

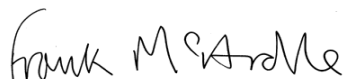
Date: 12<sup>th</sup> September 2017

Dear Councillor,

**Audit-Sub Committee**

A Meeting of the **Audit-Sub Committee** will be held in the **Council Chamber**, on **Wednesday, 20 September 2017 at 16:00**. You are requested to attend.

Yours faithfully,



Chief Executive

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

**Labour Group**  
Councillors Dunn and Shepherd

## **AGENDA**

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

- 1 Apologies.
- 2 To receive the Open Minutes of the following Meeting:  
  
Audit Sub-Committee 14th June 2017 Open Minutes **4 - 7**
- 3 To note any declarations of interest arising from any items on the Agenda
- 4 To receive any questions by members of the public pursuant to Council Procedure Rule No.10.
- 5 To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 6 LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING **8 - 20**
- 7 INTERNAL AUDIT ANNUAL REPORT 2016-17 **21 - 31**
- 8 INTERNAL AUDIT PROGRESS REPORT **32 - 59**
- 9 AUDIT RESULTS REPORT ISA 260 REPORT FOR THE YEAR ENDING 31st MARCH 2017 **60 - 114**

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

- 10 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.
- 11 To receive the Exempt Minutes of the following Meeting:

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

AUDIT SUB-COMMITTEE

14<sup>th</sup> June 2017

**PRESENT:-**

**Conservative Group**

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

**Labour Group**

Councillors Dunn and Shepherd

AS/1 **APOLOGIES**

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

AS/2 **MINUTES**

The Open Minutes of the Meeting held on 29<sup>th</sup> March 2017 were taken as read, approved as a true record and signed by the Chairman.

AS/3 **DECLARATIONS OF INTEREST**

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

AS/4 **TO RECEIVE ANY QUESTIONS FROM MEMBERS OF THE PUBLIC PURSUANT TO COUNCIL PROCEDURE RULE NO.10**

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

AS/5 **TO RECEIVE ANY QUESTIONS FROM MEMBERS OF THE COUNCIL PURSUANT TO COUNCIL PROCEDURE RULE NO.11**

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

**MATTERS DELEGATED TO SUB-COMMITTEE**

AS/6 **LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFINGS 2017**

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

The Chairman referred to the Key Questions for Audit element of the report and queried whether there were any particular issues to address. The Director



of Finance and Corporate Services gave assurances that, where appropriate, all matters had been addressed or were in hand.

**RESOLVED:-**

***Members considered the key questions raised by the Council's External Auditors contained in their quarterly sector updates for 2017.***

AS/7 **EXTERNAL AUDIT: INTERIM UPDATE REPORT**

The external auditor presented the report to the Sub-Committee, confirming that the audit planning and interim audit exercises had been completed and that no significant issues had been identified.

**RESOLVED:-**

***Members noted the interim update report and approved the audit recommendations as detailed in Appendix 1 to the Report.***

AS/8 **INTERNAL AUDIT PROGRESS REPORT**

The internal auditor presented the report to the Sub-Committee, stating that in relation to audits completed to date, no significant issues had been experienced.

Councillor Dunn queried progress on the second whistleblower investigation. In the absence of his colleague, the internal auditor present was unable to clarify the precise position, but stated that once complete a report would be presented to the Sub-Committee at the earliest opportunity.

**RESOLVED:-**

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

AS/9 **INTERNAL AUDIT ANNUAL REPORT 2016/17**

The internal auditor presented the report to the Sub-Committee, highlighting the references to the Opinion statement and the external assessment of Internal Audit. In relation to the latter, he explained that the three main findings, as detailed in the report, had either been addressed or were being dealt with. With regard to the Opinion, the internal auditor stated that, as some audits were still to be completed, he could proffer an Interim Opinion at this time, subject to some reservations as outlined in the report. The Chief Executive gave assurances that the relevant information was being made available to the auditors, to enable them to complete their investigations.

Councillor Dunn queried the time being taken. The Chief Executive outlined the proper process was being complied with and that the outcomes would be reported in due course.

**RESOLVED:-**

***Members considered and noted the Annual Internal Audit Opinion for 2016/17.***

AS/10 **LOCAL CODE OF CORPORATE GOVERNANCE ANNUAL REPORT 2016/17**

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

Councillor Dunn made reference to the mandatory training for staff and queried whether some topics should also be mandatory for Members. The Chief Executive agreed, stated that Members may benefit from training beyond that required statutorily and that a report would be submitted for Members' consideration.

**RESOLVED:-**

***1.1 Members approved the annual assessment against the Council's Local Code of Corporate Governance for 2016/17.***

***1.2 Members noted the completion of the work plan to strengthen the Council's governance arrangements in 2016/17.***

AS/11 **ANNUAL GOVERNANCE STATEMENT 2016/17**

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

It was noted that the interim Internal Audit Opinion in AS/9 would be included in the Statement and that the overall Statement was subject to External Audit assessment.

**RESOLVED:-**

***1.1 Members approved the referral of the Annual Governance Statement for the year ended 31st March 2017 to the Finance and Management Committee and its publication within the draft Statement of Accounts for 2016/17.***

***1.2 Members authorised the Leader of the Council and Chief Executive Officer to sign the Annual Governance Statement.***

AS/12 **LOCAL GOVERNMENT ACT 1972 (AS AMENDED BY THE LOCAL GOVERNMENT [ACCESS TO INFORMATION] ACT 1985)**

**RESOLVED:-**

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

**MINUTES**

***The Exempt Minutes of the Meeting held on 29<sup>th</sup> March 2017 were received.***

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

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

The Meeting terminated at 4.30pm.

COUNCILLOR J GRANT

CHAIRMAN

<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 6</b>
<b>DATE OF MEETING:</b>	<b>20<sup>th</sup> SEPTEMBER 2017</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE and CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:kevin.stackhouse@south-derbys.gov.uk">kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/audit/EY/quarterly update cover
<b>SUBJECT:</b>	<b>LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING</b>	
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 01</b>

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### **1.0 Recommendation**

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

### **2.0 Purpose of Report**

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

### **3.0 Detail**

3.1 The Auditor's report is appended.

### **4.0 Financial Implications**

4.1 None

### **5.0 Corporate Implications**

5.1 None

### **6.0 Community Implications**

6.1 None



**Local  
Government  
audit committee  
briefing**



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

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

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

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

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

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





# Government and economic news

## EY Item Club Forecast

The latest EY Item Club forecast projects that UK GDP will grow by 1.8% this year, in line with last year's outcome. Rather than meaning that nothing has changed in the economy, it masks an underlying shift in the balance of demand following the fall in the pound after last June's Brexit vote – and means the economy is already adjusting to life outside the EU.

It expects growth to slow down during the course of this year, leaving 2018 and 2019 looking weaker at growth rates of 1.2% and 1.5% respectively.

As consumption grows, the shift in demand that's underway essentially involves a rebalancing from consumption to overseas trade. Last year, consumption effectively accounted for all the growth in demand, with overseas trade subtracting 0.4% from UK GDP growth. But with the savings ratio at a record low, this year sees a major slowdown in consumption as inflation bites into spending power. Meanwhile, net trade is projected to add to GDP in every year covered by this forecast.

This adjustment is being helped by a timely revival in our overseas markets. World trade and industrial output are growing faster than at any time since 2010, when they bounced back from the recession. For once, the recent economic data has surprised on the upside – not just in the UK but also in the US and Eurozone.

This revival partly reflects the knock-on effects of the collapse in commodity prices in 2015. And their recent recovery has pushed inflation back close to target levels almost everywhere, easing worries about deflation, especially in the Eurozone.

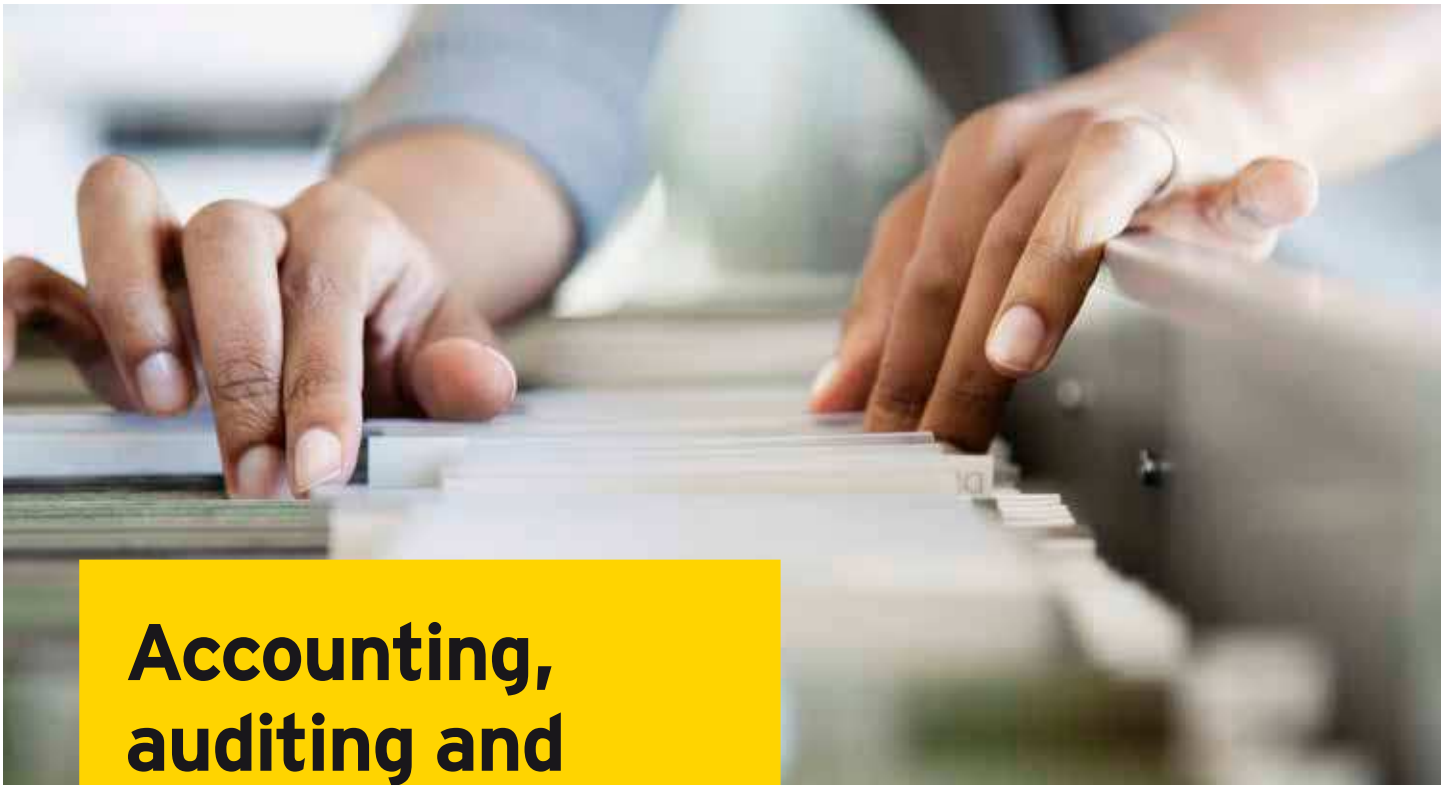
Despite the bright spots, political risks remain. In the US, the 'Trump bump' in the financial markets has been followed by another increase in consumer and business confidence. As a result, consumer confidence there is now stronger than at any time since the dot-com boom in 2000. However, as president, Donald Trump is facing political challenges in delivering some of his campaign promises – a situation that makes the likelihood, timing and magnitude of US policy initiatives very uncertain. What's more, any initiatives he does succeed in delivering could either help or hinder the UK's adjustment to life outside the EU.

Against this mixed background, UK exporters are currently enjoying the benefits of Single Market membership as well as the devaluation in sterling and the revival in the world economy. We are assuming they will be trading under World Trade Organisation (WTO) rules in two years' time, although it's possible that the Government will be able to negotiate more favourable transition arrangements, perhaps followed by free trade agreements. These arrangements would make the adjustment smoother than the WTO option and provide some upside potential.

In respect of Brexit, firms may not have the confidence to invest until they see the shape of the new trading and immigration arrangements. The forecast sees investment falling this year and again in 2018, holding back demand and longer-term economic performance. As the countdown to Brexit begins, it's clear that UK businesses will be living with uncertainty for some time to come.







# Accounting, auditing and governance

## WannaCry ransomware attack

On Friday 12 May 2017, a global ransomware attack occurred across a whole range of sectors, including healthcare, government, telecommunications and gas, spreading to over 300,000 systems in over 150 countries. This affected many NHS Providers throughout the UK including the ability of some to provide a full suite of healthcare.

Over the last five years the number of attacks has grown tremendously as cyber criminals demand relatively small amounts of money in return for the data they hold hostage. However the return of data does not always happen.

WannaCry was used in conjunction with self-propagating malware allowing it to spread aggressively to other computers over an organization's network without requiring further interaction from users. This is the first time ransomware has been used in this way.

### Why is this attack significant?

The global scale of indiscriminate targeting emphasizes the need for all companies, private and public, to pay attention to security basics:

- ▶ Keep systems up-to-date with software patches
- ▶ Make regular backups of data
- ▶ Educate users not to click suspicious links

The overall cost of the disruption is significant, but variable by sector and organization. Actual costs to organizations is not yet known, and will differ for every victim, but could have long lasting effects in the NHS if it lead to delayed or cancelled treatments.

### Steps to take now

The WannaCry incident highlights the need for organizations to get the cybersecurity basics right:

1. Identify and manage the organization's cyber risks, with a specific focus on the priority cyber threats and breach scenarios that could disrupt operations or have other negative impacts on the organization.
2. Educate the organization's employees in good cybersecurity practices and the use of third-party assessment/assurance programs.
3. Maintain awareness of the cyber threat environment. Cyber criminals and other attackers are constantly evolving their methods to create ever-more effective ways of exploiting vulnerabilities for monetary gain or disruption purposes. Often this involves interfering with data integrity rather than compromising its confidentiality.
4. Maintaining and regularly reviewing elements of a cybersecurity program will provide a strong foundation for building cyber resilience into your organization: patch often, define your cyber incident response process, back up regularly and practice response scenarios.



### **Preventive measures to reduce the risk of ransomware**

EY member firms range of cybersecurity services – including proactive penetration testing, cyber transformation and Managed Security Operations Centers – can be leveraged to prevent a ransomware outbreak within an organization:

- ▶ Ensure vulnerability and patch management policies and procedures are up to date and are implemented through appropriate change control procedures. Where out-of-date and legacy operating systems are used, seek guidance from vendors on further steps.
- ▶ Maintain an effective enterprise incident response and business continuity plan that is tested and measured for effectiveness against ransomware and other potential attack methods, as well as updated to reflect the current cyber threat environment.
- ▶ Ensure the organization has a security awareness training program in place with proactive testing, including screenshots of what to look out for. Clear guidance should be provided on the immediate steps alongside incident reporting guidelines. This should be communicated to all users and third parties who connect to the organization's network.
- ▶ Ensure regular, tested backups are in place to mitigate effects of possible infection and speed the recovery process in lieu of succumbing to ransom payment demands.
- ▶ Seek assurance from third parties who connect to your network that they are following similar actions to yourself and that they are appropriately protecting themselves.
- ▶ Implement endpoint monitoring, giving security operations teams the visibility into malicious behaviour occurring in the environment.
- ▶ Identify critical systems and data and confirm these are connected to Internet only when necessary.
- ▶ Make sure to test the security program with frequent penetration tests across the estate.
- ▶ Review how proactive security monitoring of the entire environment via a Security Operations Center (SOC) could enable faster detection and response to incidents.

### **Response considerations in the event of an attack**

If an organization believes it is compromised, or is in the process of being compromised, then the following activities can help to provide a rapid response, damage containment and communications to end users:

- ▶ Disconnect infected machines from the network and take all backups offline. These could become encrypted as well if left connected to the network.
- ▶ EY FIDS's Forensic Technology & Discovery Services team can be quickly mobilized to help companies:
  - ▶ Forensically analyse network and host systems to detect early indications of penetration by ransomware to allow more rapid response and remediation.
  - ▶ Forensically detect, identify and contain ransomware malware based on previous experience with ransomware negotiations and ransomware eradication. Forensically circumvent ransomware and/or recover data from damaged systems and/or backups, and verify that recovered data are clean from ransomware contamination.
  - ▶ Forensically image and preserve highly sensitive impacted machines to help ensure the systems and data are not destroyed by ransomware.
  - ▶ Collect and preserve IT and business evidence in a forensically sound manner, and then deliver internal or stakeholder investigations and support disputes with customers, service providers, and requirements for regulatory reporting.
- ▶ Activate your incident response plan and don't treat the investigation as merely an IT issue; there should be cross-functional representation in the investigation team such as: legal, compliance, information security, business, PR, HR, etc.
- ▶ Identify and address vulnerabilities in the environment, sufficiently harden the environment to complicate the attacker's effort to get back in, enhance the ability to detect and respond to future attacks, and prepare for eradication events.
- ▶ Activate your business continuity plan. Prepare data based on varying requirements for regulatory inquiries or civil suits.



## Women and leadership

The King's Fund recently drew attention to a couple of reports on women in leadership roles:

- ▶ NHS Women on Boards: 50:50 by 2020 (see <http://www.nhsemployers.org/case-studies-and-resources/2017/03/nhs-women-on-boards-5050-by-2020>)
- ▶ Women in finance

These reports draw attention to the problems some women face in obtaining senior leadership positions within the NHS and other organisations. While there are typically more women that start in finance roles than men there are few women that move up the management ladder. The main reason for this is thought to be organisational culture.

A study in 2016 across a range of sectors found that unsupportive workplace cultures present the most significant barrier for women to progress their career. This was the case for female respondents in most age categories. Gender inequality and discrimination were reported with women feeling that they have to over-perform simply because of their gender. Recommendations following this study included building closer relationships between men and women in the workplace, and the provision of

opportunities to discuss gender issues experienced within the organisational culture.

Organisational culture, such as the drive for a more inclusive approach to leadership development, is currently receiving considerable attention in the NHS. Given the NHS is made up of a predominantly female workforce, the impact of such a culture is largely upon women. Despite 77 percent of the NHS workforce being female there is generally a much lower percentage of women in senior leadership positions. For the NHS Improvement/ NHS Employers target of 50:50 representation on boards to be achieved 500 more women would need to be appointed to board-level positions by 2020.

The NHS report also advocates gender-specific learning in NHS training programmes, covering topics such as unconscious bias, management of flexible working practices and specific female coaching, mentoring and sponsorship.

Within the EY Assurance service line we have many experts in Culture and have provided various services across the NHS and Local Government. If you would like to discuss any of these past projects, or a new one for your body, please contact your local engagement lead who can provide more information.

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## 2018/19 Code of Practice on Local Authority Accounting Consultation

CIPFA/LASAAC are consulting on the 2018-19 Code of Practice on Local Authority Accounting in the United Kingdom.

The consultation closes on 6 October 2017 with responses direct to CIPFA. The following changes are being consulted on:

- ▶ IFRS 9 Financial Instruments
- ▶ IFRS 15 Revenue from Contracts with Customers

- ▶ Narrow scope amendments to International Financial Reporting Standards
- ▶ Legislative and policy changes.

Further information is available from Paul Mayers, Audit Manager, on 07972 221 078 or [paul.mayers@nao.gsi.gov.uk](mailto:paul.mayers@nao.gsi.gov.uk).



# Other news

## Use of Housing Companies

Housing lawyer Ian Doolittle has stated that there are over 40 councils which have or are currently working towards setting up housing companies, with this figure expecting to increase over the coming years.

The reasoning behind setting the companies up can vary from building homes to sell and rent at market rates, to building social housing separate to the HRA. The message from central government regarding this is that any means to help the current housing crisis is welcomed.

Deputy Chief of the Chartered Institute of Housing (CIH) Gavin Smart spoke about the benefits housing companies can have in serving different market segments, however was wary regarding whether the new homes are genuinely affordable.

He stated that councils must prioritise building new home at social rent levels.

An interesting aspect around the housing companies being set up is that responsible borrowing of money from the General Fund does not count towards the HRA Debt cap. This is being seen as an attractive option for many councils who have reached the debt cap which was introduced in 2012.

With private developments not meeting demand and private housing carrying a high cost it seems Housing Companies could be seen as an important mechanism in achieving the Government's aim to build one million new homes over the next five years.

For advice on the implications of setting up a Housing Company please speak to your audit engagement team.

## EY Local government audit committee members governance forum

Between April and July we held five events across the country for local government audit committee chairs and members to meet, network, gain some EY insights and learn from each other on topical governance challenges facing the sector.

We've met almost 80 members some with a few weeks experience and others with many decades, some who may well have been just out of school, others far wiser but all passionate about their local communities their roles as elected officials.

In this section of the briefing we share with you the benefits members obtained from attending our events and our plans for the future.

We focused each forum on the current hot topic in the sector – commercialisation and what it means for audit committees. Notwithstanding the challenge posed by the simple question of 'what does commercialisation mean', the variety of ongoing

and emerging activities was striking ranging from advertising on roundabouts to building new crematorium and establishing housing development companies. Some key threads for members was public perception of authorities acting commercially, the need for authorities to ensure that they have the right capabilities, capacity, are focused on the long term and that the organisational culture matches the direction of travel.

Audit committee members had some concerns that they only tend to see commercial activities after they had been signed and sealed rather than providing challenge on governance and accountability before deals are completed.

Members valued the opportunity to meet peers, network and connect and hear how others are tackling similar issues using different approaches. Members also valued the insights that EY brings from our engagement with a wide range of authorities and other organisations around the country.

## Next steps

Following the overwhelmingly positive feedback from attendees we plan to run these forum every six months. We will seek input from members to set the agenda but

ensure sufficient time for networking and sharing and suspect the commercialisation agenda will remain the hot topic. Please liaise with your engagement partner and audit manager for details of dates and venues.

## Outcome of Local Government Tender Process

The Public Sector Audit Appointments Limited (PSAA) announced the results of the Local Government tender on 20 June 2017, and we are delighted to say that we have been successful in retaining our 30% share of the Local Government external audit market. Details of the announcement can be found on the PSAA website.

Since 2012, we have invested and committed to the growth of our public sector assurance team, and we believe this outcome reflects the feedback our clients and the PSAA have given us on the quality, efficiency and effectiveness of our service. This is also evidenced by our AQRT scores, which is discussed below. We are committed to the public sector and going forward we are extremely pleased that we are the leading Big 4 firm delivering audit services to the local government sector.



Between now and the end of December 2017, PSAA will be consulting with audited bodies on the proposed appointed auditor to determine the allocation of audit clients. We will be actively participating in the process, with our primary focus on ensuring the allocations safeguard independence, objectivity, and ensuring we are able to continue to deliver high quality, efficient and effective audits.

In the meantime, we are continuing to work to support our clients in preparing for the faster closure of accounts from the 2017/18 financial year. We recognise the journey our local government clients are making to transform and ensure sustainable public services. We are committed to work with our clients to share our insights from the vast range of services we provide in the public sector.

## Financial Reporting Council's (FRC) Audit Quality Inspection Results

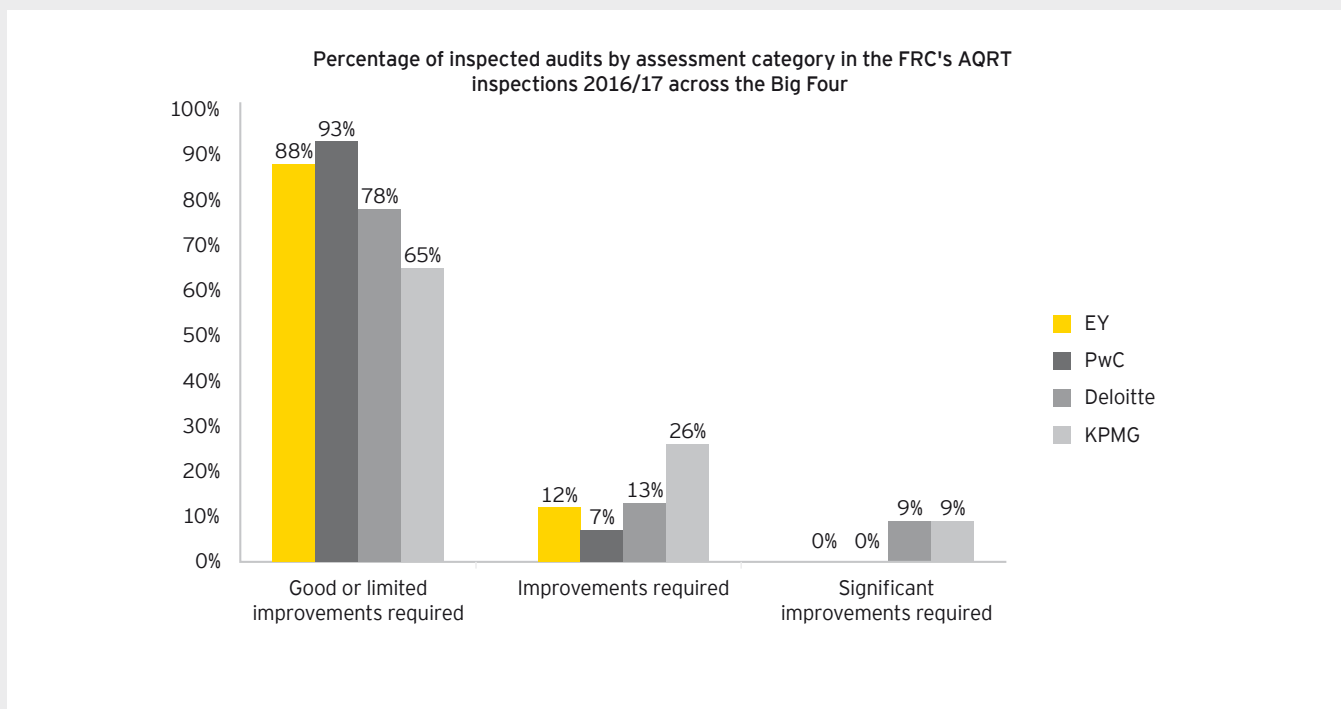
Executing high quality audits continues to be our highest priority. Ensuring that we deliver high quality audits is fundamental to our business and our public service obligation. We are therefore committed to a significant and sustained investment in audit quality.

### EY's investment continues to be reflected in the FRC's inspection results

The firm is subject to external inspection by the FRC's Audit Quality Review Team (AQRT), the ICAEW's Quality Assurance Department (QAD) and the Public Company Accounting and

Oversight Board (PCAOB) from the US. The AQRT's scope is the audits of FTSE 350 and other public interest companies in the UK and it issues public reports outlining its work and conclusions.

We are delighted that 88% of our audits inspected by the AQRT this year were assessed as requiring no more than limited improvements and that once again no audits subject to review were identified as requiring significant improvements. The results of the FRC AQRT report published in June 2017, as presented in the chart below, reflect our sustained investment in audit quality.



**Figure 1.** Bar chart showing the FRC Audit Quality Review Team inspection results for EY, PwC, Deloitte and KPMG





# Key questions for the Audit Committee

Does your organisation and its partners have in place IT security arrangements which minimise the risk and impact of cyber attacks?

Is your culture allowing women to progress to senior positions?

Are you aware of the commercial activities of your authority? What assurance have you sought on the adequacy of risk identification, effectiveness of risk management and the arrangements for optimising benefits realisation?

Are you assured that all financial considerations have been addressed? Including appropriate due diligence, staying within

state aid rules, understanding the impact on the minimum revenue provision and clarity on the longer term revenue implications of capital investments.

Do you know about the significant commercial activities in the pipeline? What assurance do you have that business cases are robust and realistic?

Has your authority recently discussed and agreed its risk appetite?

## Find out more

### EY Item Club Forecast

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

### WannaCry ransomware attack

<http://www.ey.com/gl/en/services/advisory/ey-wannacry-ransomware-attack>

### Women and leadership

<http://www.nhsemployers.org/case-studies-and-resources/2017/03/nhs-women-on-boards-5050-by-2020>

### Use of Housing Companies

<http://www.publicfinance.co.uk/feature/2016/10/company-houses-how-councils-are-constructing-new-model-housing>





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ED None

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<b>REPORT TO:</b>	<b>AUDIT SUB-COMMITTEE</b>	<b>AGENDA ITEM: 7</b>
<b>DATE OF MEETING:</b>	<b>20<sup>th</sup> SEPTEMBER 2017</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>AUDIT MANAGER</b>	
<b>MEMBERS' CONTACT POINT:</b>	<b>ADRIAN MANIFOLD</b> <a href="mailto:Adrian.manifold@centralmidlandsaudit.gov.uk">Adrian.manifold@centralmidlandsaudit.gov.uk</a> <b>(01332 643281)</b>	<b>DOC:</b> u/ks/audit/internal audit/annual reports/summary
<b>SUBJECT:</b>	<b>INTERNAL AUDIT ANNUAL REPORT 2016/17</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 02</b>

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## **1.0 Recommendations**

1.1 To consider and note the Annual Internal Audit Opinion for 2016/17.

## **2.0 Purpose of Report**

2.1 The Public Sector Internal Audit Standards (PSIAS) sets out the requirements for the Chief Audit Executive to report to the Committee to help inform their opinions on the effectiveness of the framework of governance, risk and control in operation within the Council.

## **3.0 Detail**

3.1 The report of the Audit Manager is appended. This is an updated report following an interim opinion reported to the Committee in June 2017.

## **4.0 Financial Implications**

4.1 None

## **5.0 Corporate Implications**

5.1 None directly

## **7.0 Community Implications**

7.1 None directly

## **8.0 Background Papers**

8.1 The Accounts and Audit Regulation 2015

# South Derbyshire District Council – Internal Audit Annual Report 2016-17

Audit Committee: 20<sup>th</sup> September 2017



## Our Vision

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

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## Introduction

### Why is an Audit Opinion required

The Public Sector Internal Audit Standards (PSIAS) sets out the requirement for Chief Audit Executive to report to the Board (e.g. the relevant Audit Committee) to help inform their opinions on the effectiveness of the framework of governance, risk and control in operation within the Council.

In accordance with PSIAS, the Chief Audit Executive is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (i.e. the Council's system of internal control).

The Council's Assurance Framework should bring together all of the evidence required to support the Annual Governance Statement (AGS) requirements. This is achieved through a risk-based plan of audit work, agreed with management and approved by the Board (e.g. the relevant Audit Committee), which should provide a reasonable level of assurance.

The report highlights matters for consideration and refers to plans for further assurance activity in areas of concern. The report is broken down into an overall opinion and a detailed Internal Audit outturn report for all activity in the year to fulfil the requirements of the Accounts and Audit Regulations 2015 and PSIAS.

The annual opinion contributes to the completion of the Annual Governance Statement (AGS). It is specifically timed to be considered as part of the Council's annual review of governance and internal control.

### How an Audit Opinion is Formed

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

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

The audit work planned for 2016/17 has informed the Chief Audit Executive's opinion on the internal control environment that exists within the Council. The Chief Audit Executive reports his overall opinion to the Audit Committee on an annual basis.

The Chief Audit Executive provides this written report to those charged with governance which gives an opinion on the overall adequacy and effectiveness of the organisation's internal control environment. This is timed to support the Annual Governance Statement, which is also being presented to this Committee for review by Members.

Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of financial and other management controls.

The Chief Audit Executive's overall audit opinion is based on the work undertaken by internal audit in 2016/17. The reporting of the incidence of significant control failings or weaknesses has also been covered in the progress reports to the Committee on Internal Audit's progress against the annual Audit Plan.



### Basis for Opinion

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

In preparing the overall opinion, the Chief Audit Executive has reviewed all audit activity carried out during 2016/17 and noted any issues arising from those audits that have carried forward into 2017/18. Each individual audit undertaken contains a control assurance rating (opinion) on the adequacy and effectiveness of controls in place to mitigate the risks identified. Where weaknesses in control are identified, an action plan is agreed with management. Progress with these agreed actions is monitored by Internal Audit during the

# South Derbyshire District Council – Internal Audit Annual Report 2016-17

year through follow up audit work.

The Chief Audit Executive will use the individual assurance ratings from the audits conducted in 2016/17 and the progress with agreed actions to form the overall opinion.

In presenting his opinion, the Chief Audit Executive will identify where reliance has been placed on work by other assurance bodies. His opinion will be based on the work of Internal Audit and his understanding of work carried out by external assurance agencies.

In respect of the key financial systems of the Council, based on the Internal Audit work undertaken in the year, the Chief Audit Executive will be able to give an overall assurance on the adequacy and effectiveness of the internal controls operating in these systems.

## Possible Overall Opinions

The Chief Audit Executive's opinion relative to the organisation as a whole could fall into one of the following 3 categories:

- **Inadequate System of Internal Control** – Findings indicate significant control weaknesses and the need for urgent remedial action. Where corrective action has not yet started, the current remedial action is not, at the time of the audit, sufficient or sufficiently progressing to address the severity of the control weaknesses identified.
- **Adequate System of Internal Control Subject to Reservations** – A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.
- **Satisfactory System of Internal Control** - Findings indicate that on the whole, controls are satisfactory, although some enhancements may have been recommended.

## External Assessment of Internal Audit

Public Sector Internal Audit Standard 1312 requires that "External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation."

The Council is part of the Central Midlands Audit Partnership. The Chief Audit Executive of CMAP requested that Milford Research and Consultancy Limited conducted this external quality assessment of the internal auditing activities of CMAP. The principal objectives of the quality assessment are to assess the internal audit activity's conformance to Standards, evaluate the internal audit activity's effectiveness in carrying out its mission (as set forth in its charter to its partners), and identify opportunities to enhance its management and work processes.

The assessment is based on the following 3 ratings:

- **Generally Conforms** - means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards.
- **Partially Conforms** - means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
- **Does Not Conform** - means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

The initial assessment was carried out in the period February – April 2017. The consultant has fed back his findings to the CMAP Board and is still engaged to oversee the Change and Development Programme. He has recently provided an update position on our overall conformance with the Standards and is now content to re-assess our conformance as follows:

	Number of standards	Generally Conforms	Partially Conforms	Does Not Conform
Code of Ethics	4	4	0	0
Attribute Standards	19	19	0	0
Performance Standards	33	33	0	0

The overall opinion is that the internal audit activity **Generally Conforms** with the Standards and Code of Ethics. The Consultant identified some opportunities for further improvement and development which have extensively been addressed. CMAP has made significant progress on its Change and Development Programme to enhance and build on the service it provides to partners. All areas of non-conformance now have been addressed via the Change Programme.

# South Derbyshire District Council – Internal Audit Annual Report 2016-17

## Chief Audit Executive's Opinion 2016-17

Based on the work undertaken during the year, I have reached the overall opinion that there is an **Adequate System of Internal Control Subject to Reservations** – A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.

I have arrived at this opinion having regard to the following:

- As a result of whistleblowing, a major investigation has been conducted into the procurement and contracting arrangements in the Council's Housing Department. This has attracted a 'Limited' assurance rating. Management has resolved to take appropriate remedial action to improve controls. Whilst significant progress has been made, these remedial actions have yet to be fully completed.
- Evidence of officers over-riding of some of the Council's key controls relating to procurement and contracting was identified. This has resulted in Management taking disciplinary action.
- A further investigation of additional allegations into the procurement and contracting arrangements in the Council's Housing Department has been concluded which identified further examples of issues identified in the original investigation as well as other similar issues. This work attracted a 'Reasonable' assurance rating. Again, Management has resolved to take appropriate remedial action to improve controls. Whilst significant progress has been made, these remedial actions have yet to be fully completed.
- At the request of the Council a wider examination of procurement and contracting arrangements within the Council has been significantly completed. This work is still ongoing, but a number of control weaknesses have already been identified which raises concerns as to whether or not the control weaknesses in the procurement and contracting process were isolated to the Housing Department. These matters are yet to be formally agreed with Management
- The level of coverage provided by Internal Audit was considered adequate. Although, a number of planned audit assignments had to be postponed to accommodate the whistleblowing investigation.
- There were no adverse implications for the Authority's Annual Governance Statement arising from any of the routine work that Internal Audit has undertaken in 2016-17.
- The majority of routine assignments attracted either a 'Comprehensive' or 'Reasonable' assurance rating, with only one attracting a 'Limited' rating.
- All of the issues raised within the internal audit reports have been accepted.

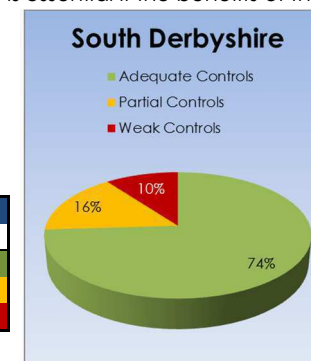
- Internal Audit's recommendations, or alternative proposed actions made by Management in response to the risk issue, have been agreed to be implemented in all cases but three.
- Sufficient audit coverage of the Council's Main Financial Systems has been provided in 2016-17 and attracted either 'Reasonable' or 'Comprehensive'.
- Internal Audit finalised the review of limited part of the Council's Corporate Governance arrangements in the early part of the financial year. Specifically, the process for the compilation of the Council's Annual Governance Statement; the communications protocol for ensuring proper scrutiny of the Council's functions; and the process for ensuring appropriate Member and officer training with regard to governance. The level of assurance was considered 'Comprehensive' and the two low risk recommendations highlighted by the review have since been implemented.
- A Data Quality audit was commenced during 2016-17 and we coordinated a self-assessment of all the Council's performance indicators as well as a close examination of four of the Council's higher risk performance measures. The review has recently been completed and it was deemed that the overall control environment was 'Reasonable'.

This opinion is provided with the following caveats:

- The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the Council. The opinion is substantially derived from the conduct of risk-based audit work and as such, it is one component that is taken into account when producing the Council's Annual Governance Statement.
- No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.
- Full implementation of all agreed actions is essential if the benefits of the control improvements detailed in each individual audit report are to be realised.

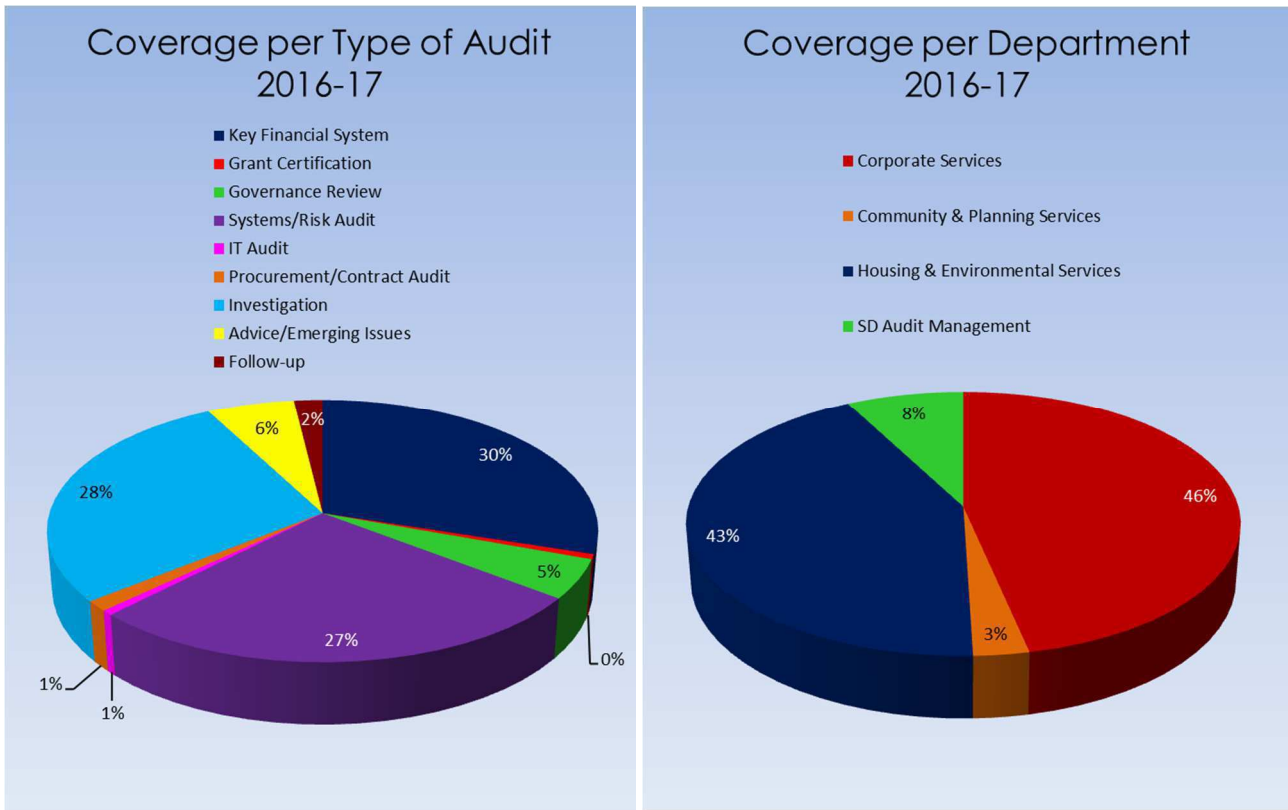
For those audits finalised during 2016-17, we established the following information about the controls examined:

South Derbyshire District Council	2016-17
Evaluated Controls	381
Adequate Controls	282
Partial Controls	60
Weak Controls	39



## Audit Coverage

The following charts seek to demonstrate the extent of audit coverage provided to South Derbyshire District Council during 2016-17.

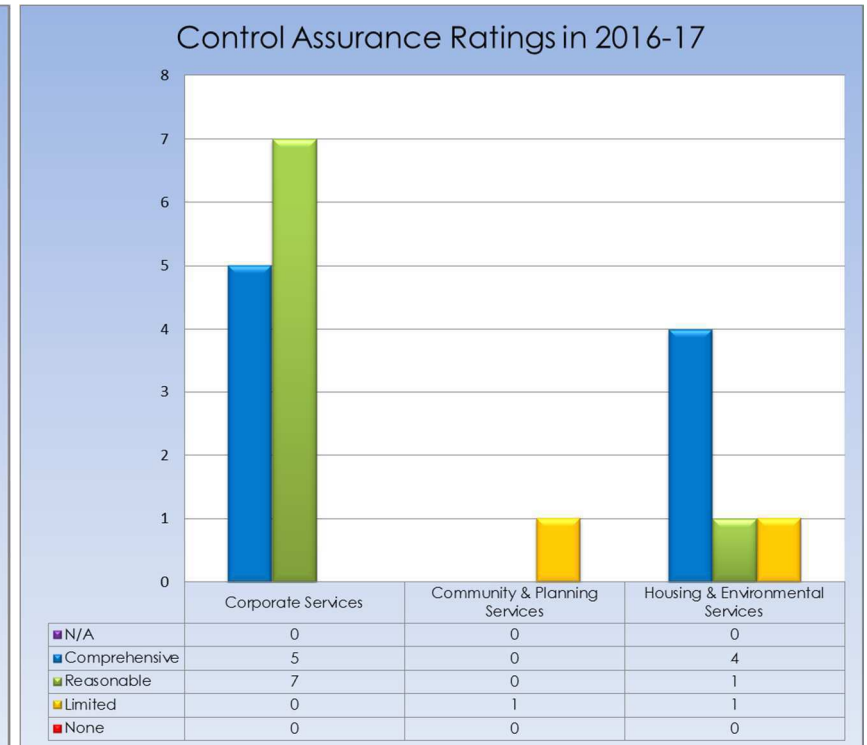
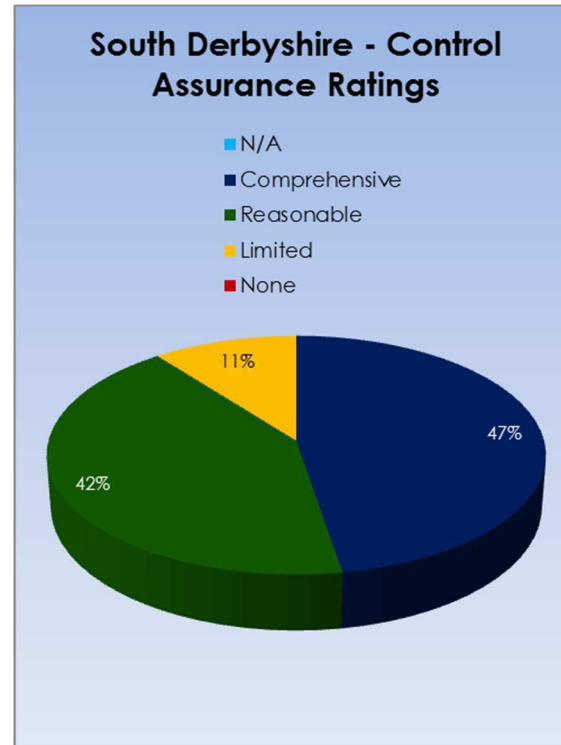




## Control Assurance Ratings

All audit reviews contain an overall opinion based on the adequacy of the level of internal control in existence at the time of the audit. These are graded as either:

- **N/A** – The type of work undertaken did not allow us to reach a conclusion on the adequacy of the overall level of internal control.
- **Comprehensive** - We are able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls were in place and operating effectively and risks against the achievement of objectives were well managed.
- **Reasonable** - We are able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks were well managed, but some systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Limited** - We are able to offer limited assurance in relation to the areas reviewed and the controls found to be in place. Some key risks were not well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **None** - We are not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks were not being well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.



This report rating is determined by the number of control weaknesses identified in relation to those examined, weighted by the significance of the risks.



# South Derbyshire District Council – Internal Audit Annual Report 2016-17

## Performance Measures

### Service Delivery (% of Audit Plan Completed)

At the end of each month, Audit staff provide the Audit Manager with an estimated percentage complete figure for each audit assignment they have been allocated. These figures are used to calculate how much of each Partner organisation's Audit Plans have been completed to date and how much of the Partnership's overall Audit Plan has been completed.

By the end of the Plan year 88.2% of the Audit Plan had been completed against a target of 91%.

### Productivity (Chargeable Days as % of Days Potentially Available for Audit)

Audit staff record the time they spend on audit assignments, administration and management in our bespoke database. Every minute worked is logged against an appropriate code. This time is analysed and compared to planned audit work.

Time is analysed between Productive and Non-productive time. We aimed to achieve an increased target productive rate of 72.7% for the year. The average productive rate for 2015-16 was 71.8%, which we managed to increase to an average of 72.5% in 2016-17.

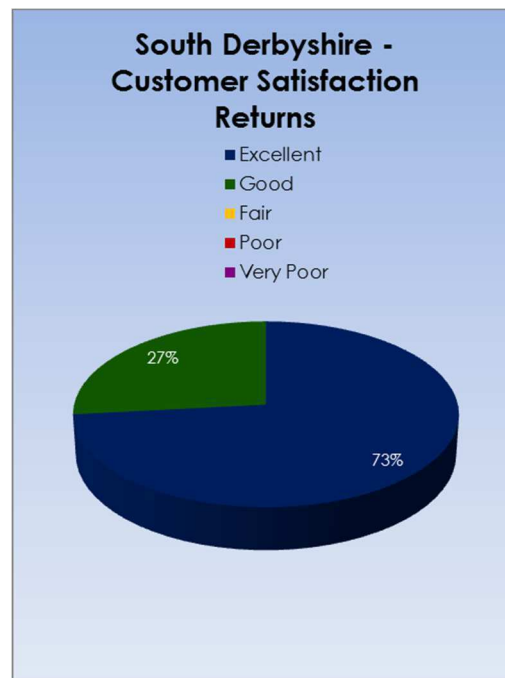
### Customer Satisfaction Returns

The Audit Section sends out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent. Appendix A summarises the average score for each category from the 15 responses received. The average score from the surveys was 50.6 out of 55. The lowest score received from a survey was 41, while the highest was 55 which was achieved on 5 occasions.

The overall responses are graded as either:

- **Excellent** (scores 46 to 55)
- **Good** (scores 38 to 46)
- **Fair** (scores 29 to 37)
- **Poor** (scores 20 to 28)
- **Very Poor** (scores 11 to 19)

Overall 11 of 15 responses categorised the audit service they received as excellent; the remaining 4 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.



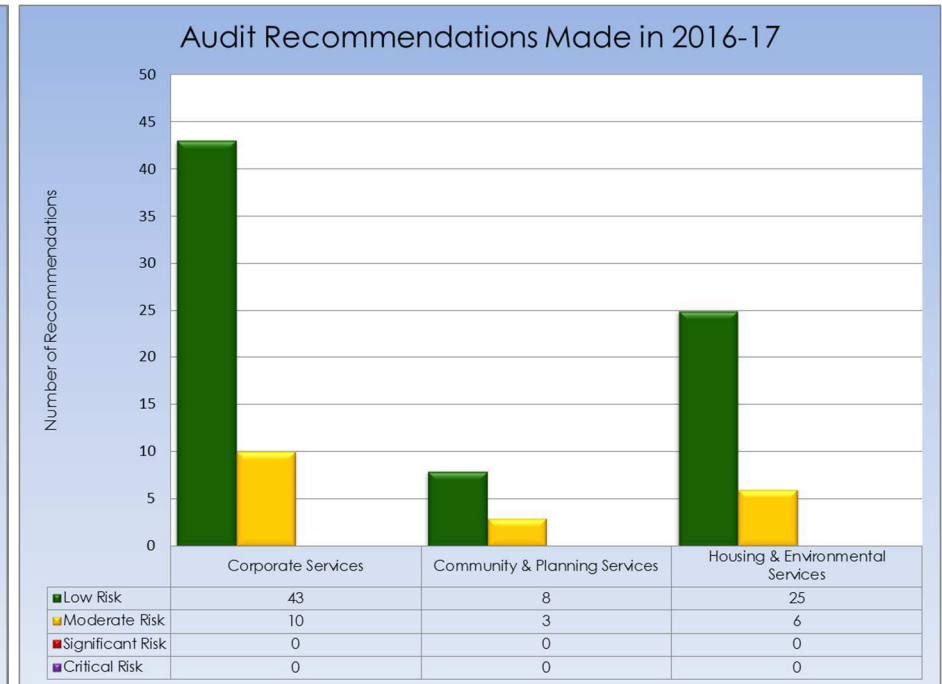
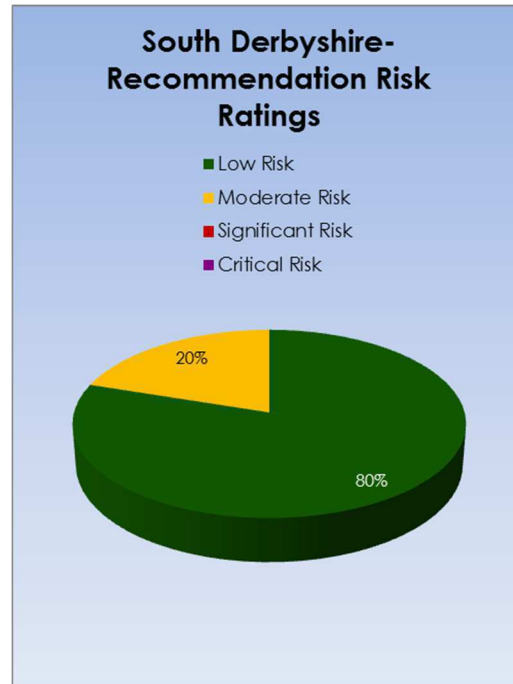
# South Derbyshire District Council – Internal Audit Annual Report 2016-17

## Audit Recommendations

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

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

These ratings provide managers with an indication of the importance of recommendations as perceived by Audit; they do not form part of the risk management process; nor do they reflect the timeframe within which these recommendations can be addressed. These matters are still for management to determine. A summary of recommendations made, by directorate, for 2016-17 is shown in the table below.



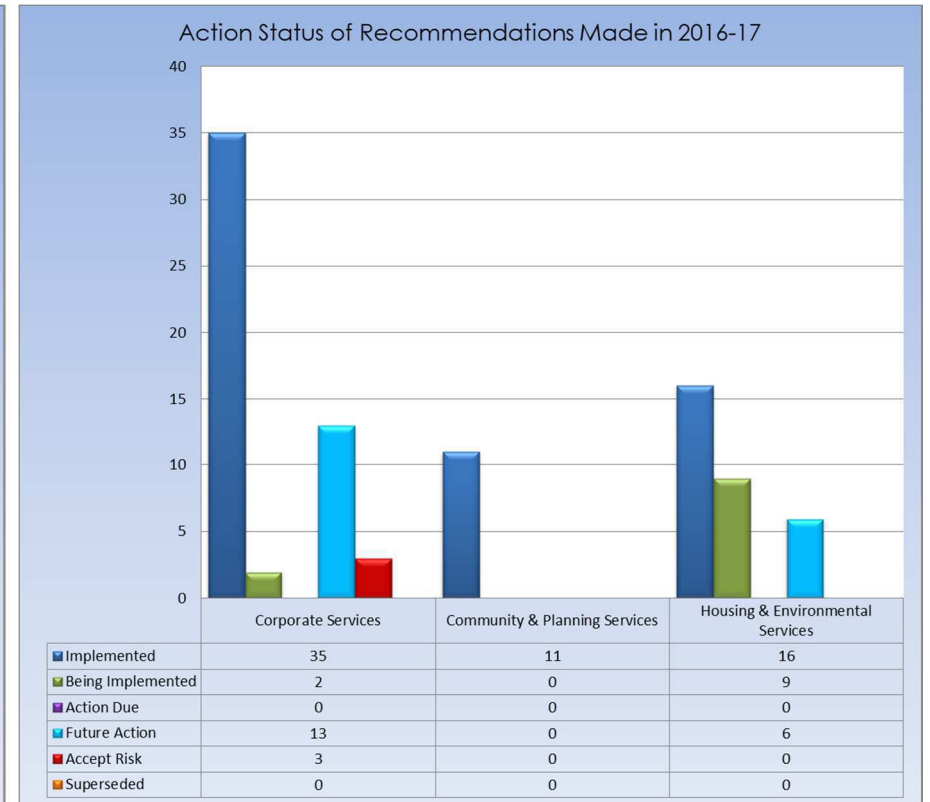
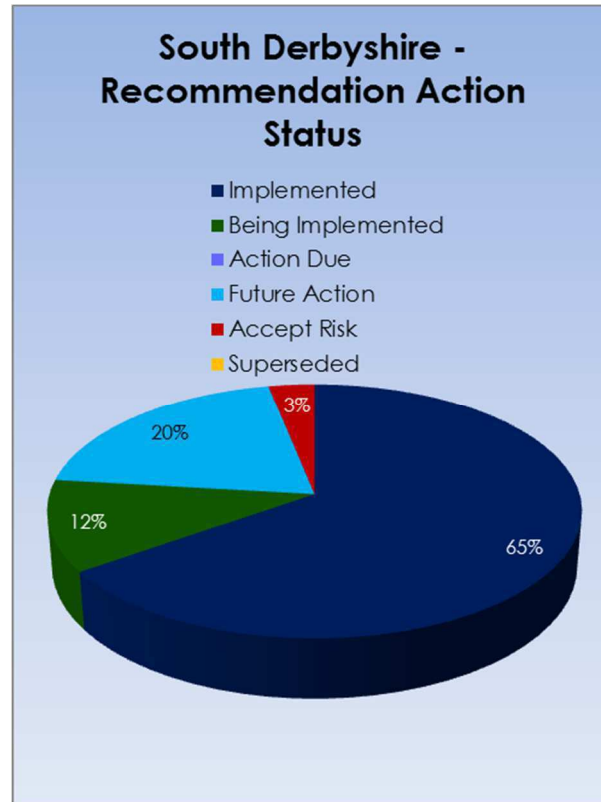
# South Derbyshire District Council – Internal Audit Annual Report 2016-17

## Recommendations Action Status

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

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

- **Implemented** = Audit has received assurances that the agreed actions have been implemented.
- **Being Implemented** = Management is still committed to undertaking the agreed actions, but they have yet to be completed. (This category should result in a revised action date).
- **Action Due** = Audit have been unable to ascertain any progress information from the responsible officer.
- **Future Action** = The recommendations haven't reached their agreed action date.
- **Accept Risk** = Management has decided to accept the risk that Audit has identified and take no mitigating action.
- **Superseded** = Audit has received information about changes to the system or processes that means that the original weaknesses no longer exist.



<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 8</b>
<b>DATE OF MEETING:</b>	<b>20<sup>th</sup> SEPTEMBER 2017</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE and CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:kevin.stackhouse@south-derbys.gov.uk">kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/audit/internal audit/quarterly reports/quarterly report cover
<b>SUBJECT:</b>	<b>INTERNAL AUDIT PROGRESS REPORT</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 02</b>

## **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 2016/17 as at 31<sup>st</sup> August 2017.

## **3.0 Detail**

- 3.1 The detailed report is attached.

## **4.0 Financial Implications**

- 4.1 None.

## **5.0 Corporate Implications**

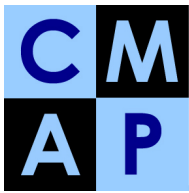
- 5.1 None directly.

## **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: 20<sup>th</sup> September 2017



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## Our Vision

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

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# South Derbyshire District Council – Audit Progress Report

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## Introduction

### Role of Internal Audit

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

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

### Recommendation Ranking

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

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

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

### Control Assurance Definitions

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

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

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



# South Derbyshire District Council – Audit Progress Report

## Audit Coverage

### Progress on Audit Assignments

The following table provide Audit Sub-Committee with information on how audit assignments were progressing as at 31<sup>st</sup> August 2017.

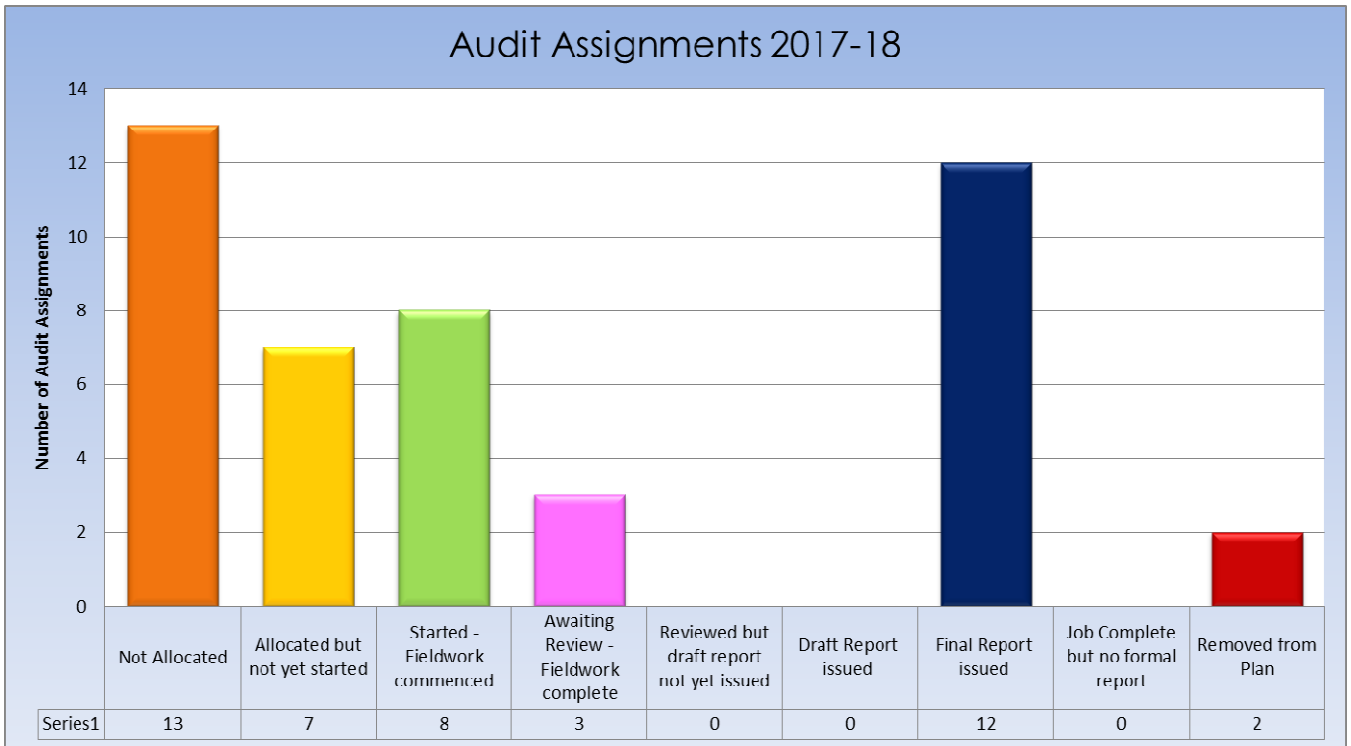
Audit Plan Assignments 2016-17	Type of Audit	Current Status	% Complete	Level of Assurance
Main Accounting System 2016-17	Key Financial System	In Progress	70%	
<b>Banking Services</b>	<b>Systems/Risk Audit</b>	<b>Final Report</b>	<b>100%</b>	<b>Reasonable</b>
Payroll 2016-17	Key Financial System	In Progress	75%	
<b>Creditors 2016-17</b>	<b>Key Financial System</b>	<b>Final Report</b>	<b>100%</b>	<b>Reasonable</b>
Debtors 2016-17	Key Financial System	In Progress	75%	
Safeguarding	Governance Review	In Progress	60%	
<b>Fixed Assets 2015-17</b>	<b>Key Financial System</b>	<b>Final Report</b>	<b>100%</b>	<b>Reasonable</b>
<b>Parks &amp; Open Spaces</b>	<b>Systems/Risk Audit</b>	<b>Final Report</b>	<b>100%</b>	<b>Reasonable</b>
<b>Change &amp; Configuration Management</b>	<b>IT Audit</b>	<b>Final Report</b>	<b>100%</b>	<b>Reasonable</b>
<b>Client Monitoring - Corporate Services Contract</b>	<b>Procurement/Contract Audit</b>	<b>Final Report</b>	<b>100%</b>	<b>Reasonable</b>
<b>Whistleblowing Investigation 2</b>	<b>Investigation</b>	<b>Final Report</b>	<b>100%</b>	<b>Reasonable</b>
Housing Contracts Review	Investigation	In Progress	75%	
Audit Plan Assignments 2017-18	Type of Audit	Current Status	% Complete	
Business Continuity & Emergency Planning	Systems/Risk Audit	Allocated	70%	
Cashiering (Agile Audit)	Key Financial System	In Progress	60%	
Officers Expenses & Allowances	Systems/Risk Audit	Allocated	10%	
People Management	Systems/Risk Audit	Allocated	10%	
Express Electoral System Security Assessment	IT Audit	Allocated	0%	
Backup Server Healthcheck	IT Audit	Fieldwork Complete	80%	
Backup Policy	IT Audit	Allocated	0%	
Sharpes Pottery	Systems/Risk Audit	In Progress	30%	
Rent Accounting	Systems/Risk Audit	Allocated	0%	
Tenants Arrears	Systems/Risk Audit	Allocated	0%	
Dry Waste Recycling Contract	Systems/Risk Audit	Fieldwork Complete	80%	
Licensing	Systems/Risk Audit	Allocated	5%	
Investigation - Recycling & Waste	Anti-Fraud/Probity/Investigation	In Progress	65%	



# South Derbyshire District Council – Audit Progress Report

## Audit Coverage

### Progress on Audit Assignments Chart



## South Derbyshire District Council – Audit Progress Report

### Audit Coverage

#### Completed Audit Assignments

Between 7<sup>th</sup> June 2017 and 31<sup>st</sup> August 2017, the following audit assignments have been finalised since the last Progress Report was presented to this Committee (the overall control assurance rating is shown in brackets):

- Banking Services (**Reasonable**).
- Creditors 2016-17 (**Reasonable**).
- Fixed Assets 2015-17 (**Reasonable**).
- Parks & Open Spaces (**Reasonable**).
- Change & Configuration Management (**Reasonable**).
- Client Monitoring - Corporate Services Contract (**Reasonable**).
- Whistleblowing Investigation 2 (**Reasonable**).

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

#### Banking Services

##### Overall Assurance Rating: **Reasonable**

This audit focused on a review of bank accounts and bank statements to identify the need for the accounts and any inappropriate transactions and balances. Also controls were examined around the use of smart cards, card readers and procurement cards.

From the 20 key controls evaluated in this audit review, 11 were considered to provide adequate control and 9 contained weaknesses. This report contained 7 recommendations, all of which were considered to present a low risk. Another minor risk issue was also highlighted for management's consideration. The following issues were considered to be the key control weaknesses:

1. The Council had not undertaken an exercise to determine the need for all existing accounts being transferred to the new banking contract and there was no regular review of usage levels of opened accounts. (**Low Risk**)
2. A full history of bank transactions had not been retained to enable later queries on bank transactions to be promptly resolved. (**Low Risk**)
3. There was no evidence that three Direct Debits had been authorised appropriately. (**Low Risk**)
4. There was no Policy in place that defined the responsibilities of the Council and card holders in relation to the use of Council Procurement Cards. (**Low Risk**)
5. There was no process for assessing the need for procurement cards being issued to officers. (**Low Risk**)
6. Officers issued with procurement cards were not required to sign an agreement to accept the terms and conditions of use of the card and to secure the card at all time. (**Low Risk**)
7. There was no documented guidance for management (collection & disposal) of procurement cards where staff leave the employment of the council. (**Low Risk**)

All of the issues raised were accepted. Positive action had been taken to address 5 of the recommendations by the end of the audit; one will be addressed by the end of July 2017 and one by the end of March 2018.

#### Creditors 2016-17

##### Overall Assurance Rating: **Reasonable**

This audit focused on controls around the Accounts Payable system, i.e. policies and procedures, records maintenance, processing of transactions, reconciliations with the General Ledger at South Derbyshire District Council.

## South Derbyshire District Council – Audit Progress Report

From the 16 key controls evaluated in this audit review, 13 were considered to provide adequate control and 3 contained weaknesses. This report contained 3 recommendations, 2 of which were considered to present a low risk and the other presenting a moderate risk. The following issues were considered to be the key control weaknesses:

1. Financial Procedure Rules and the Purchase Order Conditions guidance on the website were out-of-date, not having been reviewed since 2014 and 2011 respectively. (Low Risk)
2. There was no consistent process in place for checking supplier accounts created to confirm that:
  - The account was not a duplicate.
  - The account details agreed to those on supporting documents. (Moderate Risk)
3. The 'No Purchase Order, No Pay' policy statement within the Contract Procedure Rules had not been adhered to. (Low Risk)

All 3 issues raised within this report were accepted and all issues raised had been addressed at the conclusion of the audit.

### Fixed Assets 2015-17

#### Overall Assurance Rating: Reasonable

This audit focused on assessing the adequacy of processes and controls employed in the valuation of fixed assets. It has also assessed the data transfer process from the former Fixed Asset system to the new Real Asset Management database and the procedures to keep it updated.

From the 21 key controls evaluated in this audit review, 16 were considered to provide adequate control and 5 contained weaknesses. This report contained 4 recommendations, 3 of which were considered to present a low risk and the other presenting a moderate risk. The following issues were considered to be the key control weaknesses:

1. A minimum password length had not been set and the password expiry setting was not known. Also, the necessary training had not been delivered to allow first time users secure access to the Real Asset Management database. (Low Risk)
2. The procedure for logging asset movements and notifying the responsible officer for updating the Real Asset Management database was not formally documented and could not be properly confirmed. (Low Risk)
3. Periodic reconciliations were not being completed between the Fixed Asset Register and the General Ledger, prior to the year- end exercise. (Moderate Risk)
4. There was not a defined set of reports generated for senior management to monitor amendments to assets on the system. (Low Risk – Risk Accepted)

All 4 control issues raised in this report were accepted and positive action had already been taken to address one of these control issues. Positive actions were agreed to address 1 low risk by 30<sup>th</sup> September 2017 and the moderate risk by 1<sup>st</sup> October 2017. In respect of the remaining low risk control issue, management have accepted the risk and are satisfied with the existing management reporting arrangements in place. However, they have agreed for this to be kept under review

### Parks & Open Spaces

#### Overall Assurance Rating: Reasonable

This audit sought to ensure that appropriate controls were in place in respect of the maintenance of play equipment and safe use of play areas.

From the 18 key controls evaluated in this audit review, 10 were considered to provide adequate control and 8 contained weaknesses. This report contained 8 recommendations, 6 of which were considered to present a low risk and the other 2 presenting a moderate risk. The following issues were considered to be the key control weaknesses:

1. Comprehensive risk assessments of play equipment were not available for inspection. A limited number of non-descript risk assessments were located with play equipment listed as a

## South Derbyshire District Council – Audit Progress Report

hazard, suggesting that risk assessments had not been completed for all playgrounds and equipment across the district. (Moderate Risk)

2. The Council did not maintain an inventory of play equipment, located on various sites around the district. (Low Risk)
3. Routine visual inspections were being undertaken on a daily and monthly basis of play equipment, but the results of the inspections were not being documented. (Low Risk)
4. Where issues and faults had been identified, the corrective action taken to rectify the fault had not been recorded on the inspection sheet. (Low Risk)
5. Files and documentation confirming compliance with safety standards was not held centrally, but rather in separate project files in the Cultural Services Department. (Low Risk)
6. The Council did not have any documented procedures, instructing officers in the event of a playground or park accident. (Low Risk)
7. Signs at play areas did not clearly identify the site operator, relying instead on a display of the Council's emblem, not necessarily identifiable with all users of the play areas. In addition, out of hours contact details differed on one sign compared to the other three we viewed. (Low Risk)
8. Park Keepers and other members of the Grounds Maintenance team undertaking inspections of play equipment had not received appropriate training. (Moderate Risk)

All 8 issues raised within this report were accepted. Action will be taken to address 3 of the issues raised by 31<sup>st</sup> December 2017 with action taken to address the remaining 5 issues by 31<sup>st</sup> March 2018.

### Change & Configuration Management

#### Overall Assurance Rating: Reasonable

This audit focused on the Council's change and configuration management policies and procedures, as well as integration between change and configuration management processes and other business critical service management processes, including incident management.

From the 38 key controls evaluated in this audit review, 23 were considered to provide adequate control and 15 contained weaknesses. This report contained 10 recommendations, 6 of which were considered to present a low risk and the other 4 presenting a moderate risk. Another 1 minor risk issue was highlighted for management's consideration. The following issues were considered to be the key control weaknesses:

1. Changes were being actioned despite the Request For Change (RFC) form not containing all the mandatory background information, such as missing Director approval, cost codes, stake holders and consultees. (Low Risk)
2. The Council had not documented risk assessments or impact assessments for any of a sample of 10 recently completed requests for change. (Moderate Risk)
3. The Council was not distributing a forward schedule of change, to end users, to notify them of all approved changes and the planned implementation dates. (Moderate Risk)
4. The Council had not defined key metrics specific to the change management processes such as change aging report, failed change report, or changes by lead time, and had not documented an effective reporting process for monitoring the service desk performance. (Low Risk)
5. The change control process did not require requests for change forms or the implementing team to record whether the change requested would involve an update, addition or deletion any amendments to the Configuration Management Database (CMDB), possibly leading to data quality and accuracy issues. (Low Risk)
6. There was no dedicated configuration management policy, and the small coverage in the ICT Service Management policy was not sufficient as it did not cover the Council's policy on configuration management planning, control, identification, monitoring, verification and

## South Derbyshire District Council – Audit Progress Report

integration with other service management processes, such as incident management and change management. (Moderate Risk)

7. The Council had not documented a formal configuration management plan to define data capture requirements for the Configuration Management Database (CMDB). (Low Risk)
8. The Council were not performing data quality audits against the Configuration Management Database (CMDB) to assess the completeness and accuracy of data. During our testing we noted a number of active devices in Active Directory had not been registered in the CMDB, and the physical status had not been registered against any of the configuration items in the CMDB. (Moderate Risk)
9. The Configuration Management Database (CMDB) did not formally establish relationships between Configuration Item's, which could impact incident response efforts, as well as lead to ineffective risk assessment processes for assessing the technical and business impact on requests for change. (Low Risk)
10. There were no documented standard operating procedures for maintaining and managing the Configuration Management Database (CMDB), which could lead to the data within the CMDB quickly becoming inaccurate and unreliable. (Low Risk)

All 10 of the issues raised were accepted and positive action was agreed to address one of the issues by the beginning of July 2017, one by the beginning of August 2017, another by the beginning of November 2017, one by the beginning of January 2018, and the remaining 6 by the end of March 2018.

### Client Monitoring - Corporate Services Contract

#### Overall Assurance Rating: Reasonable

A revised scope was agreed looking at the proposed new function of the Client Services Unit, given that the services formerly being delivered by Northgate had been brought back in-house. We were subsequently informed that this team was no longer in place and the Council was looking to implement a shared service arrangement with Derby City Council regarding Information Governance. We therefore fed back on the issues identified, in order for these to be built into any future proposals concerning these arrangements.

1. A Register of Corporate Policies was not being maintained by the Council to enable the effective management of these documents and/or on-going compliance. (Moderate Risk)
2. The Information Governance function was still being determined within the Council. (Moderate Risk)
3. Not all Council policies had a Control Page to define how the policy would be managed and controlled. (Low Risk)

All 3 issues raised within this report were accepted and positive action was agreed to address all of the issues by the end of November 2017.

### Whistleblowing Investigation 2

#### Overall Assurance Rating: Reasonable

Following the Council's Second Whistleblowing Investigation, it was agreed with the Solicitor & Monitoring Officer that CMAP would evaluate the adequacy of the systems of control in place concerning the housing improvement contracts (1-11 Rowley Court) and the batching of works in relation to the Right to Repair Regulations 1994. This report dealt with the system weaknesses identified during the second investigation and recommended what Audit considered to be appropriate control improvements. We sought to evaluate the adequacy of the systems of control and suggest control improvements where considered necessary.

The following issues were considered to be the key control weakness:

1. Signed Housing Contracts were not held in the custody of Legal Services. (Low Risk)
2. A formal process was not being followed for extending Housing Contracts. (Low Risk)

## South Derbyshire District Council – Audit Progress Report

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3. A formal exemption had not been raised to cover the extension of a Housing Contract past its contract end date, i.e. where this exceeded a specified extension period that had already been applied. (Low Risk)
4. Contractual spend was not being adequately identified in the General Ledger to enable effective spend monitoring over Housing Contracts. (Low Risk)
5. 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. (Moderate Risk)
6. Option appraisals and formal justifications had not been undertaken to demonstrate due process had been followed for the procuring of works. (Moderate Risk)
7. A suitable Project Plan had not been drawn up, and properly approved, for the refurbishment works at Rowley Court. (Low Risk)
8. As a result of our findings, we consider that the Contract Procedure Rules may require further clarification in respect of on-going contract management. (Low Risk)

All 8 of the control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Positive action in respect of 1 recommendation had already been taken by the end of the audit, another recommendation was due to be addressed by 31<sup>st</sup> August 2017 and 5 recommendations were due to be implemented by 1<sup>st</sup> September 2017, with the remaining moderate risk issue regarding the annual contract reviews due to be addressed by 1<sup>st</sup> April 2018.

### Audit Plan Changes

The two planned audits on Capital Programme and Procurement (Contracts Register) have been removed from the audit plan as the intended coverage of both these areas has been delivered in the work undertaken in the Wider Contracts Review and investigative work.

A specific audit assignment will be initiated later in the plan year to follow-up the actions taken by management to address all of the recommendations arising from the recent contract/procurement related work undertaken. This work will seek evidence of the effectiveness of the control improvements made by management.



# South Derbyshire District Council – Audit Progress Report

## Audit Performance

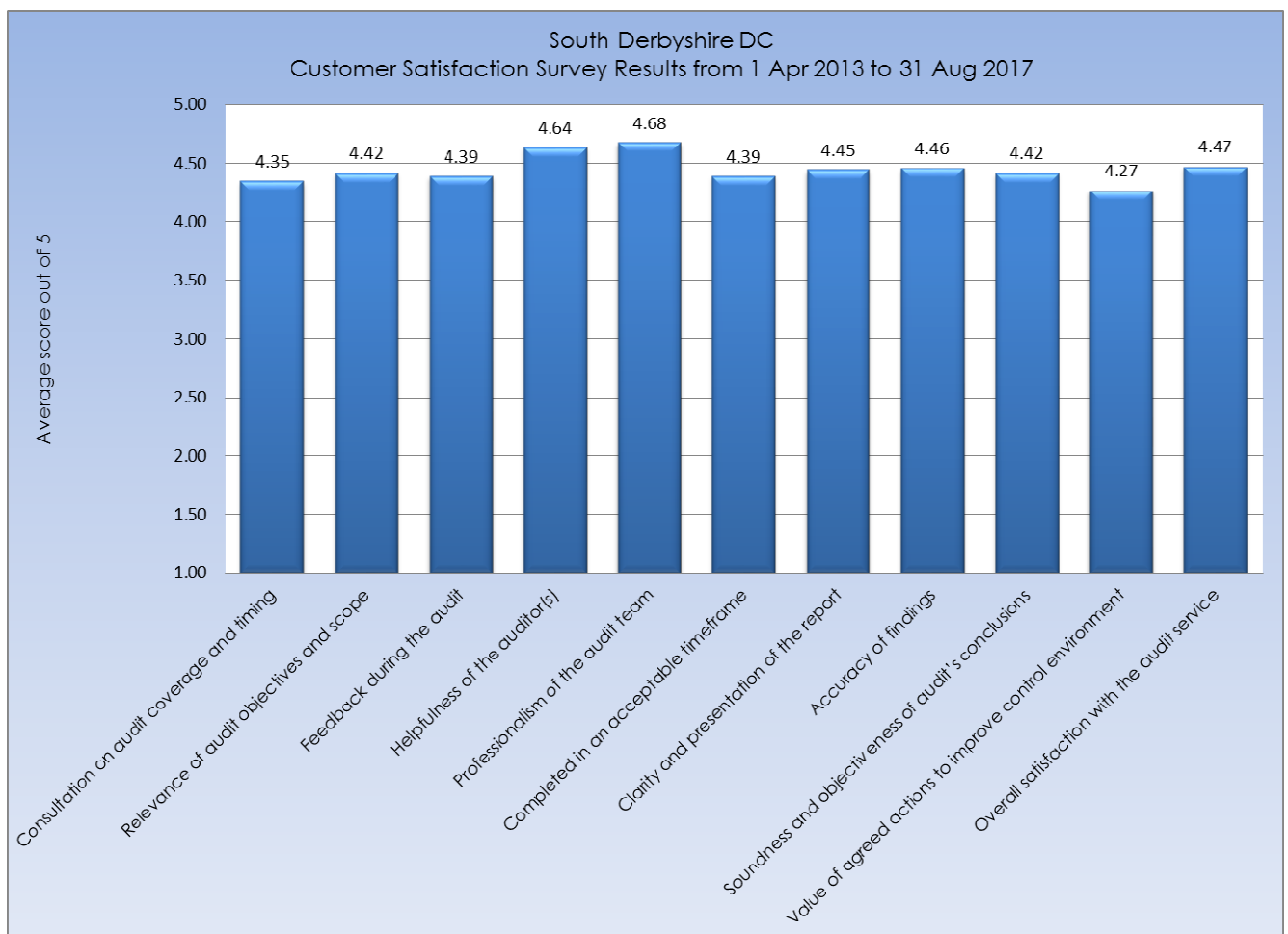
### Customer Satisfaction

The Audit Section sends out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent. The chart across summarises the average score for each question from the 74 responses received between 1<sup>st</sup> April 2013 and 7<sup>th</sup> September 2017. The overall average score from the surveys was 48.9 out of 55. The lowest score received from a survey was 39, whilst the highest was 55 which was received on 11 occasions.

The overall responses are graded as either:

- Excellent (scores 47 to 55)
- Good (scores 38 to 46)
- Fair (scores 29 to 37)
- Poor (scores 20 to 28)
- Very poor (scores 11 to 19)

Overall 52 of 74 responses categorised the audit service they received as excellent, another 22 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.





# South Derbyshire District Council – Audit Progress Report

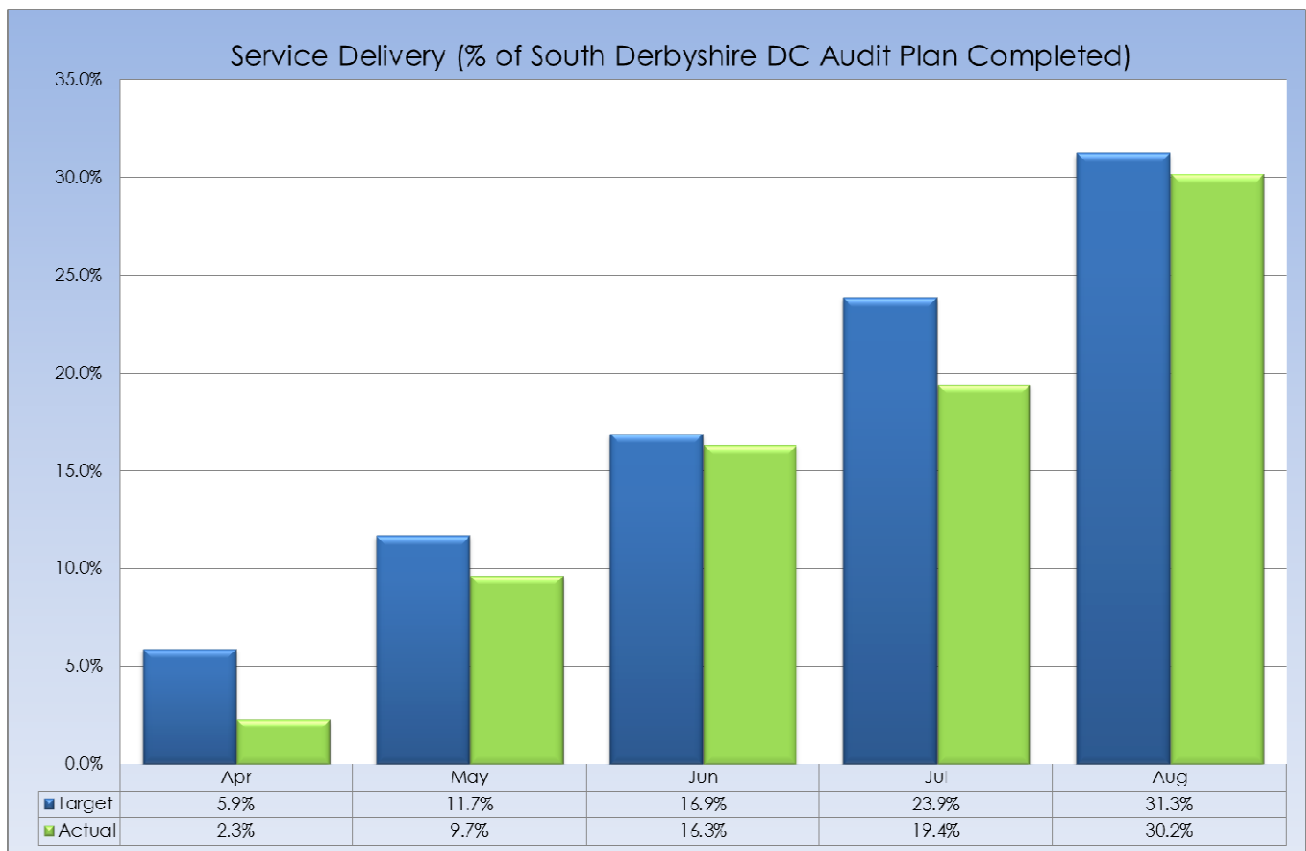
## Audit Performance

### Service Delivery (% of Audit Plan Completed)

At the end of each month, Audit staff provide the Audit Manager with an estimated percentage complete figure for each audit assignment they have been allocated. These figures are used to calculate how much of each Partner organisation's Audit Plans have been completed to date and how much of the Partnership's overall Audit Plan has been completed.

Shown across is the estimated percentage complete for South Derbyshire's 2016-17 Audit Plan (including incomplete jobs brought forward) after 5 months of the Audit Plan year.

The monthly target has been profiled to reflect the expected productive time available each month, but still assumes that time will be spent evenly over each partner organisation in proportion with their contributions which is not always the case.



# South Derbyshire District Council – Audit Progress Report

## Recommendation Tracking

### Follow-up Process

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

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

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

- **Action Due** = Action is due and Audit has been unable to ascertain any progress information from the responsible officer.
- **Future Action** = Action is not due yet, so Audit has not followed up.
- **Implemented** = Audit has received assurances that the agreed actions have been implemented.
- **Superseded** = Audit has received information about changes to the system or processes that means that the original weaknesses no longer exist.
- **Being Implemented** = Management is still committed to undertaking the agreed actions, but they have yet to be completed. (This category should result in a revised action date)
- **Risk Accepted** = Management has decided to accept the risk that Audit has identified and take no mitigating action.

### Implementation Status Details

The table below is intended to provide members with an overview of the current implementation status of all agreed actions to address the control weaknesses highlighted by audit recommendations made between 1<sup>st</sup> April 2013 and 11<sup>th</sup> September 2017.

	Implemented	Being Implemented	Risk Accepted	Superseded	Action Due	Future Action	Total
Low Risk	400	19	15	9	0	28	<b>471</b>
Moderate Risk	83	1	1	4	0	16	<b>105</b>
Significant Risk	2	0	0	0	0	0	<b>2</b>
Critical Risk	0	0	0	0	0	0	<b>0</b>
	<b>485</b>	<b>20</b>	<b>16</b>	<b>13</b>	<b>0</b>	<b>44</b>	<b>578</b>

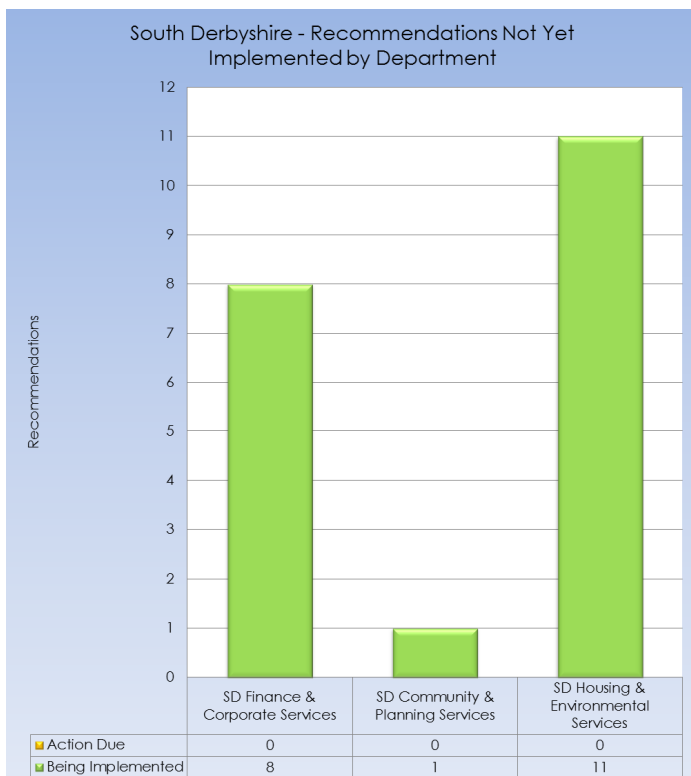
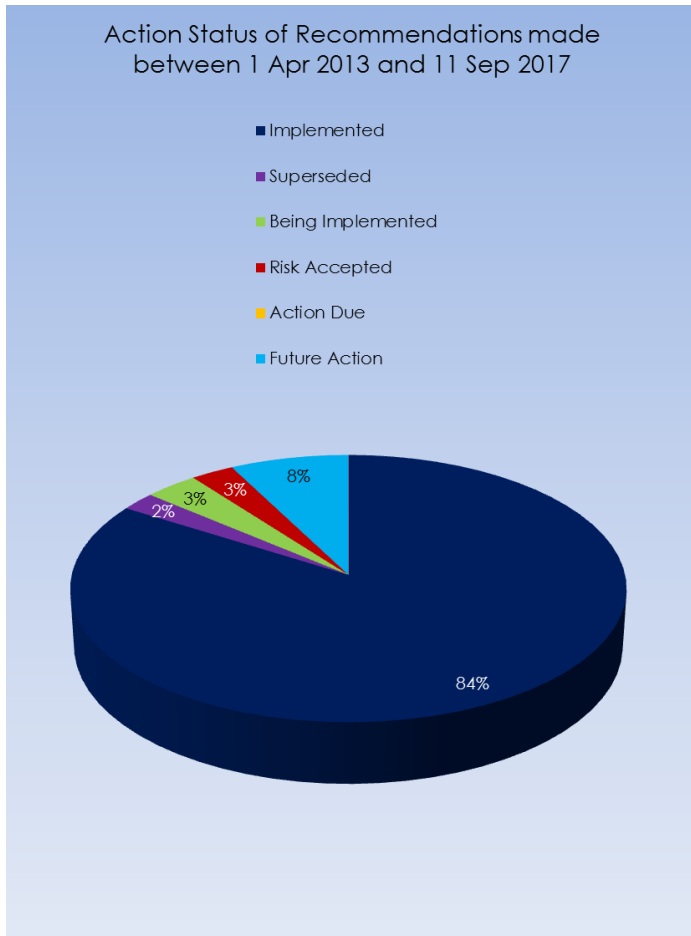
The table below shows those recommendations not yet implemented by Dept.

Recommendations Not Yet Implemented	Corporate Services	Community & Planning Services	Housing & Environmental Services	TOTALS
Being Implemented	8	1	11	<b>20</b>
Action Due	0	0	0	<b>0</b>
	<b>8</b>	<b>1</b>	<b>11</b>	<b>20</b>

Internal Audit has provided Committee with summary details of those recommendations still in the process of 'Being Implemented' and those that have passed their due date for implementation. We provide full details of each moderate, significant or critical risk issue where management has decided not to take any mitigating actions (shown in the 'Risk Accepted' category above). All the risk accepted issues shown above have already been reported to this Committee with the exception of an additional 1 low risk recommendation which arose from the Fixed Asset audit completed in this period (details of which can be found earlier in this report).

# Recommendation Tracking

## Implementation Status Charts



## South Derbyshire District Council – Audit Progress Report

### Recommendation Tracking

#### Highlighted Recommendations

The following outstanding recommendations are detailed for Committee's scrutiny. We have also included the latest position on all of the recommendations arising from our two whistleblowing investigations to provide Committee with a complete overview of the current situation:

#### Corporate Services

##### Council Tax / NNDR / Cashiering 2013-14

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

**Risk Rating** – Low Risk

**Status Update** – The exercise is being treated as data cleansing from the implementation of Academy, and will be a task allocated to apprentices. Staff shortages led to this being returned to a low priority status, to revisit in summer once annual billing and year end are out of the way. Continued lack of resource has impacted on progress. Further request for a 12 month extension due to NDR revaluation taking priority.

**Original Action Date** 31 Dec 14      **Revised Action Date** 31 Oct 17

##### Risk Management

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

**Risk Rating** – Low Risk

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

**Original Action Date** 31 Dec 15      **Revised Action Date** 31 Dec 17

##### Information@Work

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

**Risk Rating** – Low Risk

**Status Update** – This call is sat with IT waiting to implement the details you sent us for the torn page setting.

**Original Action Date** 31 Oct 16      **Revised Action Date** 29 Sep 17

##### CRM Security Assessment

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

**Risk Rating** – Low Risk

**Status Update** – Following a review of options and given the limited use of the current CRM system, it has been decided to replace the current CRM functionality for the sole user (Environmental Services) with a

## South Derbyshire District Council – Audit Progress Report

bespoke system written and maintained in-house. With the current server needing to be decommissioned for PSN purposes and the current system becoming unsupported in March 2018, there is now effectively a set deadline of February 2018. Although this will only act as an interim solution until Phase 2 of the website development is implemented, it will eliminate the current risks that were previously identified in the original audit.

Original Action Date 30 Apr 15 Revised Action Date 1 Mar 18

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

Risk Rating – Moderate Risk

**Status Update** - Following a review of options and given the limited use of the current CRM system, it has been decided to replace the current CRM functionality for the sole user (Environmental Services) with a bespoke system written and maintained in-house. With the current server needing to be decommissioned for PSN purposes and the current system becoming unsupported in March 2018, there is now effectively a set deadline of February 2018. Although this will only act as an interim solution until Phase 2 of the website development is implemented, it will eliminate the current risks that were previously identified in the original audit.

Original Action Date 31 Aug 15 Revised Action Date 1 Mar 18

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### Partnership Governance

**Control Issue 1** – The Partnership Agreement between the Council and the Forestry Commission did not include key areas.

Risk Rating – Low Risk

**Status Update** – The agreement between SDDC & FC is currently being reviewed and updated as part of the contract transition.

Original Action Date 30 Jun 17 Revised Action Date 31 Aug 17

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**Control Issue 2** – Whilst a significant change to the Rosliston Forestry Centre Executive Partnership prompted a new Partnership Agreement, the arrangements for review and revision of the partnership had not been documented within it.

Risk Rating – Low Risk

**Status Update** – The agreement between SDDC & FC is currently being reviewed and updated as part of the contract transition.

Original Action Date 30 Jun 17 Revised Action Date 31 Aug 17

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**Control Issue 3** – The aims, objectives and mission of the Rosliston Forestry Centre Executive Partnership differed across key partnership documents.

Risk Rating – Low Risk

**Status Update** – The agreement between SDDC & FC is currently being reviewed and updated as part of the contract transition.

Original Action Date 30 Jun 17 Revised Action Date 31 Aug 17

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## South Derbyshire District Council – Audit Progress Report

### Community & Planning Services

#### Bereavement Services

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

**Risk Rating** – Low Risk

**Status Update** – After seeking advice from other authorities, a proposal has been suggested to alter the procedure on extending Grants of Rights and to determine the fees payable. In line with other authorities we are proposing that it would become the responsibility of the Grant of Right holder or their 'successor in title' to extend/renew the grant at the end of the 50 year period. A proposed fee is to be included in our Fees & Charges review in October which will go through the Committee process with a view to coming into effect in April 2018. We are proposing that the 25 year extension to the Grant of Right be set at half the fee of the initial 50 year Grant. Will update the website/paperwork accordingly.

**Original Action Date** 31 Mar 15      **Revised Action Date** 1 Apr 18

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### Housing & Environmental Services

#### Whistleblowing Investigation

**Control Issue 1** – Housing works had not been procured in an open tender process, in line with the requirements of the Contract Procedure Rules.

**Risk Rating** – Low Risk

**Status Update** - This recommendation will be addressed with a series of refresher training and briefing sessions for staff following the resolution of the HR issues and the restructure of the Housing Department. This will, subject to approval by the Audit Sub-Committee, be referenced in the Governance Statement for 2016/17 as an action for 2017/18. In the meantime, relevant officers will be briefed to appraise them of the importance of complying with Council rules and regulations in this area.

This has largely been dealt with now through the Council's Disciplinary Process and identified officers have left the Council; interim staff are aware of the situation and the recommendations.

The Director of Finance and Corporate Services has sent out a separate briefing note (7th September) to all senior officers (31 in total) across the Council to make them aware of the updated CPRs, pointing out provisions around extending contracts, exemptions, etc. Several of the issues have also been picked up by the interim Director as part of his responses to Whistleblowing 2.

There is an action in the Draft AGS for 2016/17 to run some briefing sessions later in the year and in particular when new appointments have been made in the Housing Department. I would expect this to have been completed by 31st January 2018.

**Original Action Date** 31 Jan 17      **Revised Action Date** 31 Jan 18

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**Control Issue 2** – Works had been awarded outside of a Council framework contract which should have been awarded to a contractor(s) on the framework.

**Risk Rating** – Low Risk

**Status Update** – See update comments for Recommendation 1.

**Original Action Date** 31 Jan 17      **Revised Action Date** 31 Jan 18

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**Control Issue 3** – Multiple quotes had not been sought for building works, in line with the requirements of the Contract Procedure Rules.

**Risk Rating** – Low Risk

**Status Update** – See update comments for Recommendation 1.

**Original Action Date** 31 Jan 17      **Revised Action Date** 31 Jan 18

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## South Derbyshire District Council – Audit Progress Report

**Control Issue 4** – A mini-competition had not been run under the General Maintenance & Building Services framework contract for the awarding of larger works, not covered under direct award on a SoR basis.

Risk Rating – **Low Risk**

Status Update – See update comments for Recommendation 1.

Original Action Date 31 Jan 17      Revised Action Date 31 Jan 18

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**Control Issue 5** – Formal exemptions had not been raised to officially recognise the extenuating circumstances for not following Council rules and providing ratification of the actions taken.

Risk Rating – **Low Risk**

Status Update – See update comments for Recommendation 1.

Original Action Date 31 Jan 17      Revised Action Date 31 Jan 18

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**Control Issue 6** – Quotations for works had not been retained by the Housing Section.

Risk Rating – **Low Risk**

Status Update – See update comments for Recommendation 1.

Original Action Date 31 Jan 17      Revised Action Date 31 Jan 18

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**Control Issue 9** – The Council were using a contractor to deliver Council services on a regular basis without formalised contractual arrangements in place.

Risk Rating – **Low Risk**

Status Update - See update comments for Recommendation 1.

Original Action Date 30 Apr 17      Revised Action Date 31 Jan 18

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**Control Issue 15** – Contractors were not being correctly challenged on defective works.

Risk Rating – **Low Risk**

Status Update - This recommendation will be addressed with a series of refresher training and briefing sessions for staff following the resolution of the HR issues and the restructure of the Housing Department. This will, subject to approval by the Audit Sub-Committee, be referenced in the Governance Statement for 2016/17 as an action for 2017/18. In the meantime, relevant officers will be briefed to appraise them of the importance of complying with Council rules and regulations in this area.

Original Action Date 31 Jan 17      Revised Action Date 31 Oct 17

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### Whistleblowing Investigation 2

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

Risk Rating – **Low Risk**

Status Update - The system has been devised and is being used to evaluate existing contracts as they come up for renewal. Formal evidence of this process should be available by the end of October 2017.

Original Action Date 1 Sep 17      Revised Action Date 1 Nov 17

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**Control Issue 4** – Contractual spend was not being adequately identified in the General Ledger to enable effective spend monitoring over Housing Contracts.

Risk Rating – **Low Risk**

Status Update - Whilst improved budget monitoring identifies capital/revenue committed and actual spend on a monthly basis, any further financial monitoring system improvements in the general ledger has been delayed. Meetings to review and improve the Financial Management Systems between



## South Derbyshire District Council – Audit Progress Report

Housing and Finance, have been scheduled over the next four weeks. It is expected that any new ways of working will be implemented by the end of October 2017.

Original Action Date 1 Sep 17      Revised Action Date 31 Oct 17

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### Gypsy Sites

Control Issue 4 – There was no safe provided for the warden to store rent collected.

Risk Rating – Low Risk

Status Update – Council officers are currently performing the warden's role therefore no cash is held onsite. Approval has been given for recruitment of a new temporary warden and once appointed a safe will be provided. However DCC may take over the site sooner rather than later therefore recruitment may not actually commence.

Original Action Date 1 Apr 17      Revised Action Date 31 Jul 17

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# South Derbyshire District Council – Whistleblowing Investigations Update

Control Issue	Recommendation	Agreed Actions	Update Comments
<b>Whistleblowing Investigation 1 (Limited Assurance)</b>			
<p><b>Low Risk</b> Housing works had not been procured in an open tender process, in line with the requirements of the Contract Procedure Rules.</p>	<p>1 We recommend that the Housing Asset Manager monitors the annual value of off-contract spend with individual contractors to ensure that the total spend with a single organisation does not exceed £25,000 in any 5 year rolling period. Where spend has or is likely to exceed this threshold they must refer the matter to the Central Procurement Team in line with the requirements of the Contract Procedure Rules.</p>	<p>The Director of Housing &amp; Environmental Services will formally instruct the Housing Asset Manager to comply with the recommended action in this regard, and ensure that monitoring takes place on a quarterly basis.</p> <p><b>Implementation Date:</b> 31/01/2017</p>	<p><b>Status: Being Implemented</b> This recommendation will be addressed with a series of refresher training and briefing sessions for staff following the resolution of the HR issues and the restructure of the Housing Department. This will, subject to approval by the Audit Sub-Committee, be referenced in the Governance Statement for 2016/17 as an action for 2017/18. In the meantime, relevant officers will be briefed to appraise them of the importance of complying with Council rules and regulations in this area. This has largely been dealt with now through the Council's Disciplinary Process and identified officers have left the Council; interim staff are aware of the situation and the recommendations. The Director of Finance and Corporate Services has sent out a separate briefing note (7th September) to all senior officers (31 in total) across the Council to make them aware of the updated CPRs, pointing out provisions around extending contracts, exemptions, etc. Several of the issues have also been picked up by the interim Director as part of his responses to Whistleblowing 2. There is an action in the Draft AGS for 2016/17 to run some briefing sessions later in the year and in particular when new appointments have been made in the Housing Department. I would expect this to have been completed by 31st January 2018.</p>
<p><b>Low Risk</b> Works had been awarded outside of a Council framework contract which should have been awarded to a contractor(s) on the framework.</p>	<p>2 We recommend that all Council officers involved with procuring goods and/or services be informed that, where there is a corporate contract and/or framework in place relating to those goods or services, this should be utilised in the first instance. Only where the required goods and/or services fall outside of those specified within the contract should the Council consider procuring elsewhere. Where this is the case the Contract Procedure Rules should be followed in all circumstances</p>	<p>The Director of Housing &amp; Environmental Services will formally instruct all staff within his Directorate to comply with the recommended action in this regard. The Director of Housing &amp; Environmental Services will suggest to his fellow Directors and the CEO that all SDDC employees are provided with the same instruction.</p> <p><b>Implementation Date:</b> 31/01/2017</p>	<p><b>Revised Action Date:</b> 31/01/2018 <b>Status: Being Implemented</b> See update comments for Recommendation 1</p> <p><b>Revised Action Date:</b> 31/01/2018</p>

## South Derbyshire District Council – Whistleblowing Investigations Update

<p><b>Low Risk</b> Multiple quotes had not been sought for building works, in line with the requirements of the Contract Procedure Rules.</p>	<p>3 We recommend that the Housing Assets Manager formally instruct all relevant officers within the Housing Section, of the requirement to ensure genuine competition when procuring works or services up to the value of £25,000. The Contract Procedure Rules state that this can be achieved by inviting sufficient numbers of contractors (good practice indicates a minimum of 3 selected impartially) to submit written quotations for works or services. Works can then be awarded at the lowest cost commensurate with the required specification.</p>	<p>The Director of Housing &amp; Environmental Services will formally instruct all staff within his Directorate to comply with the recommended action in this regard and ensure that compliance is monitored by the Housing Asset Manager.</p>	<p><b>Status: Being Implemented</b> See update comments for Recommendation 1  <b>Revised Action Date:</b> 31/01/2018</p>
<p><b>Low Risk</b> A mini-competition had not been run under the General Maintenance &amp; Building Services framework contract for the awarding of larger works, not covered under direct award on a SoR basis.</p>	<p>4 We recommend that the Housing Asset Manager formally instruct all officers responsible for issuing larger works under the framework contract that the larger works (those not covered under direct award via SoR) should be awarded on a mini-competition basis. The usual practice for mini-competition would be for the Specification of Works to be e-mailed to the contractors and for prices and capacity to undertake the works to be received back via return e-mail. The job would then be issued to the cheapest contractor with the required capacity to undertake the works.</p>	<p><b>Implementation Date:</b> 31/01/2017 The Director of Housing &amp; Environmental Services will formally instruct all staff within his Directorate to comply with the recommended action in this regard and ensure that compliance is monitored by the Housing Asset Manager.</p>	<p><b>Status: Being Implemented</b> See update comments for Recommendation 1  <b>Revised Action Date:</b> 31/01/2018</p>
<p><b>Low Risk</b> Formal exemptions had not been raised to officially recognise the extenuating circumstances for not following Council rules and providing ratification of the actions taken.</p>	<p>5 We recommend that all Council officers involved with procuring goods and/or services be informed that a formal exemption should be agreed to cover all instances where the Contract Procedure Rules and/or other Council processes are not followed for the procurement of goods, works or services.</p>	<p>The Director of Housing &amp; Environmental Services will formally instruct all staff within his Directorate to comply with the recommended action in this regard. The Director of Housing &amp; Environmental Services will suggest to his fellow Directors and the CEO that all SDDC employees are provided with the same instruction.</p>	<p><b>Status: Being Implemented</b> See update comments for Recommendation 1  <b>Revised Action Date:</b> 31/01/2018</p>
<p><b>Low Risk</b> Quotations for works had not been retained by the Housing Section.</p>	<p>6 We recommend that the Housing Assets Manager formally instruct all relevant officers within the Housing Section, that quotes for all works and/or services should be retained and filed with the job paperwork or held electronically on the job file. The retention of this information could prove invaluable should the Council be challenged by a third party at a later date.</p>	<p><b>Implementation Date:</b> 31/01/2017 The Director of Housing &amp; Environmental Services will formally instruct all staff within his Directorate to comply with the recommended action in this regard and ensure that compliance is monitored by the Housing Asset Manager.</p>	<p><b>Status: Being Implemented</b> See update comments for Recommendation 1  <b>Revised Action Date:</b> 31/01/2018</p>
<p><b>Implementation Date:</b> 31/01/2017</p>			

## South Derbyshire District Council – Whistleblowing Investigations Update

### Moderate Risk

The General Maintenance & Building Services framework contract had not been signed by the successful contractors and a copy had not even been made available to these same contractors

7 We recommend that the successful contractors are contacted to explain that there has been an oversight on the signing of the overarching framework agreement and that the Council is looking to address this retrospectively, along with a copy of the agreement. This matter should be handled carefully as to not aggravate already sensitive issues, but unless this is addressed the Council may find it hard to legitimately enforce contractual obligations and/or conditions.

This matter is currently subject to further investigation. Upon conclusion of such, the appropriate action will be taken. A provisional deadline of 6 months has been set for this.

**Implementation Date:** 01/09/2017

### Status: Implemented

The Council took independent legal advice on whether to issue the Framework Agreement. Following a risk assessment, on balance, the advice recommended that it should not be issued and the Council accepted this advice. You will be aware that the Framework was inadvertently issued to one of the Contractors. This issue, together with the matter relating directly to Recommendation 8, were dealt with using the Council's Disciplinary Procedure. The Framework Agreement itself is due to expire in March 2018 by which time a new contract will be put in place. The Council is now content that this matter has been dealt with and no further action is required

### Moderate Risk

We could not find, or were not given access to, any specific documentation under the General Maintenance & Building Services framework which identified the nature of the arrangements in terms of allocating work between the contractors on the framework.

8 We recommend that, prior to writing to Contractors with a copy of the framework agreement, the documentation be reviewed to ensure that clear provision has been made for detailing the way in which Smaller Works and Larger Works are issued against the framework. Furthermore, the Council should ensure that all works are being issued against this protocol, without exception, and that all relevant sections/departments are aware of these requirements to protect the Council from future challenge.

This matter is currently subject to further investigation. Upon conclusion of such, the appropriate action will be taken. A provisional deadline of 6 months has been set for this.

**Implementation Date:** 01/09/2017

### Status: Implemented

See update comments for Recommendation 7

### Low Risk

The Council were using a contractor to deliver Council services on a regular basis without formalised contractual arrangements in place

9 We recommend that the Housing Section review their off-contract spend with contractors to identify where it would be beneficial to establish formal contracts. Where there is regular spend with an organisation over a period of time consideration should be given to the following:

- A contract may be required for the area of spend and as such a formal tender exercise should be undertaken.
- The area of spend may be relevant to an existing contract or framework agreement which should be used to formalise the process.
- The organisation may be required to undertake limited work where a tender exercise would not be beneficial or where the particular organisation is required for a specific reason. Should this be the case, then a formal exemption from the CPR should be agreed.

The Director of Housing & Environmental Services will formally instruct the Housing Asset Manager to comply with the recommended action in this regard, and ensure that monitoring takes place on a quarterly basis. The Director of Housing & Environmental Services will suggest to his fellow Directors and the CEO that all SDDC employees are provided with the same instruction.

**Implementation Date:** 30/04/2017

### Status: Being Implemented

This recommendation will be See update comments for Recommendation 1

**Revised Action Date:** 31/01/2018



## South Derbyshire District Council – Whistleblowing Investigations Update

<p><b>Moderate Risk</b> At the time of the audit the Asbestos Policy and Asbestos Management Plan were not compliant with the Control of Asbestos Regulations 2012</p>	<p>10 We recommend that the re-drafted Asbestos Policy and Asbestos Management Plan be reviewed to ensure they are now compliant with the requirements of the Control of Asbestos Regulations 2012 and be formally ratified as soon as is practically possible. Copies of the revised policy and plan should be sent out to all relevant contractors to apprise them of the Councils latest position.</p>	<p>The Director of Housing &amp; Environmental Services will formally instruct the Housing Asset Manager to comply with the recommended action in this regard.</p>	<p><b>Status: Implemented</b></p>
<p>Low Risk There was no document control and/or version control over the redrafted Asbestos Policy and the Asbestos Management Plan.</p>	<p>11 We recommend that all policies and strategic plans have some form of version control written into them, along with a Document Control page detailing, as a minimum requirement, the following:</p> <ul style="list-style-type: none"> <li>• Implementation date.</li> <li>• Author / Document Owner.</li> <li>• Purpose / Reason for Policy.</li> <li>• Version Number.</li> <li>• Revision Schedule.</li> </ul>	<p>The Director of Housing &amp; Environmental Services will formally instruct the Performance &amp; Policy Manager to confirm that all new policies and strategic plans within his Directorate comply with the recommended action, and that old documents are migrated to the new format as soon as is practically possible. The Director of Housing &amp; Environmental Services will suggest to his fellow Directors and the CEO that all SDDC employees are provided with the same instruction.</p>	<p><b>Status: Implemented</b></p>
<p><b>Moderate Risk</b> 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>12 We recommend that the Housing Section implement the following processes:</p> <ul style="list-style-type: none"> <li>• Undertake Asbestos Management Surveys on all voids that have not been inspected before.</li> <li>• Undertake additional surveys of property types considered to be a higher risk from the existing survey data available.</li> <li>• 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.</li> <li>• Tenant(s) should be told of the location of any asbestos located within their property and informed how it is being managed.</li> <li>• 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.</li> <li>• Copies of all asbestos surveys and test certificates should be retained by the Housing Section and ideally stored electronically on a team shared drive.</li> </ul>	<p><b>Implementation Date:</b> 30/04/2017 The Director of Housing &amp; Environmental Services will formally instruct the Housing Asset Manager and all staff within his Directorate to comply with the recommended action in this regard.</p>	<p><b>Status: Implemented</b> All voids are now surveyed as part of the re-letting process. Given the current position, the plan is to actually re-survey all of the stock, firstly on an archetypal basis to produce a robust sample and then to extend this to the whole stock. A procurement exercise is taking place to appoint an external contractor to undertake the surveys to produce a robust sample, together with an action plan for further surveys and re-inspections. This work will cover the specific points highlighted in the recommended audit actions. The procurement exercise to appoint a contractor to undertake surveys and provide reports, etc. is nearing completion. As the current response states, some surveys have already been completed and there is a system in place for surveying voids. There isn't really a set implementation date now as the process will be on-going; I am advised that to complete all surveys, working through in priority order, will take up to 2 years and budgetary provision is being put in place. Given this, I consider that the principle embedded in the recommendations is being met and a proper process is being put in place.</p>

## South Derbyshire District Council – Whistleblowing Investigations Update

<p><b>Moderate Risk</b> 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>13 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>	<p>The Director of Housing &amp; Environmental Services will formally instruct the Housing Asset Manager and all staff within his Directorate to comply with the recommended action in this regard.</p>	<p><b>Status: Implemented</b> This will be part of the exercise in recommendation 12. The Council will appoint the external contractor to provide a separate database, which can be integrated into the Housing Management system. The procurement exercise to appoint a contractor to undertake surveys and provide reports, etc. is nearing completion. As the current response states, some surveys have already been completed and there is a system in place for surveying voids. There isn't really a set implementation date now as the process will be on-going; I am advised that to complete all surveys, working through in priority order, will take up to 2 years and budgetary provision is being put in place. Given this, I consider that the principle embedded in the recommendations is being met and a proper process is being put in place.</p>
<p><b>Low Risk</b> DLO Operatives had not received Non-Licensed Asbestos training which could compromise their health and safety and that of the tenants.</p>	<p>14 We recommend that all DLO Operatives who undertake works on Council properties receive Non-Licensed Asbestos training to ensure that their health and safety is not compromised during routine works or emergency call outs. Furthermore, this could negate the need for the Council to contract out non-licensed asbestos removal works* which could translate into cost savings. * where the Council undertake non-licences asbestos removal works they should either be licenced to carry hazardous waste or arrange the collection of the hazardous waste from site by a company licenced to deal with hazardous waste.</p>	<p>All DLO Operatives are now Asbestos Awareness trained. This now forms part of SDDC's annual training programme going forward. In addition to the above, 7 operatives are CAT B trained. They are qualified to work on Non Licensed work for vinyl tile removal, working with textured coatings, removal of textured coatings up to 1M<sup>2</sup> and removal of asbestos debris. The aim for 2017/18 is to have all Operatives trained as CAT B Operatives.</p>	<p><b>Status: Implemented</b></p>
<p><b>Low Risk</b> Contractors were not being correctly challenged on defective works</p>	<p>15 We recommend that the Housing Section look to challenge any future defective works against the terms and conditions of the contractual documentation and not that of the Latent Defects Act, unless this act has been explicitly written into the contract. This does not preclude the Council from taking action outside of the warranty period, provided the issues were present within this timeframe. The Limitations Act 1980, states that this is within 6 years for a contract signed by hand and 12 years for a contract signed as a deed (under seal).</p>	<p>The Director of Housing &amp; Environmental Services will formally instruct the Housing Asset Manager and all staff within his Directorate to comply with the recommended action in this regard.</p>	<p><b>Status: Being Implemented</b> This recommendation will be addressed with a series of refresher training and briefing sessions for staff following the resolution of the HR issues and the restructure of the Housing Department. This will, subject to approval by the Audit Sub-Committee, be referenced in the Governance Statement for 2016/17 as an action for 2017/18. In the meantime, relevant officers will be briefed to appraise them of the importance of complying with Council rules and regulations in this area.</p>
		<p><b>Implementation Date:</b> 31/01/2017</p>	<p><b>Revised Action Date:</b> 31/10/2017</p>

## South Derbyshire District Council – Whistleblowing Investigations Update

<p><b>Low Risk</b> There was not an up-to date Whistleblowing Policy available on the Council's website</p>	<p>16 We recommend that the Confidential Reporting Policy, dated November 2010 and last updated July 2012, be removed from the Council's website and replaced with the latest Whistleblowing Policy &amp; Procedure, dated April 2016. This will ensure that none Council employees are informed of the latest guidance and directed accordingly.</p>	<p>Actions already taken as recommended.  <b>Implementation Date:</b> 26/01/2017</p>	<p><b>Status: Implemented</b></p>
<p>Whistleblowing Investigation 2 (Reasonable Assurance)</p>			
<p><b>Low Risk</b> Signed Housing Contracts were not held in the custody of Legal Services.</p>	<p>1 We recommend that the Interim Director of Housing formally instruct all officers within the Housing Section that secondary copies should be taken of original signed contracts, either a hard copy or a scanned copy, for the purpose of reference. These copies should be taken at the earliest opportunity, with the original signed contracts returned to the custody of Legal services as soon as possible. This should ensure that the original signed contracts are readily available to the Council, should they be required at a later date.</p>	<p>Instructions will be sent to all Unit Managers across the Authority with regard to contracts and other documentation held in the custody of Legal Services. There will be a request for copies to be taken, with original documents being returned immediately.  <b>Implementation Date:</b> 31/07/2017</p>	<p><b>Status: Implemented</b></p>
<p><b>Low Risk</b> A formal process was not being followed for extending Housing Contracts</p>	<p>2 We recommend that the Housing Section do not allow any contract to simply roll on where there is an option to extend. A contract review should be undertaken and documented to demonstrate that it remains in the Council's best interests to continue with the contract. Where this is the case, the Contractor should be written to (before the original contract end date) with an offer to extend the contract, as per the option to extend. The formal offer and acceptance from the Contractor should be retained and a copy sent to Legal Services to be filed with the Contract. Where it is identified that a possible extension is not in the Council's best interests, or where the contract value has already been exceeded, the Council may not want to extend the Contract and should notify the Contractor accordingly. Again copies of all correspondence should be retained and sent to Legal Services to be filed with the Contract.</p>	<p>A system will be put in place to ensure that sufficient time is given to undertaking an evaluation of the benefits or otherwise of extending contracts. There does need however to be a recognition that retendering can itself lead to delays in the process.  <b>Implementation Date:</b> 01/09/2017</p>	<p><b>Status: Being Implemented</b> The system has been devised and is being used to evaluate existing contracts as they come up for renewal. Formal evidence of this process should be available by the end of October 2017.  <b>Revised Action Date:</b> 01/11/2017</p>
<p><b>Low Risk</b> A formal exemption had not been raised to cover the extension of a Housing Contract past its contract end date, i.e. where this exceeded a specified extension period that had already been applied.</p>	<p>3 We recommend that the Interim Director of Housing formally instruct all officers with the responsibility for managing contracts that where a contract is allowed to proceed past the final end date allowed under the contract, that a formal exemption should be agreed to officially recognise the situation. This should be prior to informing the Contractor of any extension and should therefore be undertaken in advance of any such end date</p>	<p>A process for doing so will be put into place which aligns with recommendation 2 above.  <b>Implementation Date:</b> 01/09/2017</p>	<p><b>Status: Implemented</b></p>



## South Derbyshire District Council – Whistleblowing Investigations Update

<p><b>Low Risk</b> Contractual spend was not being adequately identified in the General Ledger to enable effective spend monitoring over Housing Contracts.</p>	<p>4 We recommend that the Housing Asset Manager liaises with the Financial Services Manager to review the existing methods for recording spend against contracts in the Financial Management System to ensure that this is being undertaken by the most effective means. It may be that the existing systems are sufficient, in which case the Housing Section need to conform to the requirement to accurately record the 'CE' contract number on the Payment Certificates. Should this not be the case, any new system agreed between Finance and Housing Services should be implemented as soon as possible to enable contract monitoring to commence as soon as practically possible.</p>	<p>The role Housing Asset Manager will not exist under the new structure so the recommendation will need to be accepted in relation to the relevant manager in the department. Regular contract monitoring meetings between the appropriate persons in the Finance and Housing services will be implemented.</p>	<p><b>Status: Being Implemented</b> Whilst improved budget monitoring identifies capital/revenue committed and actual spend on a monthly basis, any further financial monitoring system improvements in the general ledger has been delayed. Meetings to review and improve the Financial Management Systems between Housing and Finance, have been scheduled over the next four weeks. It is expected that any new ways of working will be implemented by the end of October 2017.</p>
<p><b>Moderate Risk</b> 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>5 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>	<p><b>Implementation Date:</b> 01/09/2017 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. This is separate from a need to have an ongoing multi-year programme that should be refreshed and reviewed regularly.</p>	<p><b>Revised Action Date:</b> 31/10/2017 <b>Status: Future Action</b></p>
<p><b>Moderate Risk</b> Option appraisals and formal justifications had not been undertaken to demonstrate due process had been followed for the procuring of works.</p>	<p>6 We recommend that where a proportion of works required for future projects are not directly covered by the respective contracts, that all possible procurement routes be considered and documented in some form of options appraisal. For example, the use of other contracts/frameworks or seeking further quotes or tenders, dependant on the value of the works. Where the original Contractor considered for the works is deemed to be the most economically viable, i.e. the use of a single Contractor to undertake the works due to economies of scale, this should be clearly documented, along with formal justifications why other options were not considered to be appropriate, to demonstrate that an open and accountable process had been followed. A further consideration should also be given to the value of the additional works, i.e. those not expressly covered by the contract, to ensure that these are not in excess of 10% of the value of the overall works being undertaken. This process should also be documented and form part of the options appraisal. Where the value of 10% is exceeded, formal advice should always be sought from the Council's Procurement Section on how to proceed.</p>	<p><b>Implementation Date:</b> 01/04/2018 The recommendation is accepted where such procurement provision isn't already covered by the contract/framework. It is expected that such variations from the norm of specific timed contracts will be kept to a minimum.</p> <p><b>Implementation Date:</b> 01/09/2017</p>	<p><b>Status: Implemented</b></p>

## South Derbyshire District Council – Whistleblowing Investigations Update

**Low Risk**

A suitable Project Plan had not been drawn up, and properly approved, for the refurbishment works at Rowley Court.

7 We recommend that the Interim Director of Housing ensures that any specific project undertaken by the Housing Section, outside of the routine planned maintenance and/or responsive maintenance, have a specific Project Plan in place. Such a plan should incorporate, but not be limited to, the following:

- An evaluation of all of the different procurement routes that could be utilised for the awarding of works.
- Formal justification(s) identifying the reasons for choosing the preferred procurement route.
- Sign-off or endorsement by Senior Management to approve the process, prior to the engagement of any contractors.

It is not considered likely that these circumstances will occur often but if they do a specific project plan will be drawn up and if required a tender process will be put in place. If not a justification for that action will be provided.

**Status: Implemented**

**Implementation Date:** 01/09/2017

**Low Risk**

As a result of our findings, we consider that the Contract Procedure Rules may require further clarification in respect of on-going contract management.

8 We recommend that the Head of Procurement reviews the Council's Contract Procedure Rules with a view to strengthening the rules concerning on-going contract management. This may help to prevent some of the weaknesses identified earlier in this report from reoccurring.

For completeness, the CPR will be reviewed against the 7 recommendations, in particular those relating to contract management.

**Status: Implemented**

Response from KS - 5 Sept 17  
I have reviewed the CPRs and agreed changes to sections 22 and 23. I have asked for the amended document to be uploaded to the website and when this has been done, a briefing note will be sent out to Managers explaining the changes with a general reminder about the overall CPRs.

**Implementation Date:** 31/08/2017

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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 9</b>
<b>DATE OF MEETING:</b>	<b>20<sup>th</sup> SEPTEMBER 2017</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE and CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:Kevin.stackhouse@south-derbys.gov.uk">Kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/accounts/final accounts 1617/audit findings cover sept 17
<b>SUBJECT:</b>	<b>AUDIT RESULTS REPORT ISA 260 REPORT FOR THE YEAR ENDING 31<sup>st</sup> MARCH 2017</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 05</b>

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## **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 2016/17. This satisfies their obligation to report their findings to management and those charged with governance under International Auditing Standard (ISA) 260.

## **3.0 Detail**

3.1 EY's report is attached. Audit Managers of EY will attend the meeting and present the 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 annual accounts, financial statements and its governance arrangements for 2016/17.

3.3 Consequently, the report provides and opinion on those accounts. Following consideration at this Committee, the accounts and financial statements themselves will be presented to the Finance and Management Committee on 21st September 2017 for formal adoption and publication.

## **Value for Money and the Use of Resources**

- 3.4 In addition, the report assesses overall value for money arrangements at the Council. Consequently, the Auditors also provide an opinion on whether, overall, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources.

### **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 2016/17.
- 3.8 Following this and subject to any issues raised, the Director of Finance will officially sign the letter to finalise this particular part of 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 2017





Private and Confidential

20 September 2017

Dear Audit-sub Committee Members

We have substantially completed our audit of South Derbyshire District Council (the Authority) for the year ended 31 March 2017.

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 3, before the statutory deadline of 30 September 2017.

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 Authority, 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 look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Stephen Clark  
Partner

For and on behalf of Ernst & Young LLP  
United Kingdom

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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](http://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 Committee, other members of the Authority and management of South Derbyshire District Council** in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the **Audit Committee, other members of the Authority and management of South Derbyshire District Council** 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 Committee, other members of the Authority 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 obtaining our written consent.





**01**

**Executive Summary**



# Executive Summary

## Overview of the audit

### Scope and materiality

In our Audit Plan presented to the 15 February 2017 Audit Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan. We note the following changes:

We planned our procedures using a materiality of £920k. We reassessed this using the actual year-end figures which has decreased this amount to £900k. The threshold for reporting audit differences has decreased to £46k. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure.

We also identified where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them;

- Remuneration disclosures including severance payments, exit packages and termination benefits. For these areas we have a set a materiality level to the extent any error may change the relevant reported bandings.
- Related party transactions. For any errors identified we would consider the concept of materiality of the transaction and balance as would be relevant to the related individual or organisation.
- Member allowances
- External audit fees

### Status of the audit

We have substantially completed our audit of South Derbyshire District Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. 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 3. However until work is complete, further amendments may arise:

- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter
- submission of the Whole of Government Accounts return to the National Audit Office



## Executive summary (continued)

### Audit differences

We identified a number of presentational matters which include casting errors and consistency of cross-references within the statements which have been adjusted by management. There is no impact of the reported financial performance of the Council. Further detail is included in respect of Audit Differences at Section 4.

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



### Executive summary (continued)

#### Areas of audit focus

Our Audit Plan 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 "areas of audit focus" in section 2 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.

#### Value for money (VFM)

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 Plan we identified two significant risks to our value for money conclusion:

- a significant risk in relation to control weaknesses in the procurement of services in the Housing and Environment Services directorate; and
- a significant risk in relation to securing financial resilience.

Our review has identified that there are weaknesses in the Council's arrangements to work with partners and other third parties, specifically in relation to contractual arrangements for procuring supplies and services effectively to support the delivery of strategic priorities. Further details are provided in the Section 5.

Based on the work completed to date, we intend to issue a qualified 'except for' VFM conclusion for the year ended 31 March 2017.



# Executive Summary

## Executive summary (continued)

### Other reporting issues

We have reviewed the information presented in the draft Annual Governance Statement (AGS) for consistency with our knowledge of the Authority. We have the following matters to report as a result of this work.

- The draft AGS did not adequately reflect the control weaknesses in the procurement of services in the Housing and Environment Services directorate and what course of action the Council has taken to implement actions to rectify the issues.
- The draft AGS did not accurately reflect the external audit considerations with respect to the value for money conclusion.

These findings have been communicated to management and we can confirm that the required amendments have been agreed.

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 report to you.

We have no other matters to report.

### Control observations

We have adopted a fully substantive approach for the audit of the Financial Statements, so have not tested the design and operation of controls. However, our audit testing did reveal the following control observations, more details of which can be found in section 7.

### Independence

Please refer to Appendix B for our update on Independence.



# 02

## Areas of Audit Focus





## Audit issues and approach: Significant risks

### Revenue Recognition

#### What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

We have not identified any instances of inappropriate judgements being applied.


We did not identify any transactions during our audit which appeared unusual or outside the normal course of business.

#### What is the risk?

##### **Risk of fraud in revenue recognition**

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.

In this 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 manipulating expenditure recognition.

 Significant Risk

#### Audit procedures performed

- We reviewed and tested revenue and expenditure recognition policies.
- We reviewed and discussed with management any accounting estimates on revenue and expenditure for evidence of bias.
- We developed a strategy to test material revenue and expenditure streams; and
- Reviewed and tested revenue and expenditure cut-off at the period end date.

#### Assurance gained and issued arising

- We did not identify any issues from our review of the accounting policies or evidence of management bias in accounting for estimates.
- Our substantive testing of income and expenditure has not identified any matters.
- No issues have been identified from our cut-off transaction testing.



## Audit issues and approach: Significant risks (continued)

### Management override

#### What are our conclusions?


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

#### What is the risk?

##### Risk of management override

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

 Significant Risk

#### What did we do?

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.
- We reviewed accounting estimates for evidence of management bias.
- We evaluated the business rationale for any significant unusual transactions.
- We reviewed capital expenditure on property, plant and equipment (PPE) to ensure it meets the relevant accounting requirements to be capitalised.

#### Assurance gained and issued arising

- We tested a sample of manual journals using our data analytics interrogation tool to focus on the specific areas of risk. These included journals;
  - With no description
  - Reducing expenditure
  - Increasing revenue
  - Processed outside normal working hoursOur work did not identify any matters to report to you.
- We did not identify any significant unusual or unexpected transactions.
- Our review of specific significant estimates has not identified any matters to report.
- Our testing of PPE additions confirmed the expenditure had been capitalised in accordance with relevant account standards.
- We reviewed the accounting adjustments processed and disclosed in the Movement in Reserves Statement and supporting notes.



## Audit issues and approach: Other financial statement risks

### Asset valuation

#### What are our conclusions?

Based on completion of the specified audit procedures we have not identified any matters to report.

#### What is the risk?

##### Valuation of Property, Plant and expenditure

The Council's land and buildings, including the housing stock, totalled £113m at 31 March 2016, representing 85% of the total asset base.

The valuation of land and buildings is subject to a number of assumptions and judgements and even a small movement in these assumptions could have a material impact on the financial statements.

#### What did we do?

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

#### Assurance gained and issued arising

- We tested a sample of revaluations and concluded that the correct accounting treatment had been made to the financial statements.
- We were satisfied that the valuer had received sufficient and relevant information to complete their work.
- We found that the valuation methodologies were appropriate for the class of asset valued.
- There were no issues arising from our review of the valuation to the new depot.
- We were satisfied that the revaluation gain of £13m was as a result of the change in the discount factor used for valuation of social housing increasing from 34% to 42%



# Audit issues and approach: Other financial statement risks (continued)

### Valuation of the Pension Liability

#### What are our conclusions?

Based on completion of the specified audit procedures we have not identified any matters to report.

The pension fund liability as at 31 March 2017 disclosed in the financial statements is consistent with the actuarial report provided by the pension fund actuary. The IAS 19 adjustments within the financial statements are also in line with the report.

Our internal expert has confirmed that the assumptions used by the actuary are consistent with their expectations and within acceptable ranges. We have not made aware of any concerns relating to the administration of the pension fund.

#### What is the risk?

##### Valuation of local government pension scheme (LGPS) liability

Funding of the Council's participation in the LGPS will continue to have an impact on both cash flows and balance sheet liabilities.

The pension scheme liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions.

A small movement in these assumptions could have a material impact on the balance sheet.

#### What did we do?

- We reviewed the output of the report from the Administering Council's actuary.
- We reviewed the assumptions used by the actuary to determine whether they are in our expected range.
- We tested the journal entries for the pension transactions to check that they have been appropriately processed in the financial statements.

#### Assurance gained and issued arising

- We obtained assurance from the pension fund auditor that proper arrangements are in place to support and administer the pension fund.
- We engaged an independent expert to review the assumptions and estimates used by the fund Actuary for reasonableness.
- We reviewed the pension fund disclosures in the financial statements to confirm consistency with the report of the fund actuary and that the accounting treatment met the requirements of IAS 19.



# Audit issues and approach: Other financial statement risks (continued)

### Financial statements presentation

#### What are our conclusions?

Subject to disclosure changes identified during the audit which have been corrected by management, the Council has presented the CIES and EFA in line with the requirements set out by the Code.

We have no further findings to report.

#### What is the risk?

##### **Expenditure and funding analysis (EFA) and comprehensive income and expenditure statement (CIES)**

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the code) this year changing the way the financial statements are presented.

The new reporting requirements impact on CIES and the movement in Reserves Statement, an includes the introduction of the new EFA note as a result of 'Telling the story' review of the presentation of the local authority financial statements.

The code no longer requires statements or notes to be prepared in accordance with the service code of practice (SeRCOP). Instead the code requires that the service analysis is based on the organisational structure under which the Council operates. We expect this to show the Council's segmental analysis.

This change in the Code will require a new structure for the primary statements (CIES) and notes and a full retrospective restatement of impact primary statements. The restatement of the 2015/16 comparatives will requires audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

#### What did we do?

- We reviewed the EFA, CIES and new notes to ensure that the disclosures are in line with the Code.
- We reviewed the analysis of these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas are reported .
- We agreed the restated comparative figures back to the Council's segmental analysis and supporting working papers.

#### Assurance gained and issued arising

- We found that there were some disclosures for the EFA which had not been completed.
- We have confirmed that the presentation of the CIES and EFA is consistent to the Council's organisation structure and the quarterly budget monitoring reports.
- Our review of the entries in the CIES and EFA were consistent to the Council's financial ledger and supporting working papers.



# 03 Audit Report





## Draft audit report

### Our opinion on the financial statements

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

##### Opinion on the Council's financial statements

We have audited the financial statements of South Derbyshire District Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- the Expenditure and Funding Analysis ,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 1 to 32,
- the Statement of Accounting policies on pages 45 to 58,
- the Housing Revenue Account and relates notes 1 to 10; and
- Collection Fund and 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 2016/17.

This report is made solely to the members 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 Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

##### Respective responsibilities of the Director of Finance and Corporate Services

As explained more fully in the Statement of Responsibility for the Statement of Accounts set out on page 10, Director of Finance and Corporate Services 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 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.



# Audit Report

## Draft audit report (continued)

### Our opinion on the financial statements

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

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 2017 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 2016/17.

#### Opinion on other matters

In our opinion, the information given in the Annual Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### 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



## Draft audit report (continued)

### Our opinion on the financial statements

#### **Conclusion on South Derbyshire District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

##### **Authority's responsibilities**

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**

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.

##### **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 2016, as to whether the 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 Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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 Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



## Draft audit report (continued)

### Our opinion on the financial statements

#### 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 have revealed that:

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

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

#### Qualified Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, with the exception of the matter reported in the basis of 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 2017.

#### 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.

Stephen Clark (senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Birmingham  
XX September 2017



**04**

## Audit Differences



## Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and 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 differences

We have included all known amounts greater than £46k in our summary of misstatements.

We highlight the following misstatements in the financial statements or disclosures identified during the audit which have been corrected by management:

- In note 16, Financial Instruments, the total creditors of £10,467k was not consistent with the year-end creditors in note 20, of £10,927k.
- In our review of the cash flow statement we identified that there was a misclassification error of £99k in creditors which has now been reclassified to debtors.
- Our review of NNDR appeals provisions in note 21, identified that in cases where an appeal had been either withdrawn or successful, the Council had not amended the provision. Management has now re-stated the note to show the appropriate totals for provisions utilised and not required.



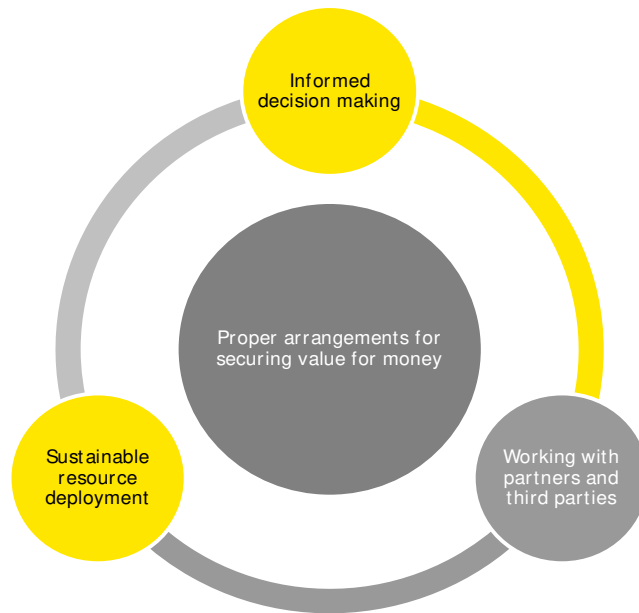


**05** Value for Money





## Value for Money



### Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

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 use the CIPFA/ SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

### Overall conclusion



## VFM risks

We are only required to determine whether there is any risk 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 Plan.

What is the significant VFM risk?	Our audit approach	What are our findings?
<p><b>Securing Financial Resilience</b></p> <p>The arrangements affected are deploying resources in a sustainable manner</p> <p>In its latest medium term financial plan, the Council has identified it will experience budget deficits from 2018/19 to 2021/22 with the general fund depleting to just over the £1 million minimum level by 2021/22.</p> <p>Going forward the Council will need scrutinise its financial plans to achieve base budget savings of £850k ahead of 2018/19.</p>	<ul style="list-style-type: none"> <li>• We reviewed the MTFS including the adequacy of the major assumptions.</li> <li>• We reviewed the Council's arrangements to develop robust savings plans to address the future financial challenges.</li> </ul>	<p>2016/17 has seen the Council further its established track record of delivering budget surpluses and prudently increasing its level of reserves. The revenue budget set by the Council in February 2016 forecast a surplus on the general fund of £1,198k. The final outturn for 2016/17 resulted in the Council in exceeding this target with a final outturn of £1,780k.</p> <p>However, in the latest update of the MTFS, from 2018/19 the Council Revenue budget shows a projected deficit of £852k which increases to £2,069k by 2021/22. This consequently requires the Council to rely on the use of reserves which will see them fall from £7,141k to £1,110k across the same four year period.</p> <p>Whilst we are assured that the Council has effective arrangements in place for the 2016/17 financial year to ensure that resources are deployed in a sustainable manner, officers and members will need to focus in the coming year on the following ;</p> <ul style="list-style-type: none"> <li>• Review and challenge current service delivery models to reduce expenditure.</li> <li>• Formulate savings and efficiency plans; and</li> <li>• increase existing or identify new sources of income</li> </ul>



## VFM risks (continued)

What is the significant VFM risk?	Our audit approach	What are our findings?
<p><b>Procurement and related issues in the Housing and Environmental Services Directorate</b></p> <p>This affects the Council’s arrangements to working with partners and other third parties specifically in relation to contractual arrangements for procuring supplies and services effectively to support the delivery of strategic priorities.</p> <p>The Authority is currently investigating issues identified with respect to procurement related matters and other procedures within the Housing and Environmental Services Directorate.</p> <p>The Housing and Environmental Services department is a material part of the Council’s business. Control weaknesses in procurement are considered material to our Value for Money conclusion.</p> <p>This issues being investigated create a significant risk to our value for money conclusion with respect to the Council’s ability to take informed decisions.</p>	<ul style="list-style-type: none"> <li>• We reviewed the outcomes of investigations undertaken by Internal Audit.</li> <li>• We reviewed the outcome of investigations undertaken by the Director of Finance.</li> <li>• We reviewed the output of legal advice sought by the Authority in relation to the issues identified.</li> <li>• We have understood the extent of any identified failings in internal control, and the extent speed to which the Authority has moved to correct these</li> </ul>	<p>Our work has revealed that the Council has been operating without signed contracts in place in the Housing, Waste and Leisure services directorates.</p> <p>Furthermore, documentation to support procurement decisions undertaken by the Housing and Environmental Services departments is weak or non-existent, putting the Council at risk of legal challenge.</p> <p>In addition, the Council’s contract register is incomplete and poorly managed, increasing the operational risk of contract compliance requirements not being met and expenditure being incurred outside of contractual arrangements.</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 Annual Statement of Accounts 2016/17 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 narrative statement is consistent with the audited financial statements.

We have reviewed the Annual Governance Statement which identified the following matters;

- The draft AGS did not adequately reflect the control weaknesses in the procurement of services in the Housing and Environment Services directorate and what course of action the Council has taken to implement actions to rectify the issues; and
- The draft AGS did not adequately reflect the external audit considerations with respect to the value for money conclusion

We can confirm it is now 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.





## Other reporting issues

### Use of data analytics

We use data analytics tools in conjunction with the substantive testing undertaken on the audit of the financial statements. The areas where data analytics are used are for payroll and journals testing and also agreeing the financial statements to the general ledger. However, the tools also produce information which may be of interest to officers and members which may not ordinarily be available. At Appendix E we have provided the following data which we trust may be of interest;

- Payroll gender pay equality
- Council employees age profile
- Payroll distribution by geographical location
- Journals processing statistics which includes volume and frequency.

### 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 which required us to issue written recommendations.



**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 Authority 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.

Whilst 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, we have identified the following control deficiencies;

1. Related parties and declarations of interest

We reviewed the Council's arrangements to capture and evaluate declarations of interest for senior managers and elected members. We identified that three elected members had not completed the required declaration in accordance with the Council's procedures. We undertook further checks and were satisfied that the missing declarations did not have any undisclosed material related party transactions.

2. Payroll matters

Our data analytics tool for payroll identified that deductions of national insurance for one employee were not being made on a monthly basis. Further investigate confirmed that there was a payroll system error. The Council also identified this matter in late 2016/17 and paid HMRC a lump sum payment on the employee's behalf. The Council have set up a repayment arrangement to recover the contributions through monthly deductions from salary. However, we observed that whilst deductions are being made the payment agreement employee remains unsigned. We can confirm that we are satisfied that this is an isolated matter as the Council has completed a series of additional system checks which did not identify any further cases.



# Assessment of Control Environment and other audit matters

## Other audit matters

We have adopted a fully substantive testing approach and during the course of the audit have identified a number of audit issues which require bringing to your attention.

### 1. Provisions – National non-domestic rates (NNDR) appeals

We reviewed the methodology to assess and calculate the provision for NNDR appeals identified the following matters;

- there were four appeals where there was more than one provision for the same case thereby double-counting and overstating the total liability on which the provision was calculated. Our recalculation resulted in the four cases being overstated by £46k, which is not material to the financial statements; and
- Where appeals had either been withdrawn or successful, the initial calculation had not been reflected where the provision was released or utilised.

We have reviewed the Council's recalculation of the provision and are satisfied that there is no material impact on the financial statements. Management has agreed to make changes to the accounts as outlined in section 4.

### 2. Preparing for early close in 2017/18 and production of working papers

The draft financial statements were published on the Council's website on 28 June 2017 which was before the statutory deadline of 30 June 2018, but three weeks later than planned. As the deadline for production of the financial statements for 2017/18 comes forward one month to 31 May 2018, the Council will need to review its preparation arrangements to ensure that the new deadline is achieved.

### 3. Journals without descriptions.

We identified that there were 13 journals where the journal description field was blank. However, we noted that there was a compensating control which is to complete a journal log, maintained by the finance team, and included all 13 journals together with a description. This showed that there was sufficient detail enable the journal to be authorised.



# Assessment of Control Environment and other audit matters

## Audit recommendations

Finding No	Audit Finding	Recommendation	Management comment	Priority	Implementation date
1	<b>Related parties</b> Declaration of interest forms had not been completed by three individuals	Ensure that all required individuals complete an annual declaration of interests in accordance with the Council's policy.	We will endeavour to ensure that all individuals make the required declaration	H	30/4/18
2	<b>Provisions – NNDR appeals</b> There were some appeals that had been included more than once. For appeals withdrawn and that were successful, the original provision had not been adjusted.	Ensure that the methodology to prepare the provision is subject to an independent review and that there is a robust audit trail to support the entries in the financial statements.	The Council has already put plans in place with an external agency to review and advise on the calculation of the Appeals Provision	M	31/5/18
3	<b>Payroll deductions</b> The payment agreement to recover payment of outstanding national insurance contributions was not signed by the employee.	Ensure that all agreements for relevant and appropriate payroll deductions have agreement in place signed by both the Council and employee.	These instances are rare and we will endeavour to ensure that any subsequent agreements are signed.	M	30/9/17
4	<b>Production of the financial 2017/18 statements</b> The financial statements were made available at the end of June 2017 which was later than expected and still contained an number of basic and presentational errors.	Review the processes for 2017/18 to; <ul style="list-style-type: none"><li>• Prepare the financial statements and annual governance statement in advance of 31 May 2018</li><li>• Ensure that there is sufficient time to ensure that presentational errors are identified and corrected; and</li><li>• Quality working papers are prepared in advance of the audit</li></ul>	The Council is aware of the new deadline for producing the accounts next year and for the past 2 years has closed the accounts before 31 <sup>st</sup> May. Plans are in place to ensure that the final document is available for Audit within the deadline.	H	31/5/18



# Assessment of Control Environment and other audit matters

5	<b>Journal descriptions</b>  We identified that not all journal entries posted to the financial ledger contained a narrative description	Ensure that all journal entries contain a valid narrative description	The Financial Services Manager has issued a briefing note to staff to re-iterate the matter raised.	M	30/9/17
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**08** Appendices



## Appendix A



# Required communications with the Audit-sub Committee

There are certain communications that we must provide to the Audit-sub Committees of UK clients. We have done this by:

		 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.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	2 February 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Any significant difficulties encountered during the audit</li> <li>• Any significant matters arising from the audit that were discussed with management</li> <li>• Written representations we have requested</li> <li>• Expected modifications to the audit report</li> <li>• Any other matters significant to overseeing the financial reporting process</li> </ul>	20 September 2017 – Audit Results Report
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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	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"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Significant corrected misstatements, in writing</li> </ul>	20 September 2017 – Audit Results Report






# Appendix A

		 <b>Our Reporting to you</b>
Required communications	What is reported?	 <b>When and where</b>
Fraud	<ul style="list-style-type: none"> <li>▶ Asking the audit-sub committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving:               <ul style="list-style-type: none"> <li>(a) management;</li> <li>(b) employees with significant roles in internal control; or</li> <li>(c) others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties	Significant matters arising during the audit in connection with the Council's related parties including, where applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and/or regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters to report.
Subsequent events	<ul style="list-style-type: none"> <li>▶ Where appropriate, asking the audit-sub committee whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	We have asked management and those charged with governance. We have no matters to report.
Other information	<ul style="list-style-type: none"> <li>▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.</li> </ul>	20 September 2017 – Audit Results Report
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ We were unable to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations.
Consideration of laws and/or regulations	<ul style="list-style-type: none"> <li>▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off"</li> <li>▶ Asking the audit-sub committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the audit-sub committee.</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.



# Appendix A

		 <b>Our Reporting to you</b>
Required communications	What is reported?	  <b>When and where</b>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	20 September 2017 – Audit Results Report
Independence	<p>Communication of all significant facts and matters that have a bearing on EY’s objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information on the firm’s general policies and processes for maintaining objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	2 February 2017 Audit Plan 20 September 2017 – Audit Results Report
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	2 February 2017 Audit Plan 20 September 2017 – Audit Results Report
Certification work	Summary of certification work	14 February 2018 - Certification Report



## Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit plan dated 2 February 2017.

We complied with the APB Ethical Standards and the requirements of the Public Sector Audit Appointments (PSAA) 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 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 on 20 September 2017.

We confirm non-audit work outside the PSAA Code requirements will relate to our work on the audit of the Pooling of Housing Capital receipts. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total audit fee – code work	TBD *	49,275	49,275	49,275
Total Non-Audit work (Pooling of housing capital receipts).	TBD	TBD	N/A	2,500

We are proposing a variation to the planned fee as a result of the work required due to procedures undertaken to address the significant risk identified for the value for money conclusion.

Any final variations to scale fees are subject to PSAA approval before being billed. At time of writing this report we estimate the total variation to be in the region of £6,000.

We will discuss and agree the additional costs incurred with management and report back to you in due course.







## Accounting and regulatory update

### Accounting update

Since the date of our last report to the Audit-SUB Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on South Derbyshire District Council 
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>• How financial assets are classified and measured</li> <li>• How the impairment of financial assets are calculated</li> <li>• Financial hedge accounting</li> <li>• The disclosure requirements for financial assets.</li> </ul> <p>• Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> <li>• Reclassify existing financial instrument assets</li> <li>• Re-measure and recalculate potential impairments of those assets; and</li> <li>• Prepare additional disclosure notes for material items</li> </ul> <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>





## Appendix C



<i>IFRS 15 Revenue from Contracts with Customers</i>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"><li>• Leases;</li><li>• Financial instruments;</li><li>• Insurance contracts; and</li><li>• for local authorities; Council Tax and NDR income.</li></ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <ul style="list-style-type: none"><li>• There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.</li></ul>	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none"><li>• Disaggregate revenue into appropriate categories</li><li>• Identify relevant performance obligations and allocate income to each</li><li>• Summarise significant judgements</li></ul> <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>
<i>IFRS 16 Leases</i>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Council is has yet to commence work in this area due to the timing of implementation.</p>



## Accounting and regulatory update (continued)

### Progress report on implementation of new standards and regulations

When considering accounting updates, there is often a significant lead time to the effective date. The table below provides comment on the Authority's preparation for the implementation of upcoming new requirements.

Name	Summary of key measures 	Impact on South Derbyshire District Council 
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council has reviewed and amended the closedown process and achieved draft accounts production by 28 June for 2016/17.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> <li>• Issued a thought piece on early closedown</li> <li>• Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017</li> </ul> <p>Locally we have:</p> <ul style="list-style-type: none"> <li>• Had regular discussions through the year on the Council's proposals to bring forward the closedown timetable</li> <li>• Together with the Council agreed areas for early work which have included testing of major income and expenditure streams at month 9.</li> </ul> <p>To further support the faster closedown, we recommend that the Council consider bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, and asset valuations.</p>



# Management representation letter

### Management Rep Letter

[To be prepared on the entity's letterhead]

20 September 2017

Mr Stephen Clark  
Ernst & Young LLP  
One 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 ("the Council") for the year ended 31 March 2017. 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 financial position of South Derbyshire District Council as of 31 March 2017 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 2016/17.

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 and Ireland), 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:



# Management representation letter (continued)

### Management Rep Letter

#### 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 2016/17.
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 2016/17. 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 2016/17, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.



# Management representation letter (continued)

### Management Rep Letter

#### **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. 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.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

#### **C. Compliance with Laws and Regulations**

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements

#### **D. 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.





# Management representation letter (continued)

### Management Rep Letter

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 year to the most recent meetings.
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 [period] end. These transactions have been appropriately accounted for and disclosed in the financial statements.
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.
7. We confirm the completeness of information provided regarding the whistleblowing allegations and subsequent investigations into this and other procurement and contract management issues undertaken by the Council.

### **E. 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, and have disclosed in the financial statements all guarantees that we have given to third parties.
4. No claims in connection with litigation have been or are expected to be received.



# Management representation letter (continued)

### Management Rep Letter

#### **F. Subsequent Events**

1. Other than matters described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto

#### **G. Other information**

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

#### **H. Comparative information – corresponding financial information**

There have been changes to the structure of the Financial Statements during 2016/17 with the introduction of the Expenditure and Funding Analysis (EFA). The financial statements for 15/16 have been restated to incorporate these changes.

The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

#### **I. 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.



# Management representation letter (continued)

### Management Rep Letter

#### **J Reserves**

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

#### **K. Contingent Liabilities**

We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

#### **L. 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 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.
2. We agree with the findings of the specialists that we engaged to evaluate the fair value of financial instruments 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.

#### **M. 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.



## Management representation letter (continued)

### Management Rep Letter

#### N. Estimates

##### National Non-domestic Rates Appeals Provision

1. We confirm that the significant assumptions used in the making the National Non-domestic Rates (NNDR) appeals provision appropriately reflect our expectation of the likely financial exposure from NNDR appeals.
2. We confirm that no adjustments are required to the NNDR appeals provision estimate and disclosures in the financial statements due to subsequent events.

Yours faithfully,

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Director of Finance and Corporate Services

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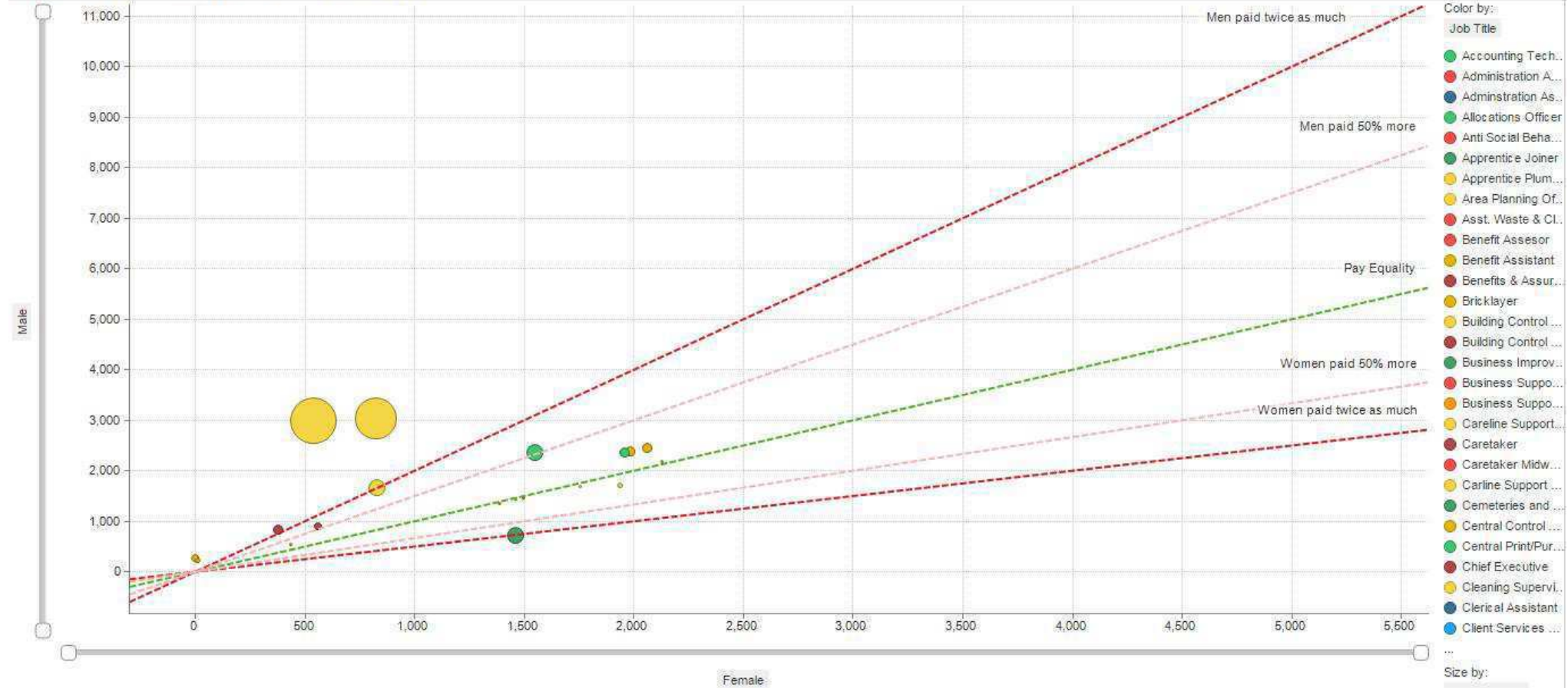
Chair of the Audit-sub Committee



# Data analytics

## Payroll gender / payroll equality

12.1 Average Gross pay by Gender by Designation





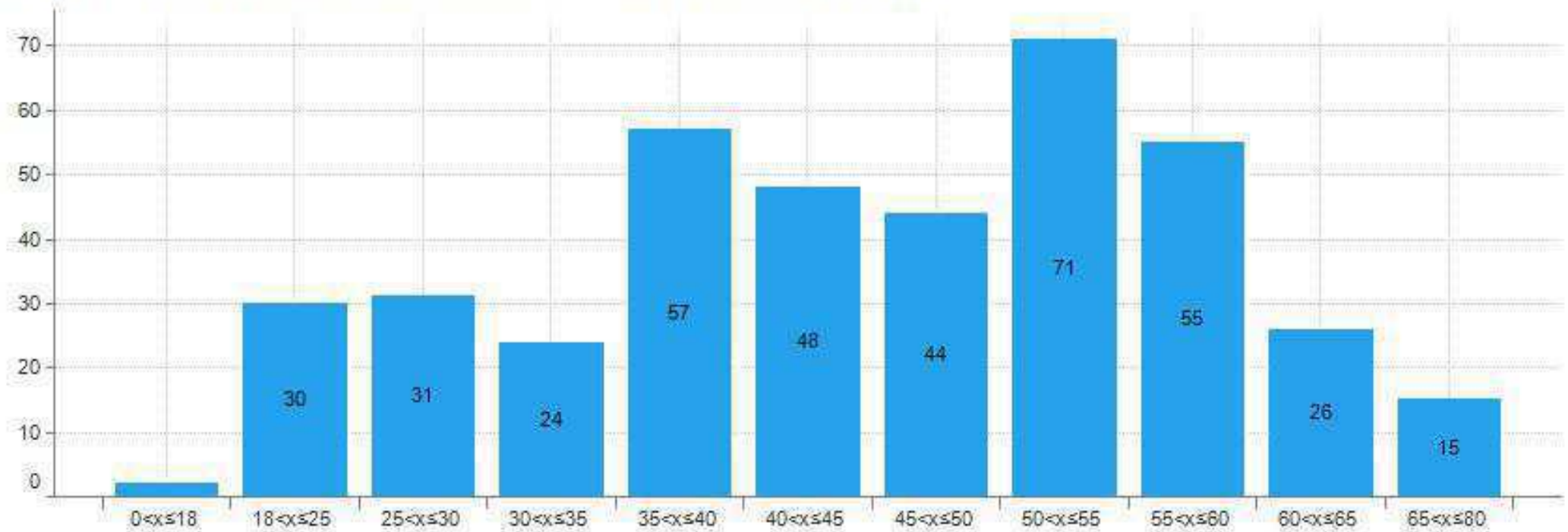


## Data analytics

Age profile of South Derbyshire District Council's staff

### 7.0 Number of Employees by Age

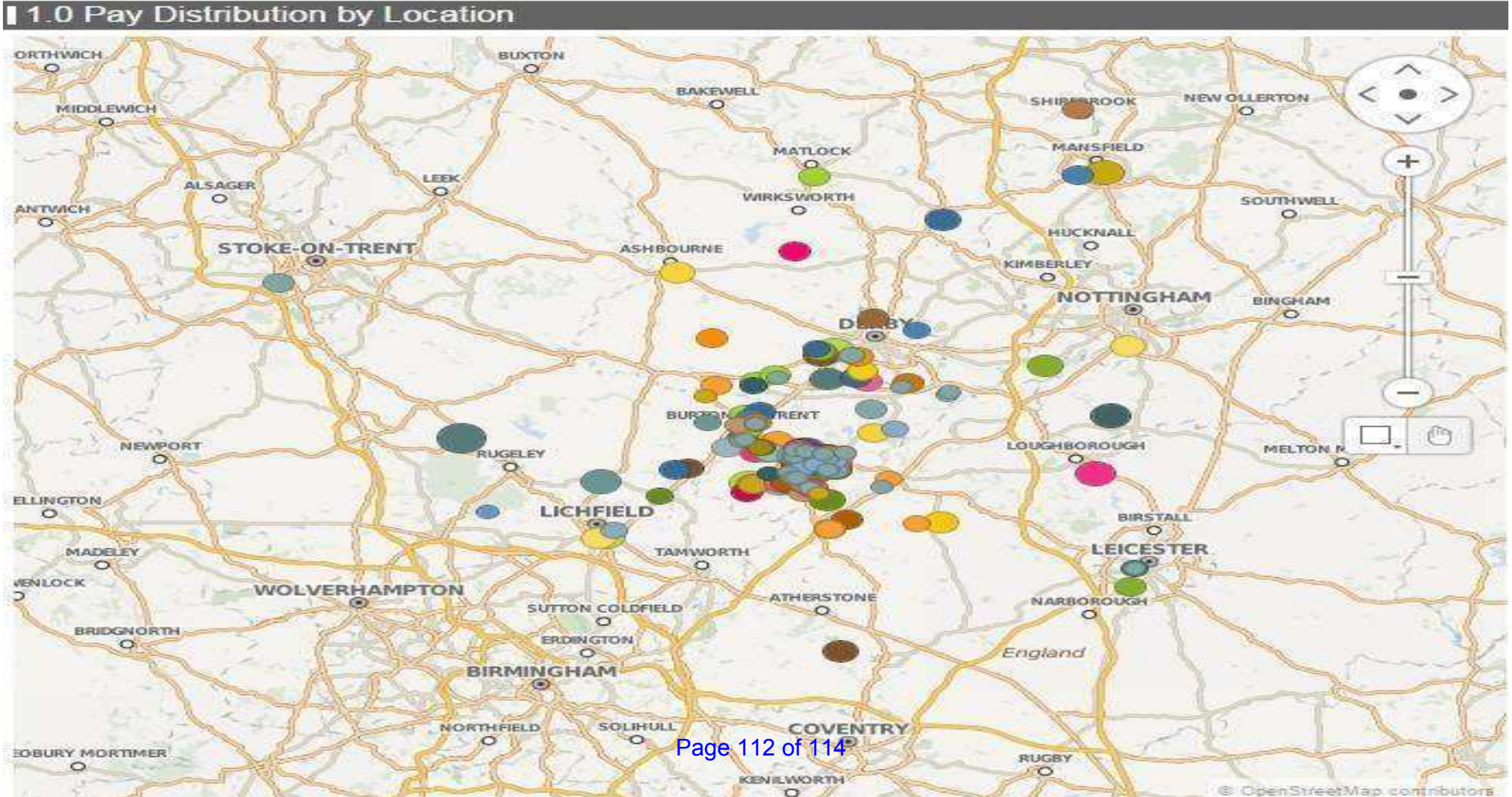
Please select a variable from the drop down list above to view the analysis for different variables.





# Data analytics

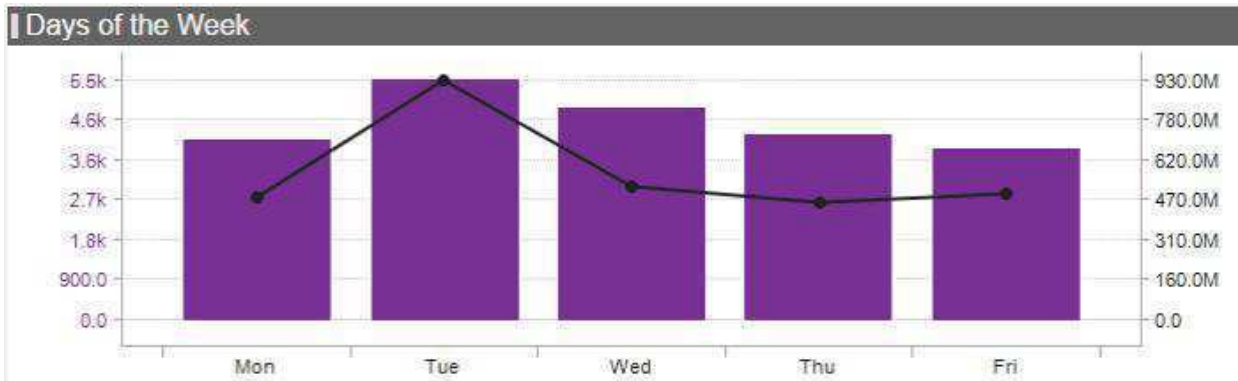
Payroll distribution by geographical location





## Data analytics

### Journals processing statistics



#### Facts and Figures

Number of Journals Posted:  
**22,446**

Average Number of Journals Posted per Day:  
**78**

Average Number of Lines per Journal:  
**10**

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ED None

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