the proposal to join the Shared Service is not agreed by the Council, then the current E-tendering portal that the Council currently uses will be upgraded to include a Contract Monitoring module.</p> <p>In the meantime, work is on-going to compile contract information in readiness for transition to the Shared Service or an upgrade to the Council's current system, to enable future monitoring and review.</p>	30/03/2018
Status Update Comments	Revised Date
<p>This recommendation was followed-up by CMAP in May 2018, while we consider that progress has been made against implementation, further actions are required for this matter to be fully addressed and embedded into Council systems, following recent changes to the structure and service provision in Housing and Procurement. A revised action date has been agreed with Officers against this recommendation.</p>	01/09/2018

Housing Contracts Review	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
<p>Contract opportunities for adaptations (where collective works were over the £25,000 threshold) were not being advertised on the 'Contracts Finder' website, in line with the requirements of the Public Contract Regulations 2015.</p> <p>We recommend that the Head of Procurement identify a range of options available to the Council for complying with this ruling and seek to strengthen systems to ensure compliance with the Public Contract Regulations 2015. Such a system should ensure that the principles of transparency, equal treatment and non-discrimination, under European Union Treaties, are also adhered to.</p>	Moderate Risk
Management Response/Action Details	Action Date
<p>The Council agreed changes to the procurement of Disabled Facility works at a meeting of the Finance and Management Committee on 12th October 2017. The current "standing" list will be replaced by a Framework of 4 to 5 contractors to undertake smaller works below £25,000. This will be subject to an OJEU process.</p> <p>Any larger works above £25,000 will be tendered separately and advertised in the normal way (Source Derbyshire, etc.)</p>	23/11/2017
Status Update Comments	Revised Date
<p>This recommendation was followed-up by CMAP in May 2018, while we consider that progress has been made against implementation, further actions are required for this</p>	01/08/2018

South Derbyshire District Council – Audit Progress Report

matter to be fully addressed and embedded into Council systems, following recent changes to the structure and service provision in Housing and Procurement. A revised action date has been agreed with Officers against this recommendation.

Backup Server Healthcheck	Rec No. 4
Summary of Weakness / Recommendation	Risk Rating
<p>A local administrator account on one of the Council's Backup Exec Server had a weak corresponding password which was representative of the word password with only minor character substitutes. Furthermore, this password had not been changed in 656 days.</p> <p>We recommend that management looks to strengthen the weak corresponding password vulnerability which has been reported confidentially to the IT team.</p>	Moderate Risk
Management Response/Action Details	Action Date
<p>Where possible passwords have been changed to resolve this issue. Again we need to be careful when changing passwords as many accounts run services and so we don't want the Backup processes to start failing. This issue will be fully addressed when a new solution is implemented.</p>	27/04/2018
Status Update Comments	Revised Date
<p>Discussions with the IT & Business Change Manager 14/05/2018. This is the target date for the new solution.</p> <p>Full update:</p> <p>"A project to review the corporate requirements and ICT service approach to Back Ups and Disaster Recovery is underway. Suppliers have been invited to review existing infrastructure and suggest best practice solutions. These will be considered in relations to the 'business requirements' set by engaging core stakeholders in the organisation regarding their needs. The new approach will be documented and reviewed corporately and by the ICT service. This work commenced 1st Feb 2018 and is due to conclude by late summer 2018."</p>	31/08/2018

Whistleblowing Investigation 2	Rec No. 5
Summary of Weakness / Recommendation	Risk Rating
<p>Annual contract reviews were not being undertaken by the Contract Managers, to monitor contract spend amongst other requirements, and we believe that certain Housing Contracts may be overspent.</p> <p>We recommend that the Housing Section undertake annual contract reviews over all major Housing Contracts, in conjunction with the Head of Procurement, to ensure that these contracts are operating effectively, providing value for money and are not overspent against official contract values. This process should be formally documented and where issues are identified, appropriate remedial action(s) should be undertaken without undue delay.</p>	Moderate Risk
Management Response/Action Details	Action Date
<p>Reviews will be put into place to evaluate the contract performance, value for money and effectiveness based on the start dates of the individual contracts.</p> <p>This is separate from a need to have an ongoing multi-year programme that should be refreshed and reviewed regularly.</p>	01/04/2018
Status Update Comments	Revised Date
<p>This recommendation was followed-up by CMAP in May 2018, while we consider that progress has been made against implementation, further actions are required for this</p>	01/08/2018

South Derbyshire District Council – Audit Progress Report

matter to be fully addressed and embedded into Council systems, following recent changes to the structure and service provision in Housing and Procurement. A revised action date has been agreed with Officers against this recommendation.

Parks & Open Spaces	Rec No. 1
Summary of Weakness / Recommendation	Risk Rating
<p>Comprehensive risk assessments of play equipment were not available for inspection. A limited number of non-descript risk assessments were located with play equipment listed as a hazard, suggesting that risk assessments had not been completed for all playgrounds and equipment across the district.</p> <p>We recommend that the Council establish risk assessments for all the playgrounds and the equipment therein, for which it could be held liable. The risk assessments should be undertaken with the above guidance provided by ROSPA and should consider the activity classification, hazard identification, the evaluation of risk, the evaluation of the control measures and the specification for further action.</p>	Moderate Risk
Management Response/Action Details	Action Date
Agree action plan with H&S officer. Agree content of risk assessments and list of sites to be inspected - SDDC own sites only. Establish which Parish Councils already undertake risk assessments. Write to advise remaining Parish Councils of their responsibilities. NOTE: there may be budget/cost implication.	31/12/2017
Status Update Comments	Revised Date
<p>Due to officer departure from the Council 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.</p> <p>Our internal capacity to progress is temporarily limited but we are undertaking a district wide play audit of our own which will help to address the outstanding recommendations. We are currently engaged in a procurement exercise to secure external expertise to undertake the audit. To allow for the procurement, the audit and then remedial action suggest a revised date for implementing the outstanding recommendations of end September.</p>	30/09/2018

Leisure Centres	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
<p>The Council had not undertaken inspections on the exterior fabric of the building as per the contract summary of maintenance responsibilities.</p> <p>We recommend that the Council fulfil its obligations in respect of those areas which it has responsibility for maintaining. Inspections should be undertaken on a regular basis, in accordance with any relevant legislation and properly documented.</p>	Moderate Risk
Management Response/Action Details	Action Date
Programme of inspections to be agreed with Building Maintenance Officer	01/10/2017
Status Update Comments	Revised Date
<p>Our public building officer resigned several months ago and has not been replaced pending both a housing services and Council wide restructure. Once responsibility for this area of work is identified in the final structure and someone in post we will be able to commence the required inspections. Given the uncertainty suggest a revised compliance date of Jan 31st 2018.</p> <p>The long term future of the Public Building Officer post has still not been settled and an</p>	30/09/2018

South Derbyshire District Council – Audit Progress Report

interim arrangement has recently been implemented with a temporary 6 month appointment. Suggest a revised date of the end of September 2018.

Whistleblowing Investigation	Rec No. 12
Summary of Weakness / Recommendation	Risk Rating
<p>At the time of the audit, the information recorded in the asbestos surveys had not been subject to regular review and was therefore not compliant with the Control of Asbestos Regulations 2012.</p> <p>We recommend that the Housing Section implement the following processes:</p> <ul style="list-style-type: none"> • Undertake Asbestos Management Surveys on all voids that have not been inspected before. • Undertake additional surveys of property types considered to be a higher risk from the existing survey data available. • Where asbestos is located either, remove, encase or manage. Where encased or managed, annual checks should be undertaken to assess the situation and be clearly evidenced. • Tenant(s) should be told of the location of any asbestos located within their property and informed how it is being managed. • Contractors should get a copy of the Asbestos Management Survey for void properties and be informed how any asbestos located is to be treated, i.e. remove, encase or managed. • Copies of all asbestos surveys and test certificates should be retained by the Housing Section and ideally stored electronically on a team shared drive. 	Moderate Risk
Management Response/Action Details	Action Date
The Director of Housing & Environmental Services will formally instruct the Housing Asset Manager and all staff within his Directorate to comply with the recommended action in this regard.	30/06/2017
Status Update Comments	Revised Date
This recommendation was followed-up by CMAP in May 2018, while we consider that progress has been made against implementation, further actions are required for this matter to be fully addressed and embedded into Council systems, following recent changes to the structure and service provision in Housing and Procurement. A revised action date has been agreed with Officers against this recommendation.	01/09/2018

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Whistleblowing Investigation	Rec No. 13
Summary of Weakness / Recommendation	Risk Rating
<p>The information recorded on the Summary of Asbestos Registers spreadsheet was not being adequately maintained in order to provide sufficient control over the process.</p> <p>We recommend that, in addition to storing copies of asbestos surveys and test certificates electronically, that the Housing Section also look into recording the asbestos related information on the Lifespan Asset Management System. This will then create a central location for all officers to search for the information and can be used to record details of the annual checks. Information contained within the existing Summary of Asbestos Registers spreadsheet should also be imported into Lifespan, if possible, to ensure the continued integrity of data.</p>	Moderate Risk
Management Response/Action Details	Action Date
The Director of Housing & Environmental Services will formally instruct the Housing Asset Manager and all staff within his Directorate to comply with the recommended action in this regard.	30/06/2017
Status Update Comments	Revised Date
This recommendation was followed-up by CMAP in May 2018, while we consider that progress has been made against implementation, further actions are required for this matter to be fully addressed and embedded into Council systems, following recent changes to the structure and service provision in Housing and Procurement. A revised action date has been agreed with Officers against this recommendation.	01/09/2018

REPORT TO:	AUDIT SUB-COMMITTEE: SPECIAL	AGENDA ITEM: 7
DATE OF MEETING:	25th JULY 2018	CATEGORY: DELEGATED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC:
SUBJECT:	COMMITTEE WORK PROGRAMME	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: G

1.0 Recommendations

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

2.0 Purpose of Report

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

3.0 Detail

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

4.0 Financial Implications

4.1 None arising directly from this report.

5.0 Background Papers

5.1 Work Programme.

Audit Sub-Committee: Indicative Work Programme 2018/19

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

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

Local Government Audit Committee Briefing	13 th February/20 th March 2019	Jason Burgess (Assistant Manager) EY Jburgess3@uk.ey.co
Internal Audit Progress Report	13 th February/20 th March 2019	Adrian Manifold (Audit Manager) Adrian.manifold@centralmidlandsaudit.co.uk
Certification of Claims and Returns Report 2017/18	13 th February/20 th March 2019	Jason Burgess (Assistant Manager) EY
External Audit Planning Report for the year ending 31 st March 2019	13 th February/20 th March 2019	Jburgess3@uk.ey.co
Internal Audit Plan 2018/19 and Audit Charter	13 th February/20 th March 2019	Adrian Manifold (Audit Manager) Adrian.manifold@centralmidlandsaudit.co.uk