

Date: 29 November 2022

Dear Councillor,

Audit-Sub Committee

A Meeting of the **Audit-Sub Committee** will be held at **Council Chamber**, Civic Offices, Civic Way, Swadlincote on **Wednesday, 07 December 2022 at 16:00**. You are requested to attend.

Yours faithfully,



Chief Executive

Non-Grouped

Councillor Wheelton (Chair)

Labour Group

Councillor Shepherd (Vice-Chair) and Councillor Dunn

Conservative Group

Councillors Atkin and Bridgen

AGENDA

Open to Public and Press

- | | | |
|---|---|--------------|
| 1 | Apologies | |
| 2 | To note any declarations of interest arising from any items on the Agenda | |
| 3 | To receive any questions by members of the public pursuant to Council Procedure Rule No.10. | |
| 4 | To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11. | |
| 5 | AUDIT RESULTS REPORT FOR THE YEAR ENDING 31 MARCH 2021 | 3 - 48 |
| 6 | LOCAL CODE OF CORPORATE GOVERNANCE REVIEW | 49 - 59 |
| 7 | INTERNAL AUDIT PROGRESS REPORT | 60 - 84 |
| 8 | CENTRAL MIDLANDS AUDIT PARTNERSHIP- EXTERNAL QUALITY ASSESSMENT | 85 - 113 |
| 9 | COMMITTEE WORK PROGRAMME | 114 -
115 |

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

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 5
DATE OF MEETING:	7 DECEMBER 2022	CATEGORY: RECOMMENDED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@southderbyshire.gov.uk	DOC: h/KS/accounts/final accounts 1920/ISA 260 Report 2019 20
SUBJECT:	AUDIT RESULTS REPORT FOR THE YEAR ENDING 31 MARCH 2021	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 05

1.0 Recommendations

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

2.0 Purpose of Report

2.1 For Ernst and Young (EY) as the Council's appointed auditors, to present their statutory annual report on the Council's Accounts and Financial Statements for the financial year 2020/21. This is in accordance with their duty to report their findings to management and those charged with governance under International Auditing Standard (ISA) 260.

3.0 Detail

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

3.2 In summary, the report provides details on, together with any issues arising from, the Audit of the Council's Accounts, Financial Statements, and its governance arrangements for 2020/21.

3.3 The report provides an opinion on the Council's Accounts. Subject to any issues remaining unresolved and after consideration by the Committee, the Accounts and Financial Statements themselves will be published. They were published in Draft in July 2021 and have remained "open" since that time, pending Audit.

Value for Money

3.4 In addition, the Auditor is also required to consider whether the Council has put in place "proper arrangements to secure economy, efficiency and effectiveness on its use of resources", known as the value for money conclusion.

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 2020/21.
- 3.8 Following this and subject to any issues raised, the Section 151 Officer will officially sign the letter to finalise the Audit work for the year.

4.0 Financial Implications

- 4.1 None.

5.0 Corporate Implications

- 5.1 None directly.

6.0 Community Implications

- 6.1 None directly.

7.0 Background Papers

None

**South Derbyshire District
Council**

Draft Audit results report

Year ended 31 March 2021

7 December 2022

Private and Confidential

7 December 2022



South Derbyshire District Council
Civic Way
Swadlincote
DE11 0AH

Dear Audit Sub-Committee Members

2020/21 Audit results report

We are pleased to attach our audit results report, for the forthcoming meeting of the Audit Sub-Committee. This report summarises our preliminary audit conclusion in relation to the audit of South Derbyshire District Council for 2020/21.

We have substantially completed our audit of South Derbyshire District Council for the year ended 31 March 2021, subject to concluding the outstanding matters listed in our report.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements.

This report contains our findings related to the areas of audit emphasis, our views on South Derbyshire District Council, accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Sub-Committee meeting in 7 December 2022.

Yours faithfully

Hassan Rohimun

Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the **Audit Committee and management of South Derbyshire District Council** in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the **Audit Committee, and management of South Derbyshire District Council** those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the **Audit Committee and management of South Derbyshire District Council** for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary



Executive Summary

Scope update

In our audit planning report tabled at the 7 June 2021 Audit Sub-Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes in materiality

In our Audit Sub-Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £982k, with performance materiality, at 75% of overall materiality, of £736k, and a threshold for reporting misstatements of £49k. The basis of our assessment has remained consistent with prior years at 2% of gross operating expenditure.

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 2% of gross operating expenditure we have updated our overall materiality assessment to £1,013k. This results in updated performance materiality, at 75% of overall materiality, of £760k, and an updated threshold for reporting misstatements of £51k.

Additional audit procedures

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.

Status of the audit

Our audit work in respect of the South Derbyshire District Council opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- Completion of audit closing procedures including review of minutes to the date of signing and subsequent events procedures
- Final quality review procedures by the engagement partner and engagement manager
- Receipt of the signed management representation letter and accounts

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion.

Executive Summary

Audit differences

We have identified two audit differences arising from our audit to date which were adjusted for by the Council. The adjustments relate to :

- Increase of pension asset and decrease to the pensions liability
- Adjustment to the revaluation and revaluation reserve of property, plant and equipment and investment property

We have identified one audit difference arising from our audit to date which will not be adjusted for by the Council. The adjustment relates to :

- Provision for NNDR £314k. The management's assessment is that the impact is not material. We ask that the rationale as to why the misstatement is not corrected be approved by the Audit Committee and included in the letter of representation.

Details of this can be found in section 4. We will update Audit and Governance Committee if there are any further issues arising from our incomplete audit procedures

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of South Derbyshire District Council. We have no matters to report as a result of this work.

At the time of writing the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission are still outstanding. Work will be performed once the financial statements are finalised.

We have no other matters to report.

Objections

We have received no objections to the 2019/20 accounts from members of the public

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Status of the audit – Value for Money

In the Audit Plan, we reported that we have not completed yet our value for money (VFM) risk assessment against the three reporting criteria we are required to consider under the NAO's 2020 Code. We have now completed, our VFM risk assessment and we have not identified a risk of significant weakness. Subject to review process and concluding our work, we anticipate we will have no matters to report by exception in the auditor's report (see Section 5).

We plan to issue the VFM commentary in our Auditor's Annual Report, the NAO has allowed for the Auditor's Annual Report to be provided up to three months after signing the accounts.

Control observations

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

We have set out our observations at section 7 of the report.

Independence

Please refer to Section 9 for our update on Independence.



02 Areas of Audit Focus



Fraud risk

Misstatements due to fraud or error

What is the risk?

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

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

What judgements are we focused on?

We focused on testing key areas that are susceptible to management bias.

What did we do?

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Assessed accounting estimates for evidence of management bias; and,
- Evaluated the business rationale for significant unusual transactions.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

Our mandatory procedures did not identify any instances of management override.

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





Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

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

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

. This could be materialise as a result of either capitalising expenditure on revenue items or revenue items being incorrectly identified as Revenue expenditure funded from capital under statute, thus funded from capital.

What judgements are we focused on?

We focused on the following risk areas:

- ▶ Inappropriate capitalisation of revenue expenditure and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement;
- ▶ Inappropriate cut-off of revenue expenditure and non-grant income at the year-end date resulting in transactions being recorded in the wrong financial period; and
- ▶ Recognition of income and expenditure in relation to new covid-19 related grants received in the year.

What did we do?

- Ensured that capitalised expenditure meets the criteria for this treatment.
- Substantively tested expenditure classed as Revenue Expenditure Funded from Capital Under Statute (REFCUS), ensuring that it meets the criteria for this treatment.
- Reviewed accounting policies, identifying whether consistent with prior year and the code of practice.
- Reviewed the utilisation of Capital Receipts in the year.

What are our conclusions

Our testing has not identified any material misstatements in relation to the incorrect capitalisation of revenue expenditure.

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



Significant risk

Misstatements due to fraud or error

What is the risk?

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

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

What did we do?

- Identify fraud risks during the planning stages.
- Inquire of management about risks of fraud and the controls put in place to address those risks.
- Understand the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Determined an appropriate strategy to address those identified risks of fraud.
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

What are our conclusions?

Subject to the completion of outstanding procedures:

- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied.
- We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business



Significant risk

Valuation of Property, Plant and Equipment (PPE)

What is the risk?

The fair value of other land and buildings represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet for land and buildings in particular.

What judgements are we focused on?

Our work on valuations focused on assessing the reasonableness of the methodologies adopted by the Council's valuers in undertaking their valuations in 2020/21 and of the key assumptions input into these valuations. We have also considered those assets that were not valued in 2020/21 and the potential for material misstatement in the valuation of those assets.

What judgements are we focused on?

We have identified a risk to reported asset valuations due to material judgemental inputs and estimation techniques applied.

We consider the risk applies to valuation of PPE and could result in a misstatement of the asset valuations reported in the balance sheet.

Additionally, the Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty, specifically to assets valued on a market or fair value basis.

What are our conclusions?

Subject to the completion of outstanding procedures:

- We have assessed and are satisfied with the competency and objectivity of the Council's internal valuer.
- Based on the audit procedures undertaken, including the work of our internal specialist (EY Real Estate) we identified that in the original valuation report specialised assets, for PPE and investment properties, were not valued on a depreciated replacement cost (DRC) basis. Management obtained a revised valuation report from the valuer and made corrections the financial statements (see Section 04).
- In addition to the testing undertaken by EY Real Estate the audit team undertook further testing of a sample of assets these were found to be materially correct.



Inherent risk

Local Government pension Scheme

What is the risk?

The Local Council Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Derbyshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled £42m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

- Liaised with the auditors of the Pension Fund to obtain assurances over the information supplied to the actuary in relation to South Derbyshire District Council;
- Assessed the work of the Pension Fund actuary (Hymans) including the assumptions they have used by considering the work of PWC (Consulting Actuaries commissioned by the NAO) and our EY actuarial team;
- Reviewed and tested the IAS19 accounting entries and disclosures made within the Council's financial statements; and
- Assessed the appropriateness of estimated information included in the financial statements by reviewing the year-end valuation of pension fund assets.

What are our conclusions?

- The pension fund auditor noted a difference between the valuation information supplied to the actuary and the valuations used to prepare the draft pension fund accounts.
- The Council obtained an updated actuarial report to account for the difference and this resulted in a £281,000 decrease in the net pension fund liability.



Other risk

Going concern

What is the risk?

The auditing standard ISA570 has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit and Governance Committee.

The CIPFA Guidance Notes for Practitioners 2020/21 accounts states 'The concept of a going concern assumes that an Council's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.'

'If an Council were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local Council financial statements to be provided on anything other than a going concern basis.'

What did we do?

We have performed the following:

- Challenged management's identification of events or conditions impacting going concern, tested management's resulting assessment of going concern and evaluated supporting evidence obtained which includes consideration of the risk of management bias
- Challenge management's assessment of going concern, thoroughly tested the adequacy of the supporting evidence obtained and evaluated the risk of management bias, based on our knowledge of the Council obtained through our audit
- Complied with any updated reporting requirements
- Considered all of the evidence obtained, whether corroborative or contradictory, in order to draw our conclusions on going concern
- Made necessary considerations regarding the appropriateness of financial statement disclosures around going concern.

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What are our conclusions?

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period through to 31 March 2024. Our responsibilities and the responsibilities of the Chief Financial Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Council's ability to continue as a going concern.



03 Audit Report



Audit Report

Draft audit report

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

Opinion

We have audited the financial statements of South Derbyshire District Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

Council's Movement in Reserves Statement,

- Council's Comprehensive Income and Expenditure Statement,
- Council's Balance Sheet,
- Council's Flow Statement
- the related notes 1 to 36.
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, and the related notes 1 to 10
- Collection Fund and the related notes 1 to 6

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2020/21.

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 2021 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 Council Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period through to 31 March 2024.

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Our responsibilities and the responsibilities of the Chief Financial Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Council's ability to continue as a going concern.



Audit Report

Draft audit report (continued)

Other information

The other information comprises the information set out on pages 3 to 18, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information contained within the annual report.

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

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

We have nothing to report in this regard.

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
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014
- we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page fourteen (14), the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or has no realistic alternative but to do so. The Council 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.



Audit Report

Draft audit report (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council and determined that the most significant are:

- *Local Government Act 1972,*
- *Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),*
- *Local Government Act 2003,*
- *The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,*
- *Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948)*
- *Business Rate Supplements Act 2009*
- *The Local Government Finance Act 2012 ,*
- *The Local Audit and Accountability Act 2014, and*
- *The Accounts and Audit Regulations 2015.*

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety. We understood how South Derbyshire District Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit, those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes, through enquiry of employees to confirm Council policies, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.



Audit Report

Draft audit report (continued)

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance (through improper recognition of revenue), inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk around the manipulation of reported financial performance through improper recognition of revenue, we obtained the Council's manual year end income accruals, challenging assumptions and corroborating the income to appropriate evidence.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

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

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

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether the South Derbyshire District Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the South Derbyshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Audit Report

Draft audit report (continued)

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed our procedures on the Council's value for money arrangements for the year ended 31 March 2021. We are satisfied that this work does not have a material effect on the financial statements. We will report the outcome of our work on South Derbyshire District Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

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

Hassan Rohimun
Ernst & Young LLP
Manchester
Date: XX

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

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04 Audit Differences



Audit Differences

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

Summary of adjusted differences

We highlight the following misstatements greater than £51k which have been corrected by management that were identified during the course of our audit. In addition to these differences management agreed to make a number of amendments to correct disclosures errors which we identified during our audit.

Corrected misstatements 2020/21	Effect on the current period:		Net assets (Decrease)/Increase			
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
Known differences:						
▸ Decrease in Pension Liability		(£281 000)				£281 000
Revaluation Reserve Adjustments DRC properties						
▸ PPE - Land and Buildings				£645,751		
▸ Revaluation Reserve				(£590,071)		
▸ I & E Impairments reversed		(55,680)				
Impairment adjustments Investment Property						
▸ Investment property				(225,000)		
▸ Revaluation (gain)/loss I & E		225,000				



Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements which were not corrected by management. This related to the NNDR provision which included future years values, the impact is the overstatement of the provision by £314,572. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Sub Committee and provided within the Letter of Representation:

Uncorrected misstatements 2020/21	Effect on the current period:		Net assets (Decrease)/Increase			
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
Known differences:						
▸ NNDR Provision		(£314 572)				£314 572



05

Value for Money

01



Value for money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

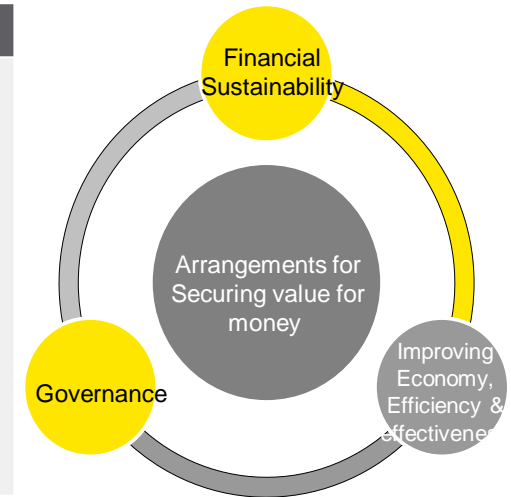
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local Council accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- **Financial sustainability:** How the Council plans and manages its resources to ensure it can continue to deliver its services;
- **Governance:** How the Council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness:** How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



Status of our 2020/21 VFM planning

We have now completed, our VFM risk assessment and we have not identified a risk of significant weakness. Subject to review process and concluding our work, we anticipate we will have no matters to report by exception.

Under the Code of Audit Practice 2020 we are required to issue our commentary on the Council's VFM arrangements in the Auditor's Annual Report (AAR). The AAR is issued on the conclusion of the audit.



06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 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.

We have performed our procedures in relation to these areas and have not identified any inconsistencies. We will verify this upon receipt of the final accounts.

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 have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission as Group Audit Instructions and the timetable for 2020/21 for WGA assurance has yet to be issued. The Group Instructions will be issued after HM Treasury have opened the 2020-21 WGA submission.

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 Council 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 Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. Subject to the conclusion of our work we have not identified any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Councils financial reporting process.

We do not have any other matters to communicate.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

As a result of the work undertaken, we have identified the following deficiency in internal control:

Relates party transactions have been identified during our work, which were not identified by the Council. Therefore, a control deficiency raised on the fact that the declarations are not being done correctly and that more detailed explanation of what is required to be disclosed needs to be rolled out to the councillors.

The matters reported here are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.



08 Data Analytics

Data analytics

Analytics Driven Audit

Data Analytics

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

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

In 2020/21, our use of these analysers in the executive's audit included testing income and expenditure recognition, journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

Journal Entry Analysis

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

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year across payroll codes. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



9

Independence

Relationships, services and related threats and safeguards

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

There are no relationships from 01 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. We confirm that none of the services listed in the audit fee table on the previous page has been provided on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We confirm that we have not undertaken non-audit work. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in May 2020.

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

Description	Planned Fee 2020/21 £	Final Fee 2019/20 £
Scale Fee	39,942	39,942
Additional fees	10,500	2,800
- Increase cost of regulation	2,500 - 4,000	2,100
- Audit of IAS19 Pension Fund	12,000 - 15,000	2,300
- Land & building valuations	-	7,000
- Impact of Covid 19	5,000 - 7,500	-
- VFM	3,500 - 5,000	-
- Going Concern		3,062
- Prior Period Adjustment		848
- Additional time due to weaknesses in supporting information		
Total Audit Fees	TBC	58,052
Other non-audit services not covered above (Housing Benefits and Pooling of Housing Capital Receipts)	TBC	17,500
Total fees	TBC	TBC

All fees exclude VAT

As highlighted in the Redmond Report, local government external audit fees have not kept pace with regulatory change. We believe that changes in the work required to address professional and regulatory requirements and scope changes associated with the risk of the organisation mean that the scale fee for the Council should more realistically set at a level that reflects the complexity and risk profile of the Council, and the resulting hours required to delivery the audit. The scale fee is set by PSAA Limited.

We wrote to management and the Audit Sub-Committee Chair setting out our considerations on the sustainability of UK local public audit. A base fee of £39,942 was prescribed by PSAA for the 20/21 audit but as set out in our discussions with management and the Audit Sub-Committee for, the scale fees are impacted by a range of factors which result in additional work. There have been changes to our audit scope because of additional work in response to issues arising during the audit. We will discuss the impact of these with management before agreeing our final fee which will be subject to PSAA approval. Areas of additional work include:

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

- Using EY Real Estate experts to assess land and building valuations and the material;
- Additional procedures to consider the Council's going concern assessment;
- Additional procedures to consider the Council's arrangements for securing Value for Money
- Additional procedures to consider the estimation risk in the valuation of Pension Fund assets disclosed in the Council financial statements

We are still in the process of finalising the 2020/21 fees and will discuss the additional fees with management and will provide an update once this process has been finalised.

➤ Additional fees for the work required to discharge responsibilities under the Code of Audit Practice are subject to approval by the PSAA. The 2019/20 final additional fees were determined by the PSAA.

We confirm that none of the services listed in the above have been provided on a contingent fee basis. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Other communications

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:





[EY UK Transparency Report 2020 | EY UK](#)






10 Appendices

Required communications with the Audit Sub-Committee

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

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the audit sub-committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report June 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report June 2021
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report




Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty related to going concern • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The appropriateness of related disclosures in the financial statements 	Audit results report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results report
Fraud	<ul style="list-style-type: none"> • Enquiries of the audit sub-committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Sub-Committee responsibility. 	Audit results report

Appendix A




		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit Planning Report and Audit Results Report
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit sub-committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit sub-committee may be aware of 	Audit results report

Appendix A

		Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit results report
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report
Auditors report	<ul style="list-style-type: none"> Key audit matters that we will include in our auditor's report Any circumstances identified that affect the form and content of our auditor's report 	Audit results report

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:


Item 	Actions to resolve 	Responsibility 
Valuation of property, plant and equipment Reserves	Additional testing and conclusion of procedures in respect of valuation inputs, including revaluation reserve	EY and management
Procedures in respect of Local Government Pension Scheme	Review and consideration of IAS19 assurances from updated Actuary report	EY and management
Provisions	Response from management on differences identified and evaluation/conclusion by EY	EY and management
Going concern	Obtain and conclude on managements going concern assessment and disclosures	EY and management
Partner review	Minute review to point of signing and final partner review of all audit procedures including those to consider subsequent events to the date of signing.	EY and management
Whole of Government Accounts return to NAO	Completion of required assurance return	EY
Management representation letter	Receipt of signed management representation letter	Management and Audit Sub-Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion, but we should point out that key disclosures on going concern remain to be finalised and audited.

Implementation of IFRS 16 Leases

In previous reports to the Audit Sub-Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the council until 1 April 2024. However, officers should be acting now to assess the council's leasing positions and secure the required information to ensure the council will be fully compliance with the 2024/25 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures 
Data collection	Management should: <ul style="list-style-type: none"> Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	The council needs to agree on certain policy choices. In particular: <ul style="list-style-type: none"> Whether to adopt a portfolio approach What low value threshold to set and agree with auditors Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the Council is lessee. However, there can be implications for some finance leases where the council is lessee; and potentially for sub-leases, where the council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

About EY

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

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ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

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REPORT TO:	AUDIT SUB-COMMITTEE	AGENDA ITEM: 6
DATE OF MEETING:	7 DECEMBER 2022	CATEGORY: DELEGATED
REPORT FROM:	HEAD OF LEGAL and DEMOCRATIC SERVICES	OPEN
MEMBERS' CONTACT POINT:	ARDIP SANDHU (01283 595715) Ardip.sandhu@southderbyshire.gov.uk	DOC: h/KS/governance/local code/update report Dec 2022
SUBJECT:	LOCAL CODE OF CORPORATE GOVERNANCE REVIEW	
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 04

1.0 Recommendation

- 1.1 That the updated Local Code of Corporate Governance as detailed in **Appendix 1** is approved.
- 1.2 That progress regarding on-going work to maintain sound governance as detailed in the report is approved.

2.0 Purpose of the Report

- 2.1 To review the Council's governance arrangements against the National Framework which the Council has adopted. The National Framework was published by the Chartered Institute of Public Finance (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) to ensure proper and robust governance in local authorities. The Framework was published and adopted by the Council in 2016.

3.0 Detail

Background

- 3.1 Corporate Governance relates to having a system by which a local authority directs and controls its functions and relates to its local community.
- 3.2 Good corporate governance is essential in demonstrating that there is credibility and confidence in public services. Sound arrangements should be founded on openness, integrity, accountability, together with the overarching concept of leadership.

The National Framework

- 3.3 The Framework is based on a set of core principles and is intended to assist local authorities individually in reviewing and accounting for their own approach.
- 3.4 The overall aim of a governance framework is to ensure that resources are directed in accordance with agreed priorities, that there is sound and inclusive decision making, together with clear accountability for the use of resources to achieve intended outcomes for local communities.

- 3.5 Within the Framework, focus is also placed upon demonstrating economic, social and environment sustainability over a longer-term, together with the principles of social value.

The Core Principles

- 3.6 There are seven principles as follows:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- Ensuring openness and comprehensive stakeholder engagement.
- Defining outcomes in terms of sustainable economic, social and environmental benefits.
- Determining the interventions necessary to optimise the achievement of the intended outcomes.
- Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- Managing risks and performance through robust internal control and strong public financial management.
- Implementing good practice in transparency, reporting and audit to deliver effective accountability.

- 3.7 Within each principle there are a series of sub-principles. Guidance with the Framework advocates a self-assessment against each of the sub-principles.

The Council's Assessment against the Framework

- 3.8 **Appendix 1** details the Council's updated assessment.

- 3.9 The assessment itself does not necessarily measure the effectiveness of the Council's Governance arrangements. The effectiveness is assessed on an on-going basis and reported annually in the Annual Governance Statement, with the Local Code ensuring sound and robust arrangements (the core elements) are in place.

- 3.10 However, areas for improvement and work-in-progress reported in the Local Code generally arise from an on-going review of the effectiveness of the core elements of the Council's governance system.

On-going Review

- 3.11 Although core elements to demonstrate good governance may be in place, they will always be subject to review and update. This may be due to changing circumstances, stakeholder expectations and external influences, together with learning and development arising from audits and service reviews, etc.

- 3.12 In addition, an assessment of the governance framework and ultimately its effectiveness should be made considering the main risks and challenges facing the Council. Currently, these are:

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- Continuing growth of the district and its increasing population.

- The general uncertainty regarding national funding for local authorities.
- Delivering aspirations in the Corporate Plan (2020 to 2024).
- Adapting service delivery and working arrangements post Covid-19.

Improvements and On-Going Work

3.13 **Appendix 1** also details work completed, improvements identified, together with on-going work to ensure that the Council’s governance arrangements remain sound and robust.

3.14 The main actions approved for 2022/23 included in the Council’s Governance Statement from 2021/22 were as follows:

Principle	Action	Progress
Behaving with Integrity (P1)	A new Councillor Code of Conduct based on a national model, is due to be implemented in May 2023.	A new Councillor Code of Conduct based on a national model, will be considered for adoption by Annual Council in May 2023.
Demonstrating Ethical Values (P1)	To undertake and review outcomes from a staff survey.	The survey is currently being conducted and the results will be reported to Finance and Management Committee in January 2023.
Workforce Development Strategy (P5)	The existing Strategy is due for review in 2022/23.	This is in progress and will be reported to Finance and Management Committee in March 2023.

4.0 Financial Implications

4.1 None

5.0 Corporate Implications

Employment Implications

5.1 None

Legal Implications

5.2 None

Corporate Plan Implications

5.3 There are no direct priorities identified in the Corporate Plan (2020 to 2024). However, “good governance” underpins everything that the Council carries out and ensuring a

robust system of corporate governance is a key corporate indicator which demonstrates that the Council is operating on a sound basis.

Risk Impact

5.4 None directly from the assessment itself.

6.0 Community Implications

Consultation

6.1 None required.

Equality and Diversity Impact

6.2 None

Social Value Impact

6.3 Not applicable

Environmental Sustainability

6.4 Not applicable

7.0 Background Papers

7.1 Delivering Good Governance in Local Government; Framework and Guidance Notes 2016 Edition. (*Published by CIPFA and SOLACE*).

APPENDIX 1: LOCAL CODE OF CORPORATE GOVERNANCE: ASSESSMENT AGAINST THE NATIONAL FRAMEWORK

<p>The Principles and the Council’s systems and processes which comprise the Government Framework.</p>	<p>Improvements identified, future developments, on-going work and actions completed in 2022/23.</p>
<p>1. <u>Behaving with integrity, upholding ethical values and respecting the rule of law</u></p> <p><i>Behaving with integrity</i></p> <ul style="list-style-type: none"> • Codes of Conduct for Members and Officers. • Separate Standards Committee with Independent Persons. • Register of Interests for Gifts and Hospitality. • Process for declaration of personal interests. • Protocol on Member and Officer Relationships. • Member Codes of Practice for the Planning process, the use of ICT, Licensing Committee, and representation on outside bodies. <p><i>Demonstrating a strong commitment to ethical values</i></p> <ul style="list-style-type: none"> • Ethics Statement setting out Ethical Standards for Officers. • 3 Key Values contained in the Corporate Plan – <i>Pride, Respect and Excellence.</i> <p><i>Respecting the rule of law</i></p> <ul style="list-style-type: none"> • An overall Constitution which governs the Council • Regulatory Committees for Planning and Licensing. • Health and Safety Committee. • Statutory Section 151 (Finance) and Monitoring Officers (Legal) appointed to ensure compliance with the law, regulations, and procedures. • The Council complies with the Statement on the Role of the Section 151 Officer in Local Government, evidence of which is periodically reported to the Audit Sub Committee. 	<p>To demonstrate compliance with this Principle, the Council should work towards implementing the 15 best practice standards contained in the “Nolan” principles, as recommended by the Government Committee on Standards in Public Life.</p> <p>Although many of these principles are embedded in the Council’s Governance arrangements, the Code recommends that this is subject to a separate review.</p> <p>A new Councillor Code of Conduct based on a national model, will be considered for adoption by Annual Council in May 2023</p> <p>Work has progressed to undertake an employee survey, to obtain feedback on ethics, values, and culture, together with obtaining a check on communications, morale, health, and well-being of staff. It had been planned to undertake this survey in 2020/21 but was postponed until a decision has been made on working arrangements post Covid-19.</p> <p>New working arrangements are currently being implemented and reviewed following approval of a Flexible Working Policy by Finance and Management Committee in March 2022.</p> <p>A survey is currently being conducted and the results will be reported to Finance and Management Committee in January 2023.</p>

2. Ensuring openness and comprehensive stakeholder engagement

Openness

- Published and transparent decision-making process through a committee system accessible to the Public.
- Communications Plan which uses media campaigns to inform the Public.
- Equality, Diversity, and Inclusion Strategy (2020 to 2024) with a work programme which is being monitored by an Equalities Steering Group, consisting of people from outside bodies and representative groups.

Engaging with institutional stakeholders

- Consultation Framework which includes Citizens Advice and CVS to undertake consultations and provide feedback.
- Representative groups established for major services such as Housing and Leisure.
- Parish Liaison Forum with Parish Council representatives.

Engaging with individuals and service users effectively

- Area Forums to provide the public with direct access to Members, Officers, and other agencies in the district.
- A publicised Comments, Compliments and Complaints Procedure which allows stakeholders to report feedback and raise issues. Details of complaints, etc. received are publicised on the Council’s web site and reviewed by Finance and Management Committee every six months.

Communication: In the Corporate Plan (2020 to 2024) two priorities were approved under the theme “*Our People*”. These priorities relate to ensuring consistency in approach using a customer service standard, together with making greater use of technology to engage with residents. Indicators have been agreed to measure outcomes against these priorities and they are being monitored in performance reports to the Finance and Management Committee on a quarterly basis.

3. Defining outcomes in terms of sustainable economic, social and environmental benefits

Defining outcomes

- Sustainable Community Strategy for South Derbyshire coordinated by the Council and overseen by the South Derbyshire Partnership.
- Corporate Plan setting out the Council's vision, values, and priorities.
- Medium Term Financial Plan (MTFP) to ensure resources are aligned to priorities and that the financial position remains sustainable.

Sustainable economic, social, and environmental benefits

- Capital Investment Strategy to guide long term investment.
- Procurement Strategy to drive value for money in purchasing, together with securing environmental, economic, and social benefits where possible.
- Environmental Sustainability Group which is taking forward a range of initiatives to meet an aspiration to make the Council carbon neutral by 2030.

4. Determining the interventions (courses of action) necessary to optimise the achievement of the intended outcomes

Determining interventions

- Terms of Reference and work programs set for Council Committees.
- Corporate and Service Planning Framework to set targets and intended outcomes.
- Financial Regulations and Procedural Rules govern how public money is controlled and to ensure financial resources are deployed efficiently and effectively.

Planning interventions

- Change Management process to guide Organisational and structural change.
- Service and Financial Planning Working Group to evaluate new spending proposals.
- Business Change Framework to assess major process changes and system developments.

Optimising achievement of intended outcomes

- Annual Budget Round to review and focus resources.
- Transformation plan to prioritise major changes.
- VFM Statement is in place which sets out the principles of VFM and how it applies to the specific aims of the Council and the District. This acts as guidance to enable Officers to demonstrate how they deliver VFM in service proposals.
- This is enhanced by the requirement for an explicit demonstration of VFM to be an integral part of proposals for service development and restructures, etc.
- A VFM test is included in the Capital Evaluation process.

<p>5. <u>Developing the entity’s capacity, including the capability of its leadership and the individuals within it</u></p> <p><i>Developing Organisational capacity</i></p> <ul style="list-style-type: none"> • An Organisational Development and Performance (ODP) Unit in place led by a Head of Service which focuses on Organisational and individual capacity, together with employee engagement. • Use of external organisations such as the LGA and the Housing Quality Network to review resources and make recommendations for improvement. • Peer Review undertaken in October 2019. <p><i>Developing leadership and individual performance</i></p> <ul style="list-style-type: none"> • Workforce Development Strategy in place. • A Personal Development process with annual reviews of training needs for all Officers. • Training and Development programs for Members and Officers which includes mandatory training courses, together with job specific, softer skills and wider management training as appropriate. 	<p>Workforce Development Strategy is currently being updated and will be reported to Finance and Management Committee in March 2023.</p> <p>Focus continues on increasing opportunities for Modern Apprentices in line with Government targets. Progress is reported to the Finance and Management Committee on a quarterly basis.</p>
<p>6. <u>Managing risks and performance through robust internal control and strong public financial management</u></p> <p><i>Managing risk</i></p> <ul style="list-style-type: none"> • Risk Management Policy and Framework in place. This guides the identification and assessment of risk, together with the process for monitoring, updating, and reporting. • Business Continuity arrangements in place in accordance with the Civil Contingencies Act. This is delivered in partnership with Derbyshire County Council. 	<p>A pilot Out of Hours and Emergency Contact Service using an external provider, is currently in place. This is due to end in January 2023, at which time, an assessment of its effectiveness</p>

- Fraud Service delivered through a Shared Service Agreement with a neighboring council.
- Counter-fraud and Corruption Policy with an annual action plan.

Managing performance

- Performance management process with key performance indicators to measure outcomes and identify corrective action where needed.
- An Overview and Scrutiny Committee which reviews service delivery, policy and has powers to “call-in” decisions.

Robust internal control

- An established Audit Committee.
- Independent Internal Audit function provided through partnership arrangements.
- Publicised Whistleblowing Policy

Managing data (and ensuring compliance with the Data Protection Act 2018)

- Appointed Data Protection Officer independent of senior management.
- Records Management and Document Retention Policies.
- Data Quality framework which sets out how data is collected, recorded, and reported.
- Compliance with the Public Services Network Standard for ICT data security.

Strong financial management

- Financial Strategy in place which sets out the management of financial resources and sets the overall financial target for the Council.

will be made. It is expected that proposals for a long-term solution will be considered after January 2023.

<ul style="list-style-type: none"> Financial monitoring and reporting process to review in year budget performance. 	
<p>7. <u>Implementing good practice in transparency, reporting and audit to deliver effective accountability</u></p> <p><i>Implementing good practice in transparency</i></p> <ul style="list-style-type: none"> Open Data reporting under the Government’s Transparency Code. Freedom of Information Publication Scheme. <p><i>Implementing good practice in reporting</i></p> <ul style="list-style-type: none"> Annual Report produced and publicised. Annual Statement of Accounts detailing how public funds have been utilised. Annual Pay Policy Statement published. Equality, Inclusion and Diversity Annual Report. <p><i>Assurance and effective accountability</i></p> <ul style="list-style-type: none"> Scheme of Delegation in place from Full Council, down to Policy Committees and through to Officers. Senior Leadership Team and Heads of Service accountable to Members through the Committee system. Service planning process in place which assigns responsibilities at an individual level. All service-related action plans and recommendations from Audit have a designated responsible officer. 	

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	7 DECEMBER 2022	CATEGORY: RECOMMENDED
REPORT FROM:	AUDIT MANAGER	OPEN
MEMBERS' CONTACT POINT:	ADRIAN MANIFOLD (01332 643281) adrian.manifold@centralmidlandsaudit.co.uk	DOC: u/KS/audit/internal audit/quarterly reports/quarterly report cover
SUBJECT:	INTERNAL AUDIT PROGRESS REPORT	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 02

1.0 Recommendations

1.1 That the report of the Audit Manager is considered, and that any matters specifically identified are subject to an appropriate report back.

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 as at 31 October 2022.

3.0 Detail

3.1 The detailed progress 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: 7th December 2022



South Derbyshire
District Council



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HIGHLIGHTED RECOMMENDATIONS	12

Our Vision

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

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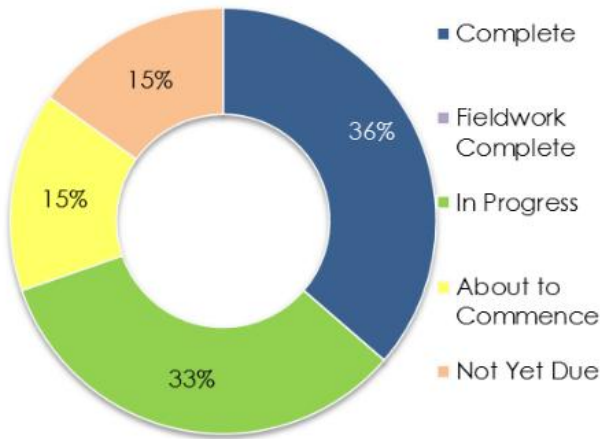
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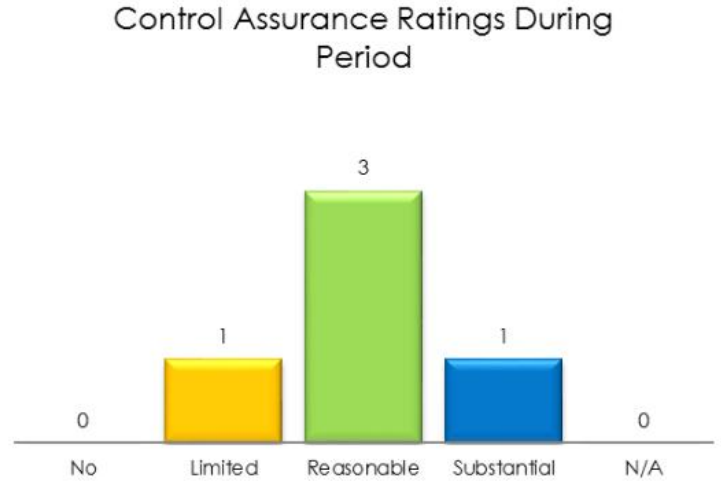
South Derbyshire District Council – Audit Progress Report

AUDIT DASHBOARD

Plan Progress

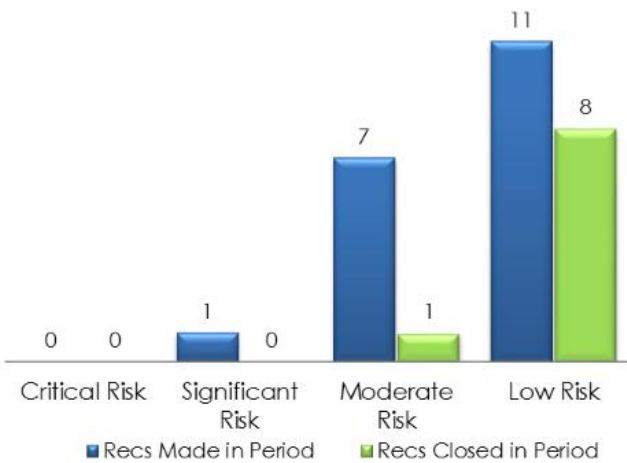


Jobs Completed in Period



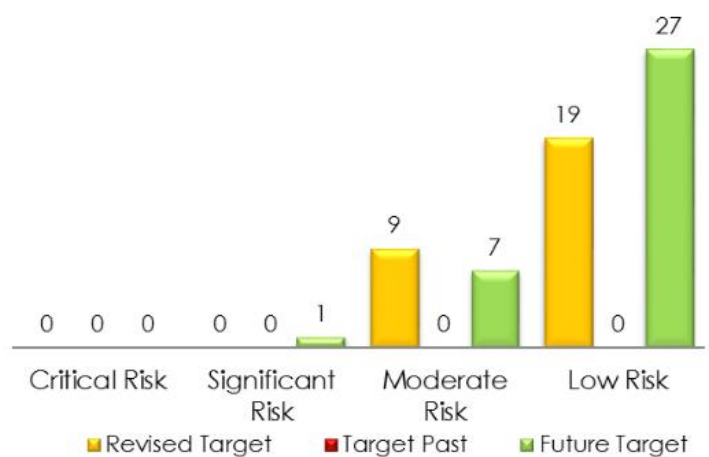
Recommendations

Movement During Period



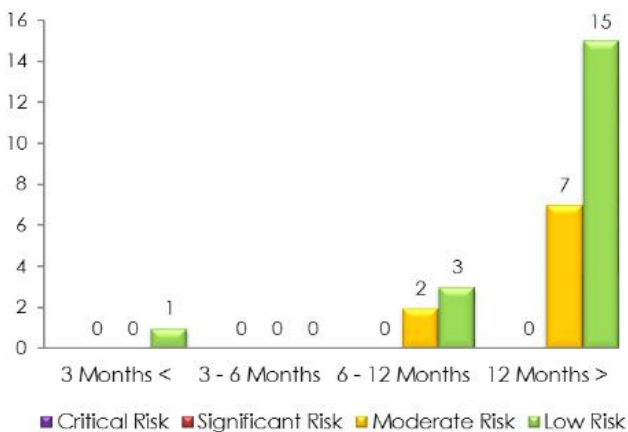
Recommendations

Recommendations Currently Open



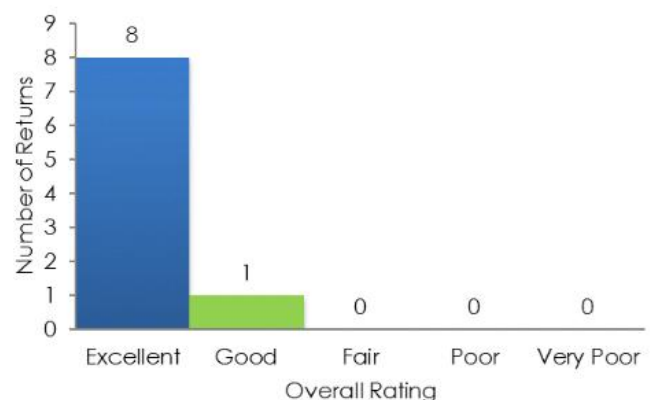
Recommendations

Overdue Recommendations



Customer Satisfaction

Returns Between Nov 21 & Nov 22



South Derbyshire District Council – Audit Progress Report

AUDIT PLAN

Progress on Audit Assignments

The following tables provide Audit Sub-Committee with information on how audit assignments were progressing as at 31st October 2022.

2022-23 Assignments	Status	% Complete	Assurance Rating
Records Management 2022-23	In Progress	45%	
Risk Management 2022-23	Final Report	100%	Reasonable
Procurement 2022-23	Not Allocated	0%	
Safeguarding 2022-23	Allocated	15%	
Main Accounting System 2022-23	Not Allocated	0%	
Treasury Management 2022-23	In Progress	75%	
Capital Programme 2022-23	In Progress	15%	
Banking Services 2022-23	Final Report	100%	Substantial
Officers Expenses & Allowances 2022-23	Final Report	100%	Reasonable
Revenues Systems 2022-23	Allocated	5%	
Mobile Device Management	Allocated	15%	
Data Quality & Performance Management 22-23	In Progress	70%	
Grant Certification 2022-23	In Progress	50%	
Waste Management 2022-23	Not Allocated	0%	
Street Cleansing 2022-23	Not Allocated	0%	
Development Management 2022-23	Allocated	15%	
Parks & Open Spaces 2022-23	Allocated	10%	
Rosliston Forestry Centre 2022-23	Final Report	100%	Reasonable
Housing Safety Inspections 2022-23	Not Allocated	0%	
Sheltered Housing / Careline 2022-23	In Progress	15%	
Land Charges 2022-23	Allocated	10%	
Organisational Culture & Ethics 2022-23	In Progress	10%	
Economic Development 2022-23	Allocated	10%	
B/Fwd Assignments	Status	% Complete	Assurance Rating
Procurement 2021-22	Final Report	100%	Reasonable
Income Streams 2021-22	Final Report	100%	Reasonable
Payroll Probity 2021-22	Final Report	100%	Limited
Creditors 2021-22	Final Report	100%	Reasonable
Housing System IT Upgrades	In Progress	70%	
People Management 2021-22	Final Report	100%	Substantial
Homelessness 2021-22	Final Report	100%	Substantial
Corporate Governance 2021-22	Final Report	100%	Reasonable
Leisure Centres 2020-21	Final Report	100%	Reasonable
Electoral Services 2020-21	In Progress	75%	

Plan Changes

None.

Assignment Delays

The three assignments brought forward from last year's plan have all suffered delays in their completion and certain 2022-23 assignments are experiencing difficulties getting underway.

South Derbyshire District Council – Audit Progress Report

- **Housing System IT Upgrades** – Delays have been experienced obtaining information regarding the system host provider's activities and processes.
- **Electoral Services** – This assignment has stalled. Evidence to refute Audit's findings has been promised by the Head of Service, but the information provided does not support management's assertions. As such we propose to issue a draft report with our findings as they stand.
- **Land Charges** – This assignment was initially planned for delivery in Quarter 2 of last year's Audit Plan. This was due to the significant risk of a continued overspend on this service identified during our annual planning process. Unfortunately, we have been unable to engage with the relevant Head of Service to agree the scope and start date for this audit. We intend to forge ahead with our proposed scope with the agreement of the Chief Executive.
- **Organisational Culture & Ethics** – We are struggling to engage with the relevant Head of Service regarding the scope of this assignment. It is looking increasingly likely that this audit may slip into next year's Audit Plan.

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AUDIT COVERAGE

Completed Audit Assignments

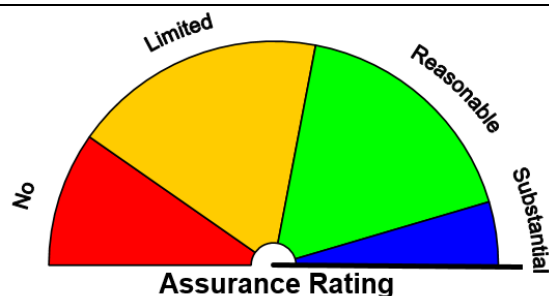
Between 24th August 2022 and 24th November 2022, the following audit assignments have been finalised.

Audit Assignments Completed in Period	Assurance Rating	Recommendations Made				% Recs Closed
		Critical Risk	Significant Risk	Moderate Risk	Low Risk	
Banking Services 2022-23	Substantial					n/a
Officers Expenses & Allowances 2022-23	Reasonable			2	1	0%
Rosliston Forestry Centre 2022-23	Reasonable			1	3	0%
Risk Management 2022-23	Reasonable				4	0%
Payroll Probity 2021-22	Limited		1	4	3	0%

Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
	To ensure that the Council only has appropriateness and necessary of bank accounts in operation.	5	5	0
To ensure that there are adequate controls around checking the validity of bank transactions.	6	6	0	0
Where procurement cards are in use there should be checks and controls in place to ensure that their use is managed and appropriate.	8	8	0	0
TOTALS	19	19	0	0

Summary of Weakness	Risk Rating	Agreed Action Date
This report contains no recommendations, as no key control weaknesses were identified by the audit review.		

Banking Services 2022-23



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Officers Expenses & Allowances 2022-23					
To ensure that expense claims made comply with the rules and relevant policies and procedures of the Council.	7	5	2	0	
To ensure that appropriate and adequate checking takes place prior to authorisation.	3	3	0	0	
To ensure that payments made to staff are calculated correctly, reflect accurately the claim made and are paid promptly.	6	3	3	0	
TOTALS	16	11	5	0	
Summary of Weakness		Risk Rating	Agreed Action Date		
The Expenses Policy was considered to be out-of-date, and no longer provided a comprehensive guide for claiming expenses.		Low Risk	01/04/2023 Future Action		
The Council's expenses policy did not support the Council's Staff Travel Plan, adopted to reduce the environmental impact of the journeys made by Council employees, and the mileage rates used were considered to be uneconomic and did not offer efficiency or value for money for the residents in the District.		Moderate Risk	31/07/2023 Future Action		
Of the 10 mileages claims we tested, none were completed in line with the Council's Expenses Policy, and the mileage claimed could independently verified for only two of these.		Moderate Risk	31/03/2023 Future Action		

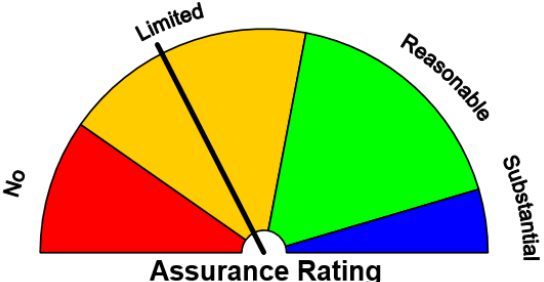
Rosliston Forestry Centre 2022-23					
Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls	
Income received at the Centre is held securely, fully reconciled, and banked where appropriate, in adherence with relevant financial policies and procedures.	11	9	2	0	
Measures introduced to develop the Forestry Centre as a tourist destination are effectively implemented and add value to the Centre, improving accessibility and promoting the activities on offer.	12	8	2	2	
TOTALS	23	17	4	2	
The combination to the safe had only been changed twice in the past four years.		Low Risk	01/04/2023 Future Action		

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Some of the pathways through the forest were in poor condition and no longer accessible to members of the public with disabilities. Ongoing talks with Forestry England regarding the lease agreement was delaying any repair works, causing them to increase in cost.	Moderate Risk	01/06/2023 Future Action
The lodge booking system was not intuitive, did not make costs clear and relied on manual intervention to collect payment.	Low Risk	01/04/2023 Future Action
No customer feedback was taken on site, other than that offered by the public, and this information was not reviewed regularly or used to inform future marketing or development of the Centre.	Low Risk	01/06/2023 Future Action

Risk Management 2022-23	Assurance Rating			
	No	Limited	Reasonable	Substantial
The Council's approach to risk management culture is led from the top.	9	6	3	0
There is a clear policy statement and guidance documents in place.	3	1	2	0
The management of risk in partnerships/shared services is clearly identified and financial resources are adequate to support the Risk Management Framework.	4	3	1	0
The Risk Management Framework is supported by adequate procedures and processes.	5	4	1	0
A sound approach to risk management is adopted throughout the Council.	5	4	1	0
Elected members and staff are aware of the risk management process and their role within it.	3	1	2	0
TOTALS	29	19	10	0
Summary of Weakness	Risk Rating	Agreed Action Date		
There was a lack of clarity within the Risk Management Framework as to how certain processes within the risk management process were to be accomplished/achieved.	Low Risk	28/02/2023 Future Action		
The risk appetite wasn't clearly defined in the Risk Management Framework and allowed for a range of interpretations to be made by officers.	Low Risk	28/02/2023 Future Action		
The risks arising from partnerships / shared services had not been fully identified and subsequently had not been fully risk managed as part of the current risk management processes.	Low Risk	31/03/2023 Future Action		
There were no arrangements in place for the assessment of development needs and/or a training plan for risk management with respect to officers.	Low Risk	31/01/2023 Future Action		

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Payroll Probity 2021-22				
To gain assurance that the actions taken to address recommendations from the previous Payroll audits, in 2018/19 and 2019/20 are implemented and embedded.	6	2	1	3
To gain assurance over the probity of payments made through the payroll - new starters.	6	3	0	3
To gain assurance over the probity of payments made through the payroll - leavers.	3	1	1	1
To gain assurance over the probity of payments made through the payroll - variations in pay and recurring deductions and payments.	1	0	0	1
To gain assurance over the probity of payments made through the payroll - variations to standing data.	2	1	0	1
TOTALS	18	7	2	9
Summary of Weakness	Risk Rating	Agreed Action Date		
<p>The Payroll Manager and HR Supervisor user profiles on the Resource Link Payroll system remained broadly similar and did not enforce separation of duties between officers, so that those who maintain personnel and establishment records could not also process the payroll, and vice versa.</p> <p>While we conceded that such access levels were necessary for the Council to operate this function effectively, due to resources and local circumstances, the previously agreed mitigating controls agreed in November 2020 to reduce the risks arising from this issue, had still not been implemented.</p> <p>There were therefore no checks to confirm the probity of entries made to the HR and Payroll system, resulting in opportunities for potential personal gain being available to officers.</p>	Significant Risk	01/04/2023 Future Action		
<p>Adequate documentation was not held on the document retention system to confirm that the required eligibility checks /actions had been completed for new starters, including formal confirmation of start dates.</p> <p>Completion of the Recruitment Checklist for new appointments, the agreed action in November 2020, had lapsed and HR could not demonstrate that the recruitment documentation and processes were complete for all new starters sampled from September 2021.</p>	Moderate Risk	01/01/2023 Future Action		
<p>The Council was unable to categorically demonstrate from the records kept, that changes to officers' remuneration had been properly approved, prior to the change being implemented.</p> <p>Change in Terms & Conditions forms were not immediately available to support changes made to employee's rates of pay, or the periods to which they relate, with evidence subsequently provided for some examples being backdated to cover the period of the change.</p>	Moderate Risk	01/01/2023 Future Action		
<p>The controls and processes being followed for new starters were not necessarily being implemented as those described in the Recruitment Policy and Procedure, which was considered by HR Management to be out-of-date.</p> <p>This is again an ongoing matter, first raised in November 2020, that makes auditing</p>	Moderate Risk	01/04/2023 Future Action		

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compliance with the Councils own rules and regulations rather pointless.		
<p>Evidence to confirm that probationary periods had been completed, and the outcomes thereof, were not retained in the document retention system and were not immediately available upon request.</p> <p>The Payroll Manager has indicated that confirmation is not received to indicate whether payments of salary should continue or cease upon the conclusion of a probationary period. Only changes in grade and salary awarded at the time that a probationary period is completed successfully would be identified and entered to the Resource Link Payroll system.</p> <p>Again, this matter was covered in the November 2020, where it was agreed that such confirmation will be obtained from the employee's recruiting manager and provided to Payroll, before any resultant increment is awarded.</p>	Low Risk	01/04/2023 Future Action
<p>Leaver forms were not being posted to the document retention system by HR promptly; advice of required adjustments to leavers pay were merely passed to the Payroll section by way of a spreadsheet by the HR section. Thus, the Payroll Manager was unable to perform a check that the information on the spreadsheet aligned with that on the leaver form, completed by the leaver's manager.</p> <p>An overpayment of 11 days holiday pay was subsequently made to one employee on leaving to the value of £1,557.68.</p>	Moderate Risk	01/01/2023 Future Action
<p>Excessive overtime hours were authorised, without confirmation that employees waived a right to a maximum of 48 hours work time weekly under the Working Time regulations.</p>	Low Risk	01/01/2023 Future Action
<p>A change made to an employee's bank details in the Resource Link system could not be verified, as the notification form was not held on the document retention system. We were informed that the majority of employees now have access to the MyView self-service module for HR where they can manage bank account changes themselves. This manual process would now only concern those members of staff without network access such as those based at the Depot.</p>	Low Risk	01/01/2023 Future Action

South Derbyshire District Council – Audit Progress Report

RECOMMENDATION TRACKING

Final Report Date	Audit Assignments with Open Recommendations	Assurance Rating	Recommendations Open		
			Action Due	Being Implemented	Future Action
22-Nov-22	Payroll Probity	Limited			8
31-Oct-22	Rosliston Forestry Centre 2022-23	Reasonable			4
31-Oct-22	Risk Management 2022-23	Reasonable			4
24-Oct-22	Officers Expenses & Allowances 2022-23	Reasonable			3
02-Aug-22	Income Streams	Reasonable			6
22-Aug-22	Homelessness 2021-22	Substantial			1
23-Feb-22	Climate Change	Substantial		1	1
29-Jul-22	People Management 2021-22	Substantial			1
31-Mar-22	Revenues Systems 2021-22	Substantial			2
10-Mar-22	Rent Accounting 2021-22	Reasonable		2	2
06-Sep-21	Data Protection & FOI 2021-22	Reasonable		2	
15-Sep-21	Insurance	Substantial			1
06-Jan-21	Tenancy Management (Interventions & Support)	Substantial		1	
19-May-22	Leisure Centres 2020-21	Reasonable			1
03-Feb-21	Waste Management (Trade Waste)	Reasonable		2	
16-Jun-21	Housing Repairs 2020-21	Limited		6	
06-Aug-20	Bereavement Services 2019-20	Reasonable		2	
22-Oct-20	Grounds Maintenance 2019-20	Reasonable		5	1
26-Mar-19	Fleet Management	Reasonable		1	
29-Aug-19	Corporate Governance 2018-19	Reasonable		1	
12-Feb-19	PCI Compliance 2018-19	Reasonable		3	
31-Oct-22	Parks & Open Spaces	Reasonable		2	
		TOTALS		28	35

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

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

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

Audit Assignments with Recommendations Due	Action Due			Being Implemented		
	Significant Risk	Moderate Risk	Low Risk	Significant Risk	Moderate Risk	Low Risk
Climate Change						1
Rent Accounting 2021-22					1	1
Data Protection & Freedom of Information 21-22					1	1
Tenancy Management (Interventions & Support)						1
Waste Management (Trade Waste)					1	1
Housing Repairs 2020-21					3	3
Bereavement Services 2019-20					1	1
Grounds Maintenance 2019-20					1	4
Fleet Management						1
Corporate Governance 2018-19						1
PCI Compliance 2018-19					1	2
Parks & Open Spaces						2
TOTALS					9	19

South Derbyshire District Council – Audit Progress Report

HIGHLIGHTED RECOMMENDATIONS

Being Implemented – Significant or Moderate Risk Recommendations

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

PCI Compliance 2018-19	Rec No. 8
Summary of Weakness / Recommendation	Risk Rating
<p>The Council was not PCI Compliant and was paying non-compliance fees to a third party. Further management fees were being paid to the financial system provider for PCI and they were also charging the Council for a verbal assessment that no-one at the Council knew anything about.</p> <p>We recommend that the Council establishes a PCI Compliance Action Plan which should take account of the non-compliance fees being paid and should look to work with the third party to ensure that they are able to provide compliance to them and remove the non-compliance fee. The Council should also determine what benefits the Council receives for the PCI DSS Management Fee and verbal assessment.</p>	Moderate Risk
Management Response/Action Details	Action Date
This matter has been raised with Capita360 and there are several issues that have been raised previously about responsibility for the various elements of PCI DSS compliance and which appear to affect compliance. Following the meeting with Capita on 15 th February 2019 a compliance action plan will be drafted for agreement by each team.	01/04/2019
Status Update Comments	Revised Date
The Council intends to be PCI Compliant by the end of January 2023. We will then attest compliance on a channel by channel basis and renew annually.	31/01/2023 Future Action

Bereavement Services 2019-20	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
<p>Contract opportunities for the provision of a grave digging service had not been advertised on the Contracts Finder website, in line with the requirements of the Public Contract Regulations 2015, and there was no current contract in place.</p> <p>We recommend that the Council pursues one of the following actions: A corporate contract may be required for the area of spend and as such a formal tender exercise should be undertaken.</p> <ul style="list-style-type: none"> Engage the Council's DSO to provide the service at the rural cemeteries as well as the urban cemeteries. The area of spend may be relevant to an existing or new framework agreement/contract which should be used to formalise the process. If no competitive market is available this should be demonstrated and a formal exemption from the Contract Procedure Rule should be put in place. 	Moderate Risk
Management Response/Action Details	Action Date
All options will be assessed and taken forward after the Covid-19 pandemic is over as the risk of any changes to the service are too great at the present time.	01/01/2021
Status Update Comments	Revised Date
We will look to do an options appraisal to identify future service delivery, this could be either in-house or to go out to formal tender. This appraisal should be concluded by	01/03/2023

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February 2023 and subsequent action will then be taken thereafter.	Future Action
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Grounds Maintenance 2019-20	Rec No. 6
Summary of Weakness / Recommendation	Risk Rating
<p>Reactive work requested and performed was not consistently recorded.</p> <p>We recommend that reactive work requests should be logged and the outcome recorded. This should include, as a minimum, the following details:</p> <ul style="list-style-type: none"> Date and time issue was reported. Location of work. Details of issue. Urgency. Customer details. Work completed date. Time spent on work. Operative name. Outcome. <p>This information should be monitored to draw out the following:</p> <ul style="list-style-type: none"> Time spent on reactive work vs planned work, to inform workforce planning. Responsiveness to requests, to allow effectiveness to be determined. Trends in the types of work requested, to inform planned maintenance. 	Moderate Risk
Management Response/Action Details	Action Date
Operational Services is currently undertaking a management restructure, a formal process will be developed and implemented following this restructure.	01/04/2021
Status Update Comments	Revised Date
Action date has been revised to the Autumn when the new Heads of Cultural and Community Services and Operational Services will be in post	30/11/2022
Future Action	

Waste Management (Trade Waste)	Rec No.6
Summary of Weakness / Recommendation	Risk Rating
<p>Mandatory Health & Safety training had not been refreshed in line with the required 3-year timescale.</p> <p>We recommend that, whilst being mindful of the current Covid-19 restrictions, the delivery of mandatory Health & Safety training is pursued and delivered as a priority, when safe to do so. To bring the required training up-to-date, this should incorporate all members of the team and include all those Health & Safety training courses which are mandatory. Whilst training delivery continues to be problematic due to the Covid-19 pandemic, toolbox talks should continue in an effort to keep Health & Safety awareness at the forefront of everyone's mind.</p>	Moderate Risk
Management Response/Action Details	Action Date
Mandatory training, including but not limited to Health & Safety, for all Operational Services employees, without access to Myview, has now been organised. The training will be delivered over the following dates to ensure Covid safety measures are followed during delivery of the training. 3rd February, 23rd February, 10th March, 11th March, 23rd March, 25th March and 1st April	01/04/2021
Status Update Comments	Revised Date
Due to capacity within the Trade Waste and Fleet Management service and the absence of a permanent Head of Service, this recommendation will be held-over until September 2022, to allow time for this position to have been filled and for action to	01/09/2022
Action Due	

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have either been taken or at least commenced

Housing Repairs 2020-21	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
<p>There was a high degree of manual input in scheduling repair jobs and the system in place to record repairs was heavily reliant on paper job tickets, resulting in inefficiencies and possible inaccuracies. We were unable to locate a job ticket for 10 of the 19 completed repair jobs selected for testing.</p> <p>We recommend that the Council considers the procurement of dynamic scheduling software. In the interim we recommend that:</p> <ul style="list-style-type: none"> o Clear guidelines are provided to operatives on the information required to be completed on job tickets and timesheets, to improve the quality of data subsequently entered into Orchard, the Council's Housing Management System. o The possibility of sending job tickets directly from Orchard to operative's smartphones (or scanning and emailing them) is investigated. o The capability of the smartphones issued is reviewed to establish whether job tickets can be viewed and edited or whether other hardware /software is required to do this. o Training requirements for operatives are considered to allow implementation of the above and further training be undertaken, where required. 	Moderate Risk
Management Response/Action Details	Action Date
<p>As part of the Council's Transformation Project, the renewed Orchard Contract package includes the option for the future purchase of dynamic scheduling/mobile working software. Written instruction for the completion of job tickets will be provided for operatives by the Interim Team Leader (by 30/07/2021). A possible interim solution for the electronic transmission of job tickets has been identified and is being tested. This will require new devices to be provided to operatives. The use of smartphone for this process has been tested and found to be not viable. Once testing of the process and new devices is complete this will be implemented across the team with the appropriate training.</p>	01/10/2021
Status Update Comments	Revised Date
<p>Electronic job ticket process in trial with DLO. Full implementation will rely on the upgrade of the Orchard system and the commencement of new Repairs Manager in Post. An outline timetable for the implementation of dynamic scheduling/mobile working has been agreed with Orchard MRI for completion by December 2023.</p>	01/03/2023 Future Action

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Housing Repairs 2020-21	Rec No. 5
Summary of Weakness / Recommendation	Risk Rating
<p>Orchard, the Council's Housing Management System, did not contain a full record of materials used on a job and there was consequently no tracking of materials purchased over the counter to confirm their usage.</p> <p>We recommend that all materials used on a job should be recorded on the job ticket used to populate Orchard. This will ensure full data is available for the purposes of costing and post inspections. Operatives should be provided with clear instruction and this should be monitored by management until embedded.</p>	Moderate Risk
Management Response/Action Details	Action Date
Written instruction for the completion of job tickets will be provided for operatives by the Interim Team Leader.	30/07/2021
Status Update Comments	Revised Date
The implementation of an App to control stock purchase is in implementation with the major supplier and in discussion with the secondary supplier. This will not progress further until the commencement in post of the New Repairs Manager. The comprehensive management of this will be delivered through the implementation of additional Dynamic Scheduling Software which has a prospective completion date of December 2023.	01/03/2023 Future Action

Housing Repairs 2020-21	Rec No. 6
Summary of Weakness / Recommendation	Risk Rating
<p>Van stocks were not being tightly controlled, as annual audits only consisted of a count and valuation and did not track the usage of materials.</p> <p>The Council should consider how the van stock audit regime might be strengthened to prevent the possible theft of materials. This should include an annual audit based on an inventory of van materials, taking into account materials purchased and materials used over the period to identify possible discrepancies, along with in-year spot checks.</p>	Moderate Risk
Management Response/Action Details	Action Date
<p>A quarterly audit of van stock will be implemented by the new Repair Manager once appointed.</p> <p>An electronic method of managing materials and van stocks is being investigated with the current materials provider.</p>	01/10/2021
Status Update Comments	Revised Date
New controls are in place with regard to the purchase of materials and a new secondary materials supplier has been appointed. Both providers have electronic solutions for the management of materials which will be progressed further once the new Repairs Manager is in place in November 2022.	01/01/2023 Future Action

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Data Protection & Freedom of Information 2021-22	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
<p>Not all staff had completed the annual mandatory GDPR refresher training and not all Members had attended and completed GDPR training.</p> <p>We recommend that training on GDPR is included as annual refresher training for Members as well as it being included as part of their induction training when newly elected to the Council. The progressive completion of mandatory GDPR refresher training for staff should be monitored on a regular basis to ensure that there is a high percentage rate of completion. Non-compliance with mandatory training should be identified and appropriate action to address non-compliance should be considered and acted on as a priority.</p>	<p>Moderate Risk</p>
Management Response/Action Details	Action Date
<p>GDPR training is mandatory part of induction, and an annual refresh is required. Non-compliance will be escalated to the relevant Strategic Directors.</p>	<p>31/12/2021</p>
Status Update Comments	Revised Date
<p>This relates to a rolling 12 months and not all employees have completed the training but the fact that they haven't has been escalated and a new process whereby a monthly snapshot is emailed to Heads of Service. Members have not yet undertaken a GDPR training session. This was due to take place at the end of September but didn't happen. The training is delivered by a third party. New dates for training delivery have been requested and an update will be provided when these have been booked. Action date revised to end of November in the interim.</p>	<p>01/12/2022 Future Action</p>

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Rent Accounting 2021-22	Rec No. 7
Summary of Weakness / Recommendation	Risk Rating
<p>Energy costs paid by the Council for individual properties were not consistently recharged to tenants and there was a large outstanding debt relating to this.</p> <p>We recommend that the Council writes off outstanding ground source heating debts where there is insufficient legal basis to pursue recovery. Furthermore, for existing tenants, appropriate action should be taken to obtain agreement to future energy cost charges, which should be invoiced as soon as possible to prevent further financial loss to the Council.</p>	Moderate Risk
Management Response/Action Details	Action Date
<p>Agreed, the Former Tenant Arrears Officer will prepare the documentation for write off where recovery cannot be pursued against former / current tenants for ground source heating charges at Brook Street, Hartshorne.</p> <p>A third-party agent is currently being procured to take meter readings and prepare figures for consumption costs to the responsible tenant for payment. At this point it is the Councils intention for the third-party agent to read meters and invoice tenants, however this may change in so far as Business Support may invoice tenants and collect the payments which are due.</p> <ul style="list-style-type: none"> • Once procured, all existing tenants will be required to re-sign a contract indicating their agreement to be responsible for and pay their ground source heating charges to the Council. • All new tenants will sign a separate contract/letter when they sign their new Tenancy Agreement indicating their agreement to be responsible for and pay their ground source heating charges. • The Former Tenant Arrears Officer and the Tenancy Services Manager will have operational responsibility for implementing this recommendation. 	31/03/2022
Status Update Comments	Revised Date
<p>Working Group set up across Council Departments. Written process and documentation nearing completion. Writing out to tenants to give 28 days notice of billing to commence 01/10/2023.</p>	<p>31/01/2023</p> <p>Future Action</p>

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Being Implemented - Low Risk Recommendations Over 12 Months

The following low risk rated recommendations, that have not yet been implemented and have exceeded their original action date by more than 12 months, are also detailed for Committee's scrutiny.

Parks & Open Spaces	Rec No. 5
Summary of Weakness / Recommendation	Risk Rating
Files and documentation confirming compliance with safety standards was not held centrally, but rather in separate project files in the Cultural Services Department. We recommend that the documentation held by the Council in respect of play equipment and playground surfacing which demonstrates compliance with the relevant safety standards, should be held centrally. Ideally, the relevant documents confirming compliance for each play area should be scanned and stored on separate electronic files, headed up for each play area. Access to the files should be allowed for both the Open Space and Facilities Development Manager and the Street Scene Manager. This would allow all officers involved in the process to access the information as necessary (i.e. for ordering parts) and would serve to ensure that the information was complete and easily accessible.	Low Risk
Management Response/Action Details	Action Date
Central folder to be set up for all Play Equipment paperwork on S Drive. Scan in all relevant documents.	31/03/2018
Status Update Comments	Revised Date
The process of writing a business case is currently underway for business transformation to procure a play inspection app which complies with this recommendation and would also include hosting all the scan copies of previous inspections for the mandatory 21 yrs. Procurement exercise has been undertaken and a demonstration is being held on 7th October to confirm the winning supplier.	01/12/2022 Future Action

Parks & Open Spaces	Rec No. 7
Summary of Weakness / Recommendation	Risk Rating
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. We recommend that the signs displayed at the children's play areas across the district clearly display, the name of the site operator, i.e. the district council or parish council as appropriate. This would allow users of the play areas to clearly identify the site operators in the event of accident or equipment failure. In addition, all the signs situated in the play areas should display the correct contact numbers, both in and out of office hours.	Low Risk
Management Response/Action Details	Action Date
Review of signage to be undertaken. New signage to be designed and approved. New signs to be installed on all Council operated play areas – NOTE: subject to budget/cost constraints	31/03/2018
Status Update Comments	Revised Date
We have completed the design of the new signage and have created a South Derbyshire Parks and Green Spaces "brand" as the backdrop for all the new signage. The hope is that the first 25 will be erected in the summer months.	01/12/2022 Future Action

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Slight delay in implementation, due to other priorities, but SDDC sites all identified and will be going out for procurement on signs shortly.

PCI Compliance 2018-19	Rec. No. 4
Summary of Weakness / Recommendation	Risk Rating
<p>The Council had not maintained an inventory of hardware and software components relating to equipment used to take card payments.</p> <p>We recommend that the Council either introduces an inventory of hardware and software components relating to equipment used to take card payments or these devices are removed in favour of alternative methods the Council uses to receive card payments.</p>	Low Risk
Management Response/Action Details	Action Date
<p>We are in the process of removing the android chip and pin devices and replacing with a single digit device. The kiosks will be replaced by December 2019 as not PCI DSS compliant beyond that date Our understanding is that firmware is incorporated with the machines</p>	01/01/2020
Status Update Comments	Revised Date
<p>The Card Payment Data Security Policy has been reviewed with Section 19 (PCI DSS (Payment Card Industry Data Security Standards) being updated. An Inventory of Hardware and Software components is currently being finalised. Software technology (Call Secure Plus) is also due to be deployed in January 2023 which will prevent spoken cardholder data</p>	<p>31/01/2023 Future Action</p>

PCI Compliance 2018-19	Rec. No. 6
Summary of Weakness / Recommendation	Risk Rating
<p>The document which outlined duties and responsibilities in terms of PCI Standards contained out-of-date references.</p> <p>We recommend that the document outlining duties and responsibilities in terms of PCI Standards is updated to reflect the Council's current structure.</p>	Low Risk
Management Response/Action Details	Action Date
<p>Procedural polices updates including communication and training to staff will be updated by Customer Services.</p>	01/04/2019
Status Update Comments	Revised Date
<p>The Card Payment Data Security Policy has been reviewed with Section 19 (PCI DSS (Payment Card Industry Data Security Standards) being updated. An Inventory of Hardware and Software components is currently being finalised. Software technology (Call Secure Plus) is also due to be deployed in January 2023 which will prevent spoken cardholder data being transmitted across Council infrastructure.</p>	<p>31/01/2023 Future Action</p>

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Fleet Management	Rec. No. 2
Summary of Weakness / Recommendation	Risk Rating
<p>A number of policies and procedures related to vehicle management and driving were inconsistent with the current regulations, out-of-date or drafted but not formally approved.</p> <p>We recommend that the set of policies / procedures supporting the Vehicle Management Strategy are reviewed and updated to provide staff with clear instructions on the latest working practices.</p>	Low Risk
Management Response/Action Details	Action Date
All Direct Services employees have had a driving licence check and signed a declaration of fitness to drive. A briefing will be submitted to the Leadership Team to establish the preferred option for checking all employees' driving licences.	31/03/2020
Status Update Comments	Revised Date
Due to capacity within the Trade Waste and Fleet Management service and the absence of a permanent Head of Service, this recommendation will be held-over until September 2022, to allow time for this position to have been filled and for action to have either been taken or at least commenced	01/09/2022 Future Action

Bereavement Services 2019-20	Rec. No. 5
Summary of Weakness / Recommendation	Risk Rating
<p>Historic graves and burials information had not been fully digitised.</p> <p>The Council should consider making resource available to digitise historic graves and burials information to minimise the risk of data loss.</p>	Low Risk
Management Response/Action Details	Action Date
Report being drafted to Leadership Team and Housing and Communities Committee.	30/11/2020
Status Update Comments	Revised Date
Additional resources and commencement of a Database Project will be required to address this matter. A further update will be provided in January 2023.	01/02/2023 Future Action

Grounds Maintenance 2019-20	Rec. No. 1
Summary of Weakness / Recommendation	Risk Rating
<p>Arrangements for ensuring the updated GIS system remains accurate and up-to-date had not been confirmed.</p> <p>We recommend that a corporate decision is secured on where the responsibility lies for ensuring the GIS system is accurately maintained and up-to-date, and that this decision is effectively communicated and resourced.</p>	Low Risk
Management Response/Action Details	Action Date
A project to map all environmental assets on the Corporate GIS system has been concluded. A report to E&DS and F&M Committees has allocated resources to Operational Services to maintain the data on GIS. A further process is being developed to ensure all departments provide the required data to Operational Services in order to accurately maintain the Environmental Assets layer on GIS.	01/01/2021
Status Update Comments	Revised Date
New Head of Service to be appointed and date extended to Dec 2022.	01/01/2023 Future Action

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Grounds Maintenance 2019-20	Rec. No. 5
Summary of Weakness / Recommendation	Risk Rating
<p>There was no formal process through which reactive works could be requested from Operational Services.</p> <p>The Council should develop a formal process through which requests for grounds maintenance works should be made. This would help to ensure that all requests are properly authorised, allocated and tracked. One option could be to introduce a standard Job Request Form and a dedicated email address to receive requests.</p>	Low Risk
Management Response/Action Details	Action Date
<p>A dedicated email already exists to receive requests GroundsDistList@southderbyshire.gov.uk. Operational Services is currently undertaking a management restructure, a formal process will be developed and implemented following this restructure.</p>	01/04/2021
Status Update Comments	Revised Date
<p>Action date has been revised to the Autumn when the new Heads of Cultural and Community Services and Operational Services will be in post.</p>	30/11/2022 Future Action

Grounds Maintenance 2019-20	Rec. No. 8
Summary of Weakness / Recommendation	Risk Rating
<p>Monitoring of quality of work performed did not take place or was not formally recorded.</p> <p>We recommend that regular quality monitoring is undertaken to ensure that quality of work meets the standards set within a revised specifications, and any performance issues are addressed.</p>	Low Risk
Management Response/Action Details	Action Date
<p>Quality Monitoring Schedule derived from annual plan/programme for Housing Land and Cultural and Community Services land to be implemented. Officers with operational responsibility are the Parks and Green Space Manager and the Housing Improvement and Asset Manager.</p>	01/04/2021
Status Update Comments	Revised Date
<p>Action date has been revised to the Autumn when the new Heads of Cultural and Community Services and Operational Services will be in post.</p>	30/11/2022 Future Action

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Corporate Governance 2018-19	Rec. No. 2
Summary of Weakness / Recommendation	Risk Rating
<p>The Members' Code of Conduct had not been reviewed since 2014, and was found to be out-of-date.</p> <p>We recommend that the Council review and update the Members' Code of Conduct as soon as practically possible. A review schedule and version control should also be incorporated into the code to ensure that future reviews are conducted on a timely basis.</p>	Low Risk
Management Response/Action Details	Action Date
<p>The Members' Code of Conduct is compliant with current standards legislation. A review of the Code will be carried out in due course.</p>	31/12/2020
Status Update Comments	Revised Date
<p>The LGA has issued a revised Code of Conduct, along with guidance documents to assist with the Code. It has been decided by Full Council for the Code to be adopted in May 2023, following the next election. In the meantime, Members have had a copy of the draft for information and comment.</p>	<p>01/06/2023 Future Action</p>

Tenancy Management (Interventions and Support)	Rec. No. 1
Summary of Weakness / Recommendation	Risk Rating
<p>Tenants on Universal Credit (UC) did not have independent access to their details and rental account, specifically rent due dates and any accrued arrears.</p> <p>We recommend that Housing Services consider adding the self-service module to Orchard Housing System, to allow tenants on UC to access their details and manage their rental account remotely. This would ensure that tenants are fully in control of their funds.</p>	Low Risk
Management Response/Action Details	Action Date
<p>SDDC are considering the purchase and implementation of this module as part of the wider procurement of the Housing Management Software. A decision will be made by the end of February 2021</p>	28/02/2021
Status Update Comments	Revised Date
<p>SDDC will look to address this with the introduction of a Tenant Portal in Spring 2023. Currently Tenants are aware that rent is charged weekly on a Monday as this is stated in their tenancy agreement and the amount charged will be on the copy of their tenancy contract page. When the rent increases or decreases each year, the tenants are informed of this. They also receive rent statement (s) and rent arrears letters advising of their rent situation. Customer services also provide this information when a tenant contacts them direct. At present, tenants requiring information on rent due dates or their arrears would contact their Housing Officer or customer services who would provide this information from the Orchard Screen verbally to the tenant or confirm this information in writing by text, email or letter or by sending a rent statement.</p>	<p>01/07/2023 Future Action</p>

South Derbyshire District Council – Audit Progress Report

Housing Repairs 2020-21	Rec. No. 9
Summary of Weakness / Recommendation	Risk Rating
<p>Post inspections were not being carried out on a sample of day-to-day repairs.</p> <p>We recommend that a regime of post inspections for a sample of day-to-day repairs is developed and implemented. Inclusion of aspects such as, materials usage and time spent on the repair should be considered. This process should be managed by the Repairs & Improvements Team Leader to ensure a broad spread of all work types are covered and that any issues identified are duly investigated and rectified.</p>	Low Risk
Management Response/Action Details	Action Date
A trial post inspection regime is now in place. The effect of this will be reviewed by the newly appointed Repair Manager prior to implementation within the team.	01/11/2021
Status Update Comments	Revised Date
In house automated process designed subject to MRI system changes	01/01/2023
	Future Action

Housing Repairs 2020-21	Rec. No. 10
Summary of Weakness / Recommendation	Risk Rating
<p>There was no clear process by which work was allocated to the repairs & maintenance contractor, rather than the Direct Labour Organisation (DLO), and there was no formal monitoring of the distribution of work to the DLO in comparison to the contractor.</p> <p>We recommend that a robust process is developed to ensure that the split of work allocated to the DLO versus the contractor fully considers the type and quantity of work, to ensure this maximises capacity, costs and efficiency. Furthermore, the work allocation should be suitably monitored to enable any trends relating to skillsets or capacity to be identified and addressed.</p>	Low Risk
Management Response/Action Details	Action Date
<p>The Contract with NOVUS for day to day repairs is a support contract. This requires them to operate with a high degree of flexibility in order to meet repair requests that the in house team cannot fulfil. This can be for a number of different reasons for any given repair.</p> <ul style="list-style-type: none"> In the case of electrical works the current DLO do not have any electricians so are unable to complete any such works. In the case of repairing/replacing wet room repairs the DLO do not have any operatives qualified to carry out this work. In all other areas of work the contractor may be required to assist for a range of reasons, including the staff availability, scale and nature of works Monitoring of day to day repair works issued and completed by the contractor is carried out as part of the monthly contract monitoring process. A formal process for the allocation of works will be included within the procedural notes to be completed in response to Recommendation 1 above. 	30/11/2021
Status Update Comments	Revised Date
The Repair Manager Post has been vacant with a new manager due to start in November 2022	01/01/2023
	Future Action

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Housing Repairs 2020-21	Rec. No. 11
Summary of Weakness / Recommendation	Risk Rating
<p>Customer satisfaction was not being routinely measured for day-to-day repairs carried out by the Direct Labour Organisation (DLO).</p> <p>We recommend that the existing Customer Satisfaction Survey is utilised when day-to-day repairs are completed by the DLO and that performance is monitored accordingly.</p>	Low Risk
Management Response/Action Details	Action Date
A trial post inspection regime is now in place. The effect of this will be reviewed by the newly appointed Repair Manager prior to implementation within the team.	01/10/2021
Status Update Comments	Revised Date
Paper satisfaction survey is still in use, text based survey to follow.	01/03/2023
	Future Action

Waste Management (Trade Waste)	Rec. No. 5
Summary of Weakness / Recommendation	Risk Rating
<p>No performance measures were in place for the Trade Waste collection service.</p> <p>We recommend that management consider introducing performance measures in respect of the Trade Waste collection service. This would serve to ensure the service delivered was being efficiently and reliably managed and that the service remained viable in a competitive market.</p>	Low Risk
Management Response/Action Details	Action Date
Performance indicators will be reviewed during the next draft of the Operational Services Service plan when consideration will be given to performance measures for Trade Waste	30/09/2021
Status Update Comments	Revised Date
Due to capacity within the Trade Waste and Fleet Management service and the absence of a permanent Head of Service, this recommendation will be held-over until September 2022, to allow time for this position to have been filled and for action to have either been taken or at least commenced.	01/09/2022
	Action Due

REPORT TO:	AUDIT SUB-COMMITTEE	AGENDA ITEM: 8
DATE OF MEETING:	7 DECEMBER 2022	CATEGORY:
		RECOMMENDED
REPORT FROM:	STRATEGIC DIRECTOR CORPORATE RESOURCES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) Kevin.stackhouse@southderbyshire.gov.uk	DOC: h/KS/audit/cmap/external assessment/dec 22
SUBJECT:	CENTRAL MIDLANDS AUDIT PARTNERSHIP: EXTERNAL QUALITY ASSESSMENT	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 02

1.0 Recommendations

- 1.1 That the outcomes from the External Quality Assessment as detailed in the report are considered and noted.

2.0 Purpose of the Report

- 2.1 To consider the outcomes from the External Quality Assessment (EQA) undertaken by Business Risk Solutions in September 2022, which assessed the Central Midlands Audit Partnership's (CMAP) conformance with the Public Sector Internal Audit Standards (PSIAS).

3.0 Detail

- 3.1 CMAP provide the Council's Internal Audit Service, the Council being one of six authorities which comprise the Partnership. The Lead Authority are Derby City Council, with Amber Valley BC, Ashfield DC, Derby Homes and Derbyshire Fire and Rescue Service being the other constituent members.
- 3.2 Significant non-compliance with the PSIAS could undermine the value of the assurances provided by CMAP. CMAP, as the Internal Audit Service, is a key assurance provider to each Partner; they must apply professional audit standards to their approach and activity to ensure that assurance is credible and reliable.
- 3.3 Internal audit within the public sector in the United Kingdom is governed by the PSIAS, which have been in place since April 2013. In local government, the way internal audit services operate is more flexible than in other parts of the public sector where there is a large degree of central control.
- 3.4 To ensure local authority internal audit services apply the PSIAS in a uniform way, CIPFA has produced the Local Government Application Note which provides

additional detail for each of the individual standards. The Note is mandatory for local authority internal audit.

- 3.5 All public sector internal audit services are required to assess their performance on conformance to the standards and this can be achieved by undertaking periodic self-assessments, or external quality assessments, or a combination of both methods. CMAP undertakes a regular self-assessment of its conformance with the PSIAS.
- 3.6 However, 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*". This can be in the form of a full assessment or the validation of the internal audit service's own self-assessment.
- 3.7 Assessments are based on the following three 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
- 3.8 CMAP was previously externally assessed in 2017 and it was determined that it generally conformed with each standard.

External Assessment 2022

- 3.9 An independent and qualified company (Business Risk Solutions – BRS) undertook a EQA in September 2022 in accordance with Standard 1312.
- 3.10 The overall assessment is that CMAP "**Generally Conforms with the Public Sector Internal Audit Standards**". The report from BRS also states that CMAP compare favourably with peer groups in both local government and the private sector. Their report is attached in **Appendix 1**.
- 3.11 CMAP came out as "best in class" position in terms of all the EQA reviews that BRS has done. Feedback to the CMAP Operational Group was that CMAP was an established team that was well regarded by all clients.
- 3.12 The good practice identified from the assessment was:
- An Internal Audit Charter setting out the role and responsibilities of Internal Audit guides delivery and establishes the basis upon which the Head of Internal Audit's Annual Opinion will be based.
 - The service has developed a documented internal audit methodology and supporting templates that delivers a consistent service.

- Consistent supervisory processes ensure that a standard approach delivers a robust assurance report.
- Routine reporting informs clients and the Audit Committee regarding progress and completion of the internal audit plan, together with findings and the follow up of recommendations.
- Self-assessment identifies areas in which future development will be beneficial and is based upon the development of job descriptions, performance appraisals, the establishment of a training matrix and client feedback.

3.13 Areas for consideration were:

- Increasing integration of the use by internal audit of risk-based techniques with the risk appetite of each client particularly in terms of planning at a strategic and engagement level would be mutually beneficial. However, it was noted that degree to which this is possible is hampered by the variable maturity of client risk management processes across each client.
- Developing a clear alignment through the working papers for each assignment to focus on agreed management objectives and the associated significant risks and relevant key controls will assist in the provision of a transparent assurance opinion in the final audit report.
- Consideration should be given to the revision of the basis for expressing internal audit recommendations and opinions in line with risk impact definitions recognised by each client within its Risk Management Policy rather than rely on those of a generic nature.
- Formalise Quality Assurance Improvement Programme processes.

3.14 The CMAP Leadership team are in the process of evaluating the points for consideration that BRS made. It needs to be borne in mind that the Standards best reflect an internal audit service of an individual entity.

3.15 CMAP took the decision when it was formed to use a uniform approach to internal auditing across the Partnership. Some of the recommendations will require a tailored approach for individual Partners to reflect the differences in risk management, governance, terminology etc.

3.16 For example, using each Partners risk impact definitions when expressing audit recommendations and opinions would require a different set of working papers and reporting for each Partner.

3.17 It is considered that changes of this nature may reduce the benefits that Partners receive from the efficiencies achieved through a standardised approach, particularly as CMAP staff are not dedicated to one Partner and tend to work across the Partnership. This is considered to be a key benefit for all Partners to provide resilience and capacity, together with multi-skilling and development opportunities for auditors.

4.0 Financial Implications

4.1 The cost of the Assessment was met from within the CMAP Budget and was not a direct cost for any of the Partners.

5.0 Corporate Implications

Employment Implications

5.1 None

Legal Implications

5.2 None

Corporate Plan Implications

5.3 None

Risk Impact

5.4 None.

6.0 Community Impact

Consultation

6.1 None required

Equality and Diversity Impact

6.2 None

Social Value Impact

6.3 None

Environmental Sustainability

6.4 None

7.0 Background Papers

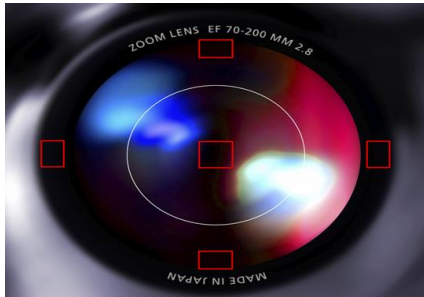
None



External Quality Assessment

Internal Audit Services

Executive report – October 2022



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External Quality Assessment

Central Midlands Audit Partnership

BUSINESS
RISK
SOLUTIONS

Opinion: The Central Midlands Audit Partnership is delivering to a standard that **generally conforms** with the Public Sector Internal Audit Standards.

Key matters arising from the review:

- Increasing integration of the use by internal audit of risk-based techniques with the risk appetite of each client particularly in terms of planning at a strategic and engagement level would be mutually beneficial,
- Developing a clear alignment through the working papers for each assignment to focus on agreed management objectives and the associated significant risks and relevant key controls will assist in the provision of a transparent assurance opinion in the final audit report.
- Consideration should be given to the revision of the basis for expressing internal audit recommendations and opinions in line with risk impact definitions recognised by each client within its Risk Management Policy rather than rely on those of a generic nature.

Good Practice identified during the review

- An Internal Audit Charter setting out the role and responsibilities of Internal Audit guides delivery and establishes the basis upon which the Head of Internal Audit's Annual Opinion will be based.
- The service has developed a documented internal audit methodology and supporting templates that delivers a consistent service.
- Consistent supervisory processes ensure that a standard approach delivers a robust assurance report.
- Routine reporting informs clients and the Audit Committee regarding progress regarding completion of the internal audit plan, findings and the follow up of recommendations.
- Self-assessment identifies areas in which future development will be beneficial and is based upon the development of job descriptions, performance appraisals, the establishment of a training matrix and client feedback.

Executive summary

Internal Audit services are delivered by Central Midlands Audit Partnership (CMAP) and supported by external contract arrangement for support for both IT and general audit work on an as required basis, to deliver planned assurance and advisory services. Current clients are Derby City Council, Derby Homes, Derbyshire Fire and Rescue Services and the District Councils of Amber Valley, Ashfield, South Derbyshire.

CMAP services are overseen by an Operational Group to which Richard Boneham as Head of the Audit Partnership (HoAP) reports. The HoAP is supported by two Audit Managers with all three assuming a role as CAE with the various clients.

The service has responded to the change of focus in professional standards by developing a risk based approach with regard to planning and the completion of assignment work; the Internal Audit Manual has been updated in December 2021 to reflect the requirements of the Public Sector Internal Audit Standards (PSIAS) as defined within the International Professional Practices Framework (IPPF) maintained by the Institute of Internal Auditors (IIA) and as a result better align its methodology.

From an internal audit perspective, considerable advantage is to be gained from recognition of the clients' Risk Management processes and the effectiveness with which they operate. The degree to which those key controls which management feel reduce significant risk to an acceptable level (risk appetite) and arising from which the assurance sources that exist to demonstrate application are identified, represents a platform against which internal audit can provide an assurance opinion in relation to risk, governance and control. Client risk management processes vary, particularly with regarding to the depth to which they are embedded at an operational level. Increasing alignment will enable internal audit plans and assignments to focus on the value of 'Control Risk' and thereby increasingly focus attention on significant risk and key controls, as well as identify and consider reliance on those assurances available to demonstrate mitigation of risk. Continuing to develop this thread will enhance both the efficiency and effectiveness of internal audit as well as its benefit to each client.

Consequently, with a constantly changing risk environment, particularly as the service responds to the changing needs of clients post COVID-19; there is opportunity for the internal audit service to continue to enhance delivery through acting as a catalyst to ensure that robust risk management systems are operational, increasing its awareness of the assessment of risk and as a consequence informing its own approach. This will help ensure that internal audit focuses on the most appropriate areas and can demonstrate that it continues to provide a service that effectively contributes towards the achievement of the clients' stated objectives, through the provision of independent assurance.

Current services are assessed to '**generally conform**' with the PSIAS standards and compare favourably with peer groups in both local government and the private sector.. A series of specific recommendations are made in the report that follows to reflect building on the existing strengths in relation to resources, competency and delivery in order to enhance future services.

Overall assessment

1	RESOURCES		Excelling – Processes in this area are embedded within every-day practices and mostly reflect best practice that is consistent with PSIAS expectations.
2	COMPETENCY		Established – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where further development would be beneficial.
3	DELIVERY		Established – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where a more consistent approach and further development would be beneficial.

Summary of good practice identified within EQA

Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with management and the Audit Committee (AC).	The combination of the Charter and the Internal Audit Manual provides comprehensive understanding of the role and responsibilities of internal audit and establishes an appropriate framework against which internal audit services can be delivered in accordance with the PSIAS.
1100	Independence and objectivity	A process is in place regarding the identification and management of potential conflicts and/or declarations of interest.
1311	The service has conducted internal assessment exercises regarding its performance.	Performance review is embedded within quality control procedures and supported by a staff development processes which identify and support performance development needs.
2020	Active engagement at Member and management level	Establishment of a good understanding of key issues through routine interaction with client management including Members.
2030	The need for appropriate internal audit resources is supported by support from appropriate other sources.	This represents a firm basis for the successful delivery of the internal audit plan and the use of support, if required.
2040	A detailed internal audit manual is in place which aligns with the PSIAS.	Provides for a consistent methodology, within the service which is delivered through a series of templates.
2060	Reports are produced using a standard template which is consistently applied. Customer feedback is routinely requested.	Demonstration of a consistent approach to communication which is well received by management and the AC – effective follow-up ensures issues are not lost.
2300	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.	Effective supervision and review of progress ensures a consistent approach and delivery of the approved methodology.
2400	Internal auditors must communicate results of engagements.	The internal audit team routinely conducts exit meetings with regard to the findings emerging from engagements.

Part one

Compliance with the Public Sector Internal Audit Standards

Business Vision and Mission, Governance arrangements, Recognition of standards, Charter, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

	Issue identified	Recommended action	
1	<p>Training needs</p> <p>Current training needs are assessed and structured on an individual and team wide basis as part of the Performance and Development (PDR) Process, A skills matrix is in place.</p> <p>With internal audit planning being focused on a rolling programme of activity it should be possible to consider what assurances may be required by clients on a medium or longer term horizon and build these into the future training plans.</p>	<p>Consider formally identifying the long term assurance needs of clients within the various sectors which CMAP operates and prepare for assignments by arranging appropriate training in advance.</p> <p>Include development needs within the QAIP process</p> <p style="text-align: right;">PSIAS 1210</p>	
2	<p>QAIP policy</p> <p>The Partnership currently updates the self-assessment exercise on an annual basis and uses this to support declaration that a QAIP has been completed. An undated document 'Quality Assurance & Improvement Programme' details those measures deployed by CMAP to identify any development needs.</p> <p>The above document does not include the process through which analysis of the various components are combined to support the QAIP declaration..</p>	<p>It would be good practice to formally approve the QAIP process as a Policy and specifies how each component contributes to the overall assessment of the need for development which is then included in each Head of Internal Audit's Annual report.</p> <p>Consider whether all existing quality assurance review processes are included in the QAIP document.</p> <p style="text-align: right;">PSIAS 1310/1320</p>	

	Issue identified	Recommended action
1.	<p>Assurance relating to Risk Management and Governance</p> <p>Internal Audit plans include various engagements which together comprise a basis for providing an opinion in relation to these areas as is required with the PSIAS.</p>	<p>Consider formalising a standard approach to supporting the opinion in both areas, for example:</p> <ul style="list-style-type: none"> a) Risk Management – this may be based upon a cyclical review of the implementation of an appropriate Risk Management Policy supported annually by assessment within each assignment as to whether risk management is embedded. b) Governance – this may be based upon review of the key areas/pillars of governance established within each clients Code of Governance in compliance with CIPFA/SOLACE or other Codes of Governance. <p style="text-align: right;">PSIAS 2010/2020</p>
2.	<p>Audit Universe</p> <p>The current planning model reflects use of a “standard audit universe’ to which are applied a number of factors which may represent a judgement of risk from an internal audit perspective.</p> <p>Further development of this approach based upon each clients risk appetite (as stated within its risk management policy) would enhance internal audits’ ability to demonstrate a commitment to helping the client achieve its objectives.</p> <p>It is recognised that client risk management systems comprise various formats and reflect different levels of maturity. This significantly influences the degree to which internal audit can fully adopt a risk based approach which is consistent with each clients’ risk appetite.</p>	<p>Continue to develop the approach to formulating internal audit plans by reflecting the significant risks that are recorded with each clients risk management system, as this represents an essential feature of both strategic and operational planning as it acts as a basis for both ensuring attention on the most significant risks on a priority basis as well as providing an indication of the resources required to provide continuous independent assurance.</p> <p>It would be beneficial therefore to increasingly align development of the internal audit planning system with each clients risk management processes in order to ensure that resources are consistently focused on areas where assurance is required regarding the operation of policies, procedures and controls that mitigate the significant risks to which the client is or may become exposed at an inherent level.</p> <p>Discussions regarding the formation of each strategic plan should be formally documented.</p> <p style="text-align: right;">PSIAS 2000/2010</p>

Competency continued

	Issue identified	Recommended action
3.	<p>Audit objective</p> <p>Audit engagement plans are included within a Job Control Sheet and contain statements which reflects the scope and objective of the audit, these mostly reflect the purpose to provide assurance regarding the area of review.</p> <p>PSIAS 2201 gives guidance regarding planning considerations and states that “In planning the engagement, internal auditors must consider the objectives of the activity being reviewed and the means by which the activity controls its performance”.</p>	<p>It would be beneficial to revise the terminology used to focus on the Management Objective for the area under review as this would provide direction for identification of the significant risks which may impact upon achievement of established management objectives.</p> <p>Such an approach would then provide a direct alignment with the Controls Evaluation Sheet where the ‘Expected Controls’ could be related directly to each identified significant risk.</p> <p style="text-align: right;">PSIAS 2201</p>
4.	<p>Internal Audit Planning</p> <p>Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends upon discussions with the management in pre-audit meetings and the maturity of the current risk management processes. This informs a judgement by the CAE regarding risk and priorities for audit review.</p> <p>The degree to which the internal audit methodology then allows a focus on significance, as opposed to covering ‘all risks’ is guided by how risks are expressed within a generic risk impact matrix which is applied to all clients.</p> <p>The ability of the internal audit team to target areas of greatest potential risk exposure may be better informed through recognition of Management’s Objective (above) and the control environment established to move risk from an inherent to residual (current) level. This may be assessed in terms of ‘Control Risk’ where this can be identified within the clients risk management system.</p>	<p>Engagements should be increasingly constructed to reflect assessment of ‘Control Risk’ in relation to the achievement of Management Objectives in order to focus reviews upon:</p> <ul style="list-style-type: none"> • Those risks where the assessment is that the combined impact/likelihood score has decreased most and where if assumptions are incorrect critical business risk exposure may exist, • Risks where the value of ‘Control Risk’ is limited or zero and as a result suggesting the controls may be insufficient or ineffective, and • Key Controls (rather than a wider view of control objectives which may have little impact on risk reduction or the achievement of business objectives). <p>By focusing on Management Objectives, significant risks and key controls there may be efficiencies to be gained within assignments through targeting resources to issues of greatest importance or concern.</p> <p style="text-align: right;">PSIAS 2010</p>

Competency continued

	Issue identified	Recommended action												
5.	<p>Risk appetite</p> <p>The risk impact matrix above contains four ‘categories’ of risk which are restricted to matters of Governance, IT, Finance and Fraud.</p> <p>The risk environment within each client is therefore not reflected within this generic matrix.</p>	<p>Consider extending the risk matrix used at each client to reflect the unique aspects of the clients activity (risk categories) to reflect issues of an operational nature and particular high profile risks such as health & safety and safeguarding.</p> <p style="text-align: right;">PSIAS 2010/2410</p>												
6.	<p>Grading of recommendations</p> <p>Recommendations are currently assessed using a generic risk impact and likelihood matrix relating to four levels of impact – catastrophic, critical, marginal and negligible for which examples are shown reflecting different types of risk (referred to above).</p> <p>This is a more advanced model than most provision within the sector.</p> <p>The Internal Audit Team then classifies ‘the level of each recommendation by reference to a matrix grid which guides assessment at five levels relating to the risk as Critical, Significant, Moderate, Low or Minor</p> <p>A significant feature of the PSIAS is a focus on significant risk and therefore aligning internal audit terminology with each client’s ‘speak’ may improve communication regarding planning, findings, recommendations and opinions.</p> <p>We believe the profession is generally moving towards use of a three tier recommendation structure.</p>	<p>It would be beneficial to align future terminology and grading of recommendations with those impact definitions used within the risk management process at each client, where this is possible. A potential structure maybe:</p> <table border="1" data-bbox="1012 801 1785 1003"> <thead> <tr> <th data-bbox="1012 801 1070 848"></th> <th data-bbox="1070 801 1454 848">Recommendation rating</th> <th data-bbox="1454 801 1785 848">Risk Impact Category</th> </tr> </thead> <tbody> <tr> <td data-bbox="1012 848 1070 901">■</td> <td data-bbox="1070 848 1454 901">Critical</td> <td data-bbox="1454 848 1785 901">Catastrophic</td> </tr> <tr> <td data-bbox="1012 901 1070 953">■</td> <td data-bbox="1070 901 1454 953">Significant</td> <td data-bbox="1454 901 1785 953">Critical</td> </tr> <tr> <td data-bbox="1012 953 1070 1003">■</td> <td data-bbox="1070 953 1454 1003">Moderate/Low</td> <td data-bbox="1454 953 1785 1003">Marginal/Negligible</td> </tr> </tbody> </table> <p>This could be flexibly applied to suit the circumstances of each client with regard to their approach to grading risk impact. This would assist in both agreeing the specific risk focus of each engagement as well in assessing the relative importance of findings at the exit meeting and in providing an opinion within assurance reports.</p> <p>Consider also:</p> <ol style="list-style-type: none"> Reducing grading levels to three Not including ‘Minor’ recommendations in reports (or grading as ‘low’) Including appropriate explanation in reports regarding the basis upon which recommendations and opinions are assessed. <p style="text-align: right;">PSIAS 2300/2410</p>		Recommendation rating	Risk Impact Category	■	Critical	Catastrophic	■	Significant	Critical	■	Moderate/Low	Marginal/Negligible
	Recommendation rating	Risk Impact Category												
■	Critical	Catastrophic												
■	Significant	Critical												
■	Moderate/Low	Marginal/Negligible												

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

	Issue identified	Recommended action
1.	<p>Recommendations graded ‘Critical risk’ CMAP currently use a weighted risk grading system to support the overall opinion used within an engagement report.</p> <p>This provides a consistent approach to the provision of the assurance opinion and reflects best practice.</p>	<p>Consider the underlying assumptions used within the methodology to assess the ‘Control Assurance’ opinion to ensure that:</p> <ul style="list-style-type: none"> a) Where a critical risk rating is allocated to a risk this results in a ‘Limited Assurance’ opinion. b) Where multiple significant or moderate recommendations are identified the cumulative effect is appropriate to distinguish between a Substantial, Reasonable or Limited Opinion (currently set at 10, 45 and 80%). <p style="text-align: right;">PSIAS 2450</p>
2.	<p>Follow up of recommendations A comprehensive follow up process exists regarding action being taken on recommendations made by internal audit, in which tracking currently provides review of outstanding.</p> <p>CMAP processes include an automated email reminder process although reporting would benefit from achieving greater reliance or buy-in from client management regarding receipt of timely responses regarding recommended actions which have been agreed.</p>	<p>The adoption of internal audit grading which is aligned with the client’s risk appetite in terms of the use of risk impact definitions may help embed the follow-up process within routine management and therefore make best use of the limited internal audit resource.</p> <p>In the longer term, the introduction of automated software that tracks and reminds managers by email of their commitment, allows local update of actions undertaken, whilst also producing executive reports of outstanding actions for SMT and Audit Committee may help fully embed timely action by managers.</p> <p style="text-align: right;">PSIAS 2500</p>

	Issue identified	Recommended action
3.	<p>Release of draft and final reports Reports are currently issued to clients following approval by the CAE.</p> <p>Whilst this is provided for within the PSIAS, it is suggested that greater clarity should be introduced regarding the approval process by amending the front page to the report template to indicate that the nominated CAE has authorised release, rather than include within a 'Distribution and Communication' section in the body of the engagement report.</p>	<p>Clearly show on the report cover the CAE responsible for each client report and record other contacts in relation to CMAP management separately.</p> <p style="text-align: right;">PSIAS 2420</p>
4.	<p>Annual Opinion Current Head of Internal Audit opinions state that the opinion is "<i>Based on the work undertaken during the year</i>", we do not believe this is the case as internal audit planning is based upon a rolling plan of activity which all provides evidence along with wider knowledge of both the control environment and the significant risks that each client faces.</p> <p>This represents the correct basis upon which an opinion should be expressed,</p>	<p>It is recommended that:</p> <ul style="list-style-type: none"> a) Each CAE amends the wording used when expressing an Annual Opinion to reflect the wider knowledge of significant risk and assurances available, including from the client risk management system where this can be relied upon, and b) The Head of Internal Audit's Annual Report should include wider reference to the significant risks being faced and the assurances that are available. <p style="text-align: right;">PSIAS 2450</p>

	Issue identified	Recommended action
5	<p>Client feedback Response to the client survey supported evidence from feedback gathered by CMAP through feedback at the conclusion of each report.</p> <p>Although not raised as a consistent response some observations were made regarding the benefits that could be gained from focus on significance and the provision of advice regarding best practice.</p>	<p>This may support some of the findings of this review and be resolved through identification of Management Objectives and alignment with client risk appetite but equally may require attention within team training, engagement planning and the approach to exit meetings.</p> <p style="text-align: right;">PSIAS 2220/2450</p>

Part two



Suggested enhancements for consideration

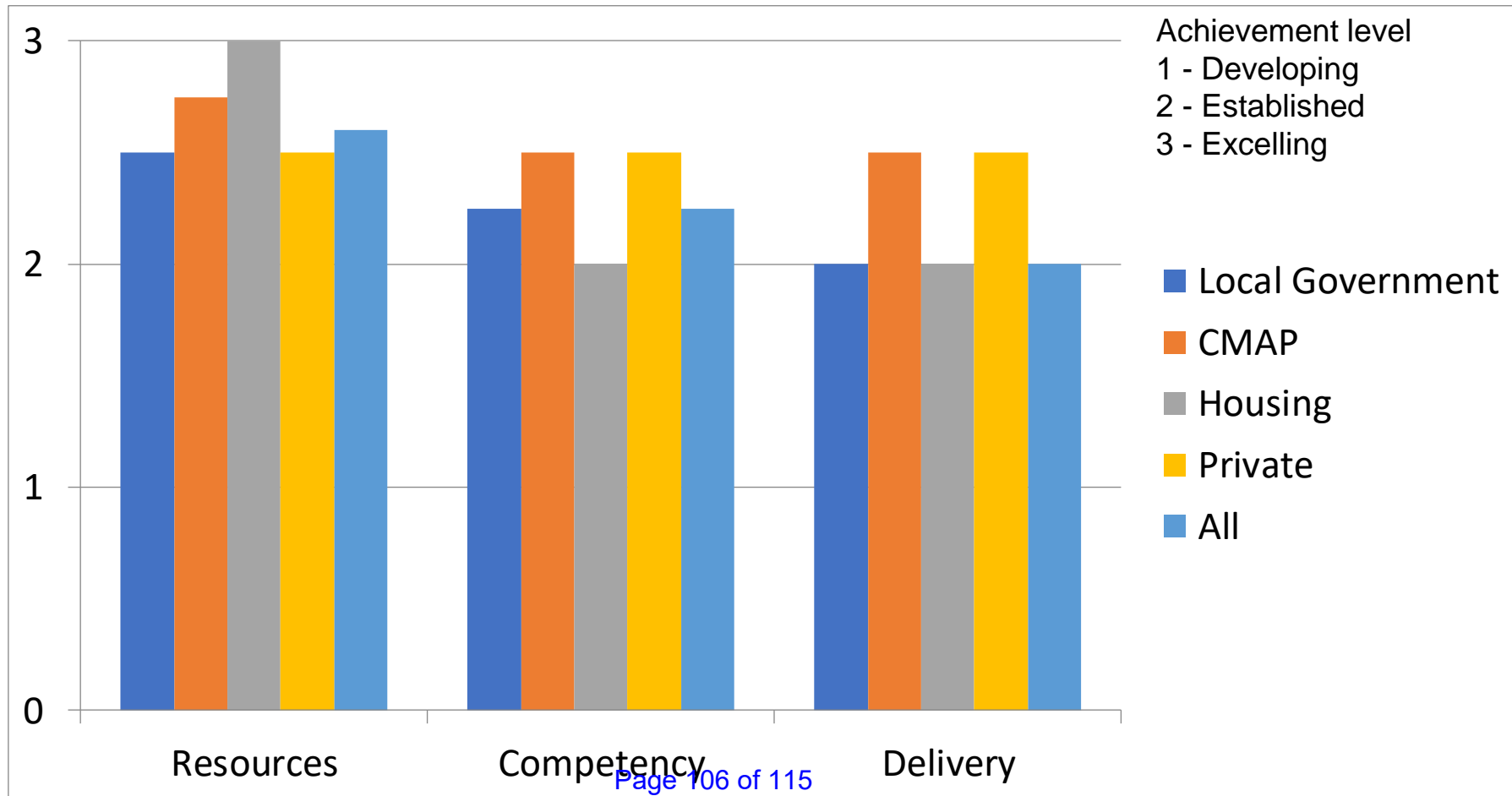
Suggested Enhancements for consideration

	Issue identified	Recommended action
1.	<p>Audit Charter The current Audit Charter majors on compliance with the standards of the Institute of Internal Auditors, with references to the PSIAS interpretation as a footnote.</p> <p>The Internal Audit Manual majors more upon compliance with the PSIAS.</p>	<p>Consider standardising the approach to focus on the PSIAS.</p> <p>PSIAS 1000</p>
2.	<p>KPMG Arrangements for support have been agreed with KPMG who provided a detailed appendix indicating how the firm feels it complies with the PSIAS.</p> <p>Where such arrangements exist elsewhere, it is normal practice to require a copy of the actual external assessment as evidence of compliance with PSIAS.</p>	<p>Request confirmation from KPMG that their internal audit provision has been subjected to an external quality assessment.</p> <p>PSIAS 1312</p>
3.	<p>Fraud Survey The Internal Audit Team participates in the CIPFA Fraud Survey which reflects good practice regarding the consideration of fraud risk within the PSIAS.</p>	<p>When completed it would be beneficial to align outcomes with the significance of fraud risk in relation to achievement of the management objectives agreed within each engagement.</p> <p>PSIAS 2120</p>
4.	<p>Confidentiality There is an occasional need to share an internal audit report outside of the organisation and in which case the legal implications should be considered.</p>	<p>The Internal Audit Team should consider the need to include appropriate confidentiality and limitation of liability clauses in reports which are shared with third parties directly or in published Audit Committee papers.</p> <p>PSIAS 2440</p>

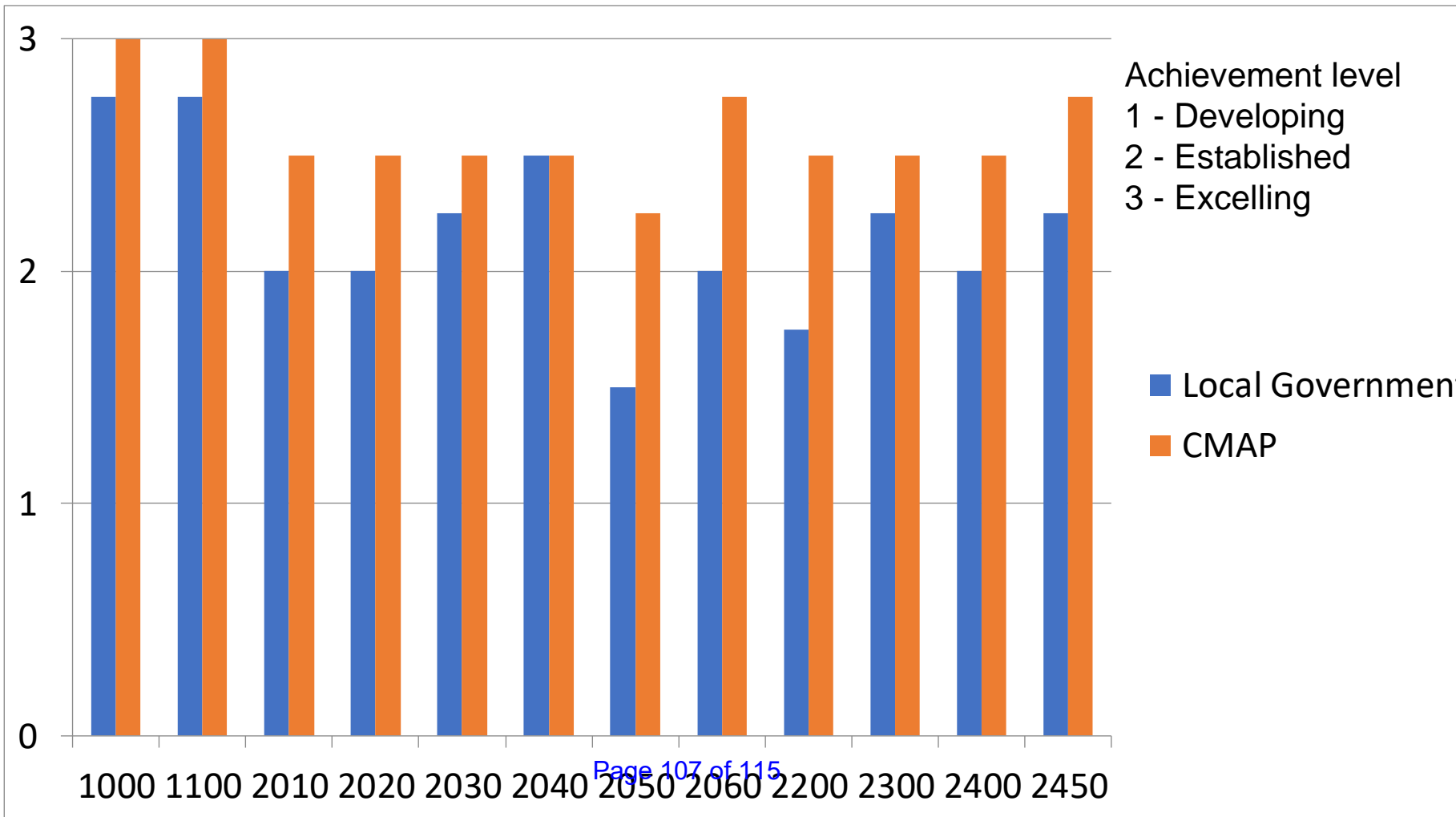
Part three



Benchmarking



Benchmarking - Industry analysis



Appendix

1. Summary of client feedback
2. Key IPPF/PSIAS standards assessed
3. Basis for EQA
4. Grading of recommendations

Summary stakeholder feedback

Question	Positive (%)	Negative (%)
I understand Internal Audit's role in the organisation and its purpose.	100	
I have regular contact with internal audit management.	100	
Internal Audit is customer focused and understands what the organisation is trying to achieve. Auditors consider the viewpoint of the organisation when planning and undertaking reviews and aim to provide a good balance between assurance and opportunities for improvement.	100	
Internal audit has a presence throughout the organisation which is based on significant risk, is visible and approachable.	93	7
The Internal Audit team provides a flexible and reliable service which adds value through the assurance audits and additional work it undertakes.	100	
Internal Audit makes you aware of any significant issues that occur during an audit on a timely basis and you have the opportunity to respond or provide additional information.	100	
Internal audit has the skills to provide appropriate assurance and advice to meet our needs?	100	
Good practice and ideas from other organisations are shared through audits, day to day contact, meetings or other engagement methods.	85	15
Average	97	3

Conclusion:

Feedback from stakeholders confirms that the Central Midlands Audit Partnership is considered to provide a high quality internal audit service whose brief is clearly understood and the assurance and advice that is provided is well regarded.

Other relevant observations

The service has evolved for Derby Homes into a more consultancy led offer, rather than regulatory. This has meant that the topics covered can be targeted at topical / high risk areas. As a result the relevance of the audits is a big improvement from a few years ago.

Whilst the process for informing Managers of timescales for recommendations and updates for committee has improved it can still be a little cumbersome and confusing.

I have never had the good practice from other organisations/Councils shared other than reference to ACAS, that would help the process if other sources are provided as reference and considerations.

We would welcome the opportunity to call on wider skills and capabilities around assurance mapping and best practice from elsewhere.

Issued	18	Returned	13	Response rate	72%
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Client representative	No'
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Audit Committee	3
Main Client contact	5
Client Manager	5

Key PSIAS Standards assessed

(for benchmarking purposes)

Standard		Focus
1000	Purpose, Authority and Responsibility	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> . The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100	Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.
2010	Planning	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
2020	Communication and approval	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.
2030	Resource Management	The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
2040	Policies	The chief audit executive must establish policies and procedures to guide the internal audit activity.
2050	Co-ordination	The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
2060	Reporting	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
2200	Engagement planning	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
2300	Work programme	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.
2400	Communicating results	Internal auditors must communicate the results of engagements
2450	Overall opinions	When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Basis for EQA

Compliance with IPPF/PSIAS

- **Resources**

Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

- **Competency**

Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

- **Delivery**

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

Grading of recommendations

- The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).

Recommendation grading	Explanation
Enhance	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS standards in order to demonstrate a contribution to the achievement of the organisations' objectives in relation to risk management, governance and control.
Review	The Internal audit service should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

- In grading our recommendations, we have considered the wider environment in terms of both the degree of transformation that is currently taking place as well as our assessment of the level of risk maturity that currently exists, as these will have a consequence for the conduct of internal audit planning as well as subsequent communication.

REPORT TO:	AUDIT SUB-COMMITTEE	AGENDA ITEM: 9
DATE OF MEETING:	7 DECEMBER 2022	CATEGORY: DELEGATED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) Kevin.Stackhouse@southderbyshire.gov.uk	DOC:
SUBJECT:	COMMITTEE WORK PROGRAMME	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: G

1.0 Recommendations

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

2.0 Purpose of Report

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

3.0 Detail

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

4.0 Financial Implications

4.1 None arising directly from this report.

5.0 Background Papers

5.1 Work Programme.

**Audit Sub-Committee
Work Programme for the Municipal Year 2022/23**

Work Programme Area	Date of Committee Meeting	Contact Officer (Contact details)
Internal Audit Progress Report	22 June 2022	Adrian.manifold@centralmidlandsaudit.co.uk
Internal Audit Annual Report 2021/22	22 June 2022	Adrian.manifold@centralmidlandsaudit.co.uk
Local Code of Corporate Governance Review	22 June 2022	Ardip.sandhu@southderbyshire.gov.uk
Draft Annual Governance Statement 2021/22	22 June 2022	Ardip.kaur@southderbyshire.gov.uk
Anti-Fraud and Corruption: Performance and Plan 2022/23	22 June 2022	Elizabeth.barton@southderbyshire.gov.uk
Internal Audit Progress Report	7 September 2022	Adrian.manifold@centralmidlandsaudit.co.uk
Audit Results Report for Year Ending 31 March 2021	7 December 2022	Kevin.stackhouse@southderbyshire.gov.uk
Internal Audit Progress Report	7 December 2022	Adrian.manifold@centralmidlandsaudit.co.uk
Local Code of Corporate Governance Review	7 December 2022	Ardip.sandhu@southderbyshire.gov.uk
Central Midlands Audit Partnership – External Assessment	7 December 2022	Adrian.manifold@centralmidlandsaudit.co.uk
Internal Audit Progress Report	15 March 2023	Adrian.manifold@centralmidlandsaudit.co.uk
Internal Audit Plan and Charter 2023/24	15 March 2023	Adrian.manifold@centralmidlandsaudit.co.uk

TBC: Reports from External Audit