

Date: 8th February 2017

Dear Councillor,

Audit-Sub Committee

A Meeting of the **Audit-Sub Committee** will be held in the **Council Chamber**, on **Wednesday, 15 February 2017 at 16:00**. You are requested to attend.

Yours faithfully,



Chief Executive

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

Labour Group
Councillors Dunn and Shepherd.

AGENDA

Open to Public and Press

- 1** Apologies.
- 2** To note any declarations of interest arising from any items on the Agenda
- 3** To receive any questions by members of the public pursuant to Council Procedure Rule No.10.
- 4** To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 5** CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2015-16 **3 - 13**
- 6** INTERNAL AUDIT PROGRESS REPORT **14 - 30**
- 7** EXTERNAL AUDIT PLAN FOR THE YEAR ENDING 31ST MARCH 2017 **31 - 49**

Exclusion of the Public and Press:

- 8** The Chairman may therefore move:-
That in accordance with Section 100 (A)(4) of the Local Government Act 1972 (as amended) the press and public be excluded from the remainder of the Meeting as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that there would be disclosed exempt information as defined in the paragraph of Part I of the Schedule 12A of the Act indicated in the header to each report on the Agenda.
- 9** To receive any Exempt questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 11** ADDENDUM - EXTERNAL AUDIT PLAN FOR THE YEAR ENDING 31st MARCH 2017
- 10** ADDENDUM - INTERNAL AUDIT PROGRESS REPORT

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 5
DATE OF MEETING:	15th FEBRUARY 2017	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE & CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/EY/grants/grants cover report
SUBJECT:	CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2015/16	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 01

1.0 Recommendations

- 1.1 That the Claims and Returns Report for 2015/16 is considered and the actions outlined in Section 5 to the Auditor's Report are noted.

2.0 Purpose of Report

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

3.0 Detail

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

4.0 Financial Implications

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

5.0 Corporate Implications

- 5.1 None directly.

6.0 Community Implications

- 6.1 None directly.

7.0 Background Papers

None

Certification of claims and returns annual report 2015-16

South Derbyshire District Council

2 February 2017

Ernst & Young LLP



The Members of the Audit-Sub Committee
South Derbyshire District Council
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2 February 2017
Ref: EY/JB/15-16/Grant

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Dear Members

Certification of claims and returns annual report 2015-16 South Derbyshire District Council

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on South Derbyshire District Council's 2015-16 Housing Benefit claims and Pooling of Housing Receipts return.

Scope of work

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

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

For 2015-16, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

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

Summary

Housing Benefits

Section 1 of this report outlines the results of our 2015-16 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £17,930k. We met the submission deadline. We issued a qualification letter to the Department of Works and Pensions (DWP); the details of the qualification matters are included in section 1. Our certification work found errors affecting a number of cells which the Council corrected. The amendments reduced the balanced owed by the Council by £31k.

Our testing identified a number of error types, a number of which have been identified in previous years. These matters were brought to the attention of the DWP in our qualification letter dated 30 November 2016. Further details are set out in section 5.

Pooling of Housing Capital Receipts

We also certified the 2015-16 Pooling of Housing Receipts Return with total receipts of £802,925. Our work did not result in any amendments to the return though; we raised two issues in the qualification letter dated 30 November 2016 to the Department of Communities and Local Government. Further details of this work are included in section 2.

Fees for certification and other returns work are summarised in section 3. The housing benefits subsidy claim fees for 2015-16 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2015 and are now available on the PSAA's website (www.psaa.co.uk).

Section 4 provides details of certification audit fees for 2016/17.

We welcome the opportunity to discuss the contents of this report with you at the Audit-Sub Committee.

Yours faithfully

Stephen Clark
Partner
Ernst & Young LLP
Birmingham

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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£17,898,737
Amended	Amended – subsidy expenditure claimed increased by £31,582
Qualification letter	Yes
Certification fees to the Council	
Fee – 2015-16	£16,313
Fee – 2014-15	£24,440
Recommendations from 2014-15	Findings in 2015-16
The previous auditor did not issue an Annual Certification Report in 2014/15.	See below

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

The certification guidance requires auditors to complete a sample of 40+ cases where for each error type identified in the audit of the previous year's claim (2014/15) and for the current year (2015/16) a sample of 20 cases for each type of benefit.

We acknowledge that during 2015/16 the Council has worked with its Housing Benefit service provider to deliver ongoing training and maintain the appropriate quality assurance checks, however, the main audit finding is the level testing increased together with volume of errors when compared to 2014/15.

The results of our testing of cases for errors identified in the 2014/15 claim confirmed that the same types of error had occurred in 2015/16. Our initial testing of 2015/16 cases also identified some new error types which resulted in 40+ testing being carried out. These are the main issues we reported;

- ▶ Benefit both under and overpaid a result of a miscalculation of claimant's income
- ▶ Incorrect classification of overpayments
- ▶ Benefit overpaid due to incorrect tenancy start date being used
- ▶ Benefit overpaid due to double-counting of expenditure as a result of the housing benefit system not correctly applying an adjustment
- ▶ Benefit overpaid as a result of using an incorrect rent liability for the calculation
- ▶ Benefit underpaid as a result of not applying the 26 week easement correctly.
- ▶ Misclassification of expenditure in the subsidy claim
- ▶ Underpaid benefit as a result of applying the local housing allowances rate from 2014/15

We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter to the DWP.

2. Other assurance work

During 2015-16 we also acted as reporting accountants in relation to the Pooling of Housing Receipts return.

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

The return was certified not amended and a qualification letter was issued to the Department of Communities and Local Government (DCLG) highlighting two issues.

1. CI test 6, relates to the cell F520PO, the actual amount of new-build expenditure between 1 April 2015 and 31 March 2016. The results of our testing identified the following issues:
 - a. Cell F520PO included expenditure from 2013/14 and 2014/15 totalling £388,474. We are satisfied that the expenditure was not included in the 2014/15 Pooling Return.
 - b. Our sample testing of the prior year expenditure of £388,474, included a land acquisition totalling £200,000. Our review of the Authority's prime records confirmed that land was already owned by the Authority and that the Finance & Management Committee gave an approval to grant an appropriation of the land from the General Fund to the Housing Revenue Account on 26 June 2014.

We confirmed to the Department that a sample of transactions tested from the residual balance of £188,474 had been incurred on social housing projects under a Section 11(6) agreement.

2. The quarterly returns to the DCLG for right to buy sales require the authority to confirm the property valuation at 1999 prices, using information from its Housing Revenue Account subsidy records. Our work identified that the prices were calculated manually rather than using subsidy records, which were no longer available.

3. 2015-16 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2015-16, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2015 and are now available on the PSAA's website <http://www.psa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

Claim or return	2015-16	2015-16	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	16,313	16,313	24,440
Pooling of Housing Receipts Return	2,500	N/a	Not reviewed

4. Looking forward

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

The Council's indicative certification fee for 2016-17 is £13,590. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2015-16. Indicative fees for 2016/17 housing benefit subsidy certification work are based on final 2014/15 certification fees. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014-15.

Details of individual indicative fees are available at the following web address:
<http://www.psa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees.

We are currently discussing with management arrangements to start the 2016/17 audit of the Housing Benefit audit early and working with the Council to ensure the process of bringing the benefits service back in-house does not affect the timely completion of our work.

PSAA is currently consulting on the 2017-18 work programme. There are no changes planned to the work required and the arrangements for certification of housing benefit subsidy claims remain in the work programme. However, this is the final year in which these certification arrangements will apply. From 2018-19, the Council will be responsible for appointing their own auditor and this is likely to include making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements that will be established by the DWP.

5. Summary of recommendations

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

Audit Finding	Priority	Agreed action and comment	Deadline	Responsible officer
<p>Housing benefits subsidy claim</p> <p>There are a number of error types arising from testing in the 2015/16 claim that had been reported in prior year qualification letters.</p> <ul style="list-style-type: none"> • Miscalculation of claimant income • Incorrect rental values used in the entitlement calculation • Incorrect tenancy start dates • Misclassification of overpayments • Eligible rent not consistent with the Rent Officer Decision 	High	The Council should review the adequacy of the current quality assurance arrangements and consider increasing the number of checks performed to target areas where error types that are consistently identified.	Ongoing	Director of Finance and the Client Services Manager.
<p>Pooling of Housing Receipts Return</p> <p>The return required capital expenditure for the period 1/4/15 to 31/3/16 but included amounts from previous financial years.</p>	Medium	Ensure that returns are complete and contain the financial data relevant to the requested financial year.	31 March 2017	Director of Finance and Corporate Services.
<p>The valuations at 1999 prices were not based on HRA subsidy records.</p>	Medium	Clarify with the DCLG if the basis of the manual calculation is acceptable in the absence of subsidy records.	31 March 2017	Director of Finance and Corporate Services.

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REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 6
DATE OF MEETING:	15th FEBRUARY 2017	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE and CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/internal audit/quarterly reports/quarterly report cover
SUBJECT:	INTERNAL AUDIT PROGRESS REPORT	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 02

1.0 Recommendations

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

2.0 Purpose of Report

- 2.1 To provide an update on progress against the approved Internal Audit Plan. This details the performance and activity of Internal Audit between 1st September 2016 and 31st January 2017.

3.0 Detail

- 3.1 The detailed report is attached.

4.0 Financial Implications

- 4.1 None.

5.0 Corporate Implications

- 5.1 None directly.

6.0 Community Implications

- 6.1 None directly.

7.0 Background Papers

- 7.1 None

South Derbyshire District Council – Internal Audit Progress Report

Audit Sub-Committee: 15th February 2017



Our Vision

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

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South Derbyshire District Council – Internal Audit Progress Report

Summary

Role of Internal Audit

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

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

Recommendation Ranking

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

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

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

Control Assurance Definitions

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

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

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

South Derbyshire District Council – Internal Audit Progress Report

Audit Coverage

Progress on Audit Assignments

The following table provide Audit Sub-Committee with information on how audit assignments were progressing as at 31st January 2017.

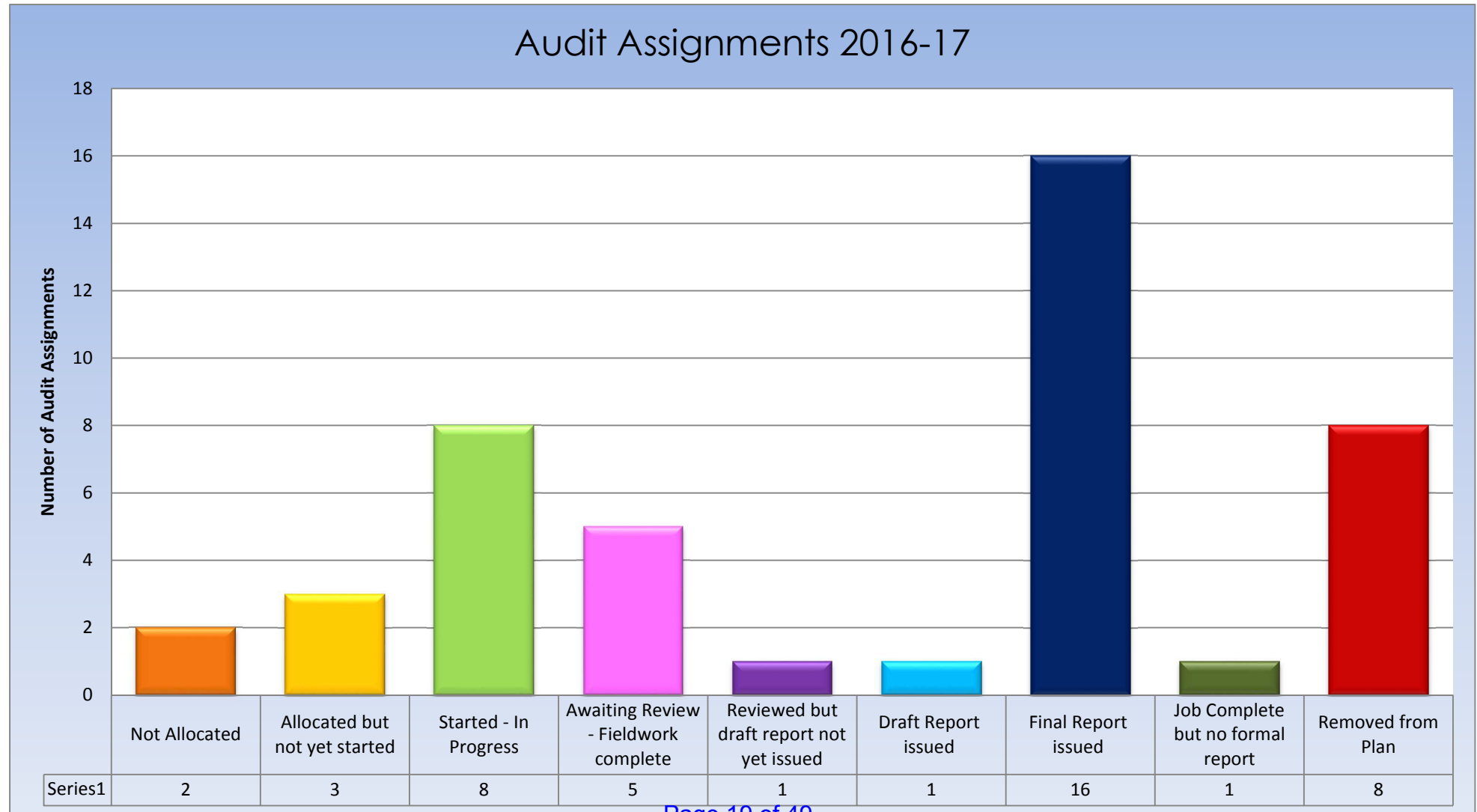
Audit Plan Assignments	Type of Audit	Current Status	% Complete
Main Accounting System 2016-17	Key Financial System	Not Allocated	0%
Treasury Management 2016-17	Key Financial System	Reviewed	90%
Banking Services	Systems/Risk Audit	Fieldwork Complete	80%
Taxation	Systems/Risk Audit	Fieldwork Complete	80%
Council Tax 2016-17	Key Financial System	Draft Report	95%
NDR 2016-17	Key Financial System	Final Report	100%
Housing Benefit & Council Tax Support 2016-17	Key Financial System	Fieldwork Complete	80%
Payroll 2016-17	Key Financial System	In Progress	25%
Creditors 2016-17	Key Financial System	In Progress	75%
Debtors 2016-17	Key Financial System	In Progress	75%
IT Disaster Recovery & Back Ups	IT Audit	Not Allocated	0%
Data Quality & Performance Management	Governance Review	In Progress	45%
Safeguarding	Governance Review	Allocated	10%
Fixed Assets 2016-17	Key Financial System	Allocated	0%
Land Charges	Systems/Risk Audit	Final Report	100%
Leisure Centres	Systems/Risk Audit	In Progress	75%
Parks & Open Spaces	Systems/Risk Audit	In Progress	75%
Gypsy Sites	Systems/Risk Audit	Final Report	100%
South Empty Homes HCA Grant 2016-17	Grant Certification	Complete	100%
Change & Configuration Management	IT Audit	Fieldwork Complete	80%
Client Monitoring - Corporate Services Contract	Procurement/Contract Audit	In Progress	55%
Petty Cash & Inventories	Systems/Risk Audit	Final Report	100%
Fixed Assets 2015-16	Key Financial System	Fieldwork Complete	80%
Whistleblowing Investigation	Investigation	Final Report	100%
Whistleblowing Investigation 2	Investigation	In Progress	65%
Housing Contracts Review	Investigation	Allocated	5%

Another 11 finalised assignments (not shown above) have already been reported to this Committee.

South Derbyshire District Council – Internal Audit Progress Report

Audit Coverage

Progress on Audit Assignments Chart



South Derbyshire District Council – Internal Audit Progress Report

Audit Coverage

Completed Audit Assignments

Between 1st December 2016 and 31st January 2017, the following audit assignments have been finalised since the last Progress Report was presented to this Committee (the overall control assurance rating is shown in brackets):

- Land Charges (**Reasonable**).
- Petty Cash & Inventories (**Comprehensive**).
- NDR 2016-17 (**Reasonable**).
- Gypsy Sites (**Reasonable**).
- Empty Homes HCA Grant 2016-17 (**Comprehensive**).
- Whistleblowing Investigation (**Limited**). (This is reported in the exempt part of the agenda)

The Whistleblowing Investigation audit attracted a 'Limited' control assurance rating during the period and as such it is brought to the Sub-Committee's specific attention.

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

Land Charges

Overall Control Assurance Rating: **Reasonable**

This audit focused on ensuring that procedures for processing Land Charges applications had been properly documented and that the appropriate fee had been received and banked in respect of the applications received. The audit also sought to ensure that amendments to the register were processed promptly and properly documented.

From the 11 key controls evaluated in this audit review, 7 were considered to provide adequate control and 4 contained partial weaknesses. The report contained 3 recommendations, 1 of which was

considered a moderate risk with the other 2 considered a low risk. The following issues were considered to be the key control weaknesses: Another minor risk issue was highlighted for management's consideration and we do not intend to formally follow up this issue.

- No checks were being undertaken on Land Charges income to ensure the correct fees had been received, banked and posted in the Council's financial system. (**Moderate Risk**)
- Completed applications for Land Charges searches were not stored in a secure filing environment, but in a storeroom with free access to officers from other departments and in the Land Charges office which was not locked when not in use. (**Low Risk**)
- Statistical information was being produced, but was not reviewed by management to monitor the performance of the section. (**Low Risk**)

All 3 issues raised within this report were accepted. Action was agreed to be taken to address 1 of the issues raised by 30th June 2017 with action being taken to address the remaining 2 issues by 24th December 2017.

Petty Cash & Inventories

Overall Control Assurance Rating: **Comprehensive**

This audit focused on reviewing the effectiveness of controls in operation over equipment and assets not on the fixed asset register and the process for issuing and recording petty cash..

From the 15 key controls evaluated in this audit review, 8 were considered to provide adequate control and 7 contained weaknesses. The report contained 3 recommendations, all of which were considered a low risk. The following issues were considered to be the key control weaknesses:

South Derbyshire District Council – Internal Audit Progress Report

- Departments were not maintaining inventories of lower value items that might easily be lost or misappropriated. (Low Risk – Risk Accepted)
- Departments were not undertaking regular physical checks of inventory items on the 'All-risks' register. There were no records to confirm that items had been security marked. (Low Risk)
- Access to the petty cash was not being sufficiently restricted. (Low Risk - Risk Accepted)

All 3 issues raised within this report were accepted, but Management has chosen to accept the risk in respect of 2 of the issues rather than take any further mitigating action. Action was agreed to be taken on the remaining recommendation by 31st March 2017

NDR 2016-17

Overall Control Assurance Rating: **Reasonable**

This audit focused on considering key guidance manuals and procedures, system transactions, reports and supporting documentation to ensure accuracy in the processing of NDR liabilities, valuations, reliefs, collections, refunds, write-offs and recovery action.

From the 24 key controls evaluated in this audit review, 17 were considered to provide adequate control and 7 contained partial weaknesses. The report contained 4 recommendations, 1 of which was considered a moderate risk with the other 3 considered a low risk. Another minor risk issue was highlighted for management's consideration and we do not intend to formally follow up this issue. The following issues were considered to be the key control weaknesses:

- NDR procedures were aged and mixed with Council Tax documents. (Low Risk)
- Write-offs were not being processed on a timely basis, or for the full amount authorised. A write-off form was not available to support the write-off in one case tested. (Low Risk)
- Debts were not being referred to the Debt Enforcement Agency. Audit's review of a sample of 60 accounts in arrears identified £111,929 of outstanding debts. (Moderate Risk)

- Accounts put on hold were not being regularly reviewed and holds were not being removed where no longer required. (Low Risk)

All 4 of the issues raised within this report were accepted. Management agreed to take action to address 1 of the issues by the end of March 2017, 2 of the issues by the end of September 2017 and the remaining issue by the end of December 2017

Gypsy Sites

Overall Control Assurance Rating: **Reasonable**

The Council operates a traveller's site at Lullington Crossroads on behalf of Derbyshire County Council. The site contains 10 plots and is managed day-to-day by a warden. This audit focused on:

- Reviewing the adequacy of controls in place around cash collection, recording and banking.
- Establishing how conditions of occupancy are enforced.
- Understanding the criteria used for pitch allocation and reviewing the processing of pitch licenses.

We have performed our work through discussion with officers, observation at site visits, review of documentation, and sample testing where necessary.

From the 25 key controls evaluated in this audit review, 11 were considered to provide adequate control and 14 contained partial weaknesses. The report contained 11 recommendations, 1 of which was considered a moderate risk with the other 10 considered a low risk. Another minor risk issue was highlighted for management's consideration and we do not intend to formally follow up this issue. The following issues were considered to be the key control weaknesses:

- The warden's records of rent monies collected were not always signed or held on file. (Low Risk)
- Receipts were not always issued to licensees by the warden, and were sometimes issued in error. Officers did not issue receipts to the warden for electricity or shower money. (Low Risk)

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- Warden records for electricity cash were not routinely consulted by the officer checking the cash collected, and there were sometimes discrepancies between the officer's and warden's records for electricity money. There were also a number of warden rent records missing, and a discrepancy between the warden's records and the officer's records was identified in one week tested. Additionally there was no defined document on which the warden could record shower money collected. (Low Risk)
- There was no safe provided for the warden to store rent collected. (Low Risk)
- Procedures notes for the Environmental Health officer and the site warden were out of date and partially incomplete. (Low Risk)
- There was no clear process for recording arrears. (Low Risk)
- A reconciliation was not being performed between income records and the bank statement. (Low Risk)
- Licence agreements were not always fully completed with the date of signing and effective start date of the license. Records of identity checks were not always retained. (Low Risk)
- There was not a signed copy on file of the conditions of occupancy of the site for 5 of the licences tested. This related to 3 licensees. (Low Risk)
- The incident proforma was not used to record details of breaches of the occupancy agreement, contravening the warden procedures. Resolution of breaches was not recorded. (Low Risk)
- A waiting list of prospective licensees was not maintained, and allocation decisions were not documented. (Moderate Risk)

All 11 issues raised within this report were accepted and action has been taken to address 6 of the recommendations at the time of finalising the report. Action was agreed to address 2 of the issues by 1st April 2017, 1 issue by 1st May 2016, and the remaining 2 issues (including the moderate risk issue) by 1st January 2018.

Empty Homes HCA Grant 2016-17

Overall Control Assurance Rating: **Comprehensive**

The Homes & Communities Agency (HCA) provided the Council with £190,000 grant funding to build 10 units on Pennine Way, Swadlincote. As part of the funding requirements the HCA require that the Council appoints a suitably qualified and accredited independent auditor to conduct an audit of the Council's compliance with the grant conditions.

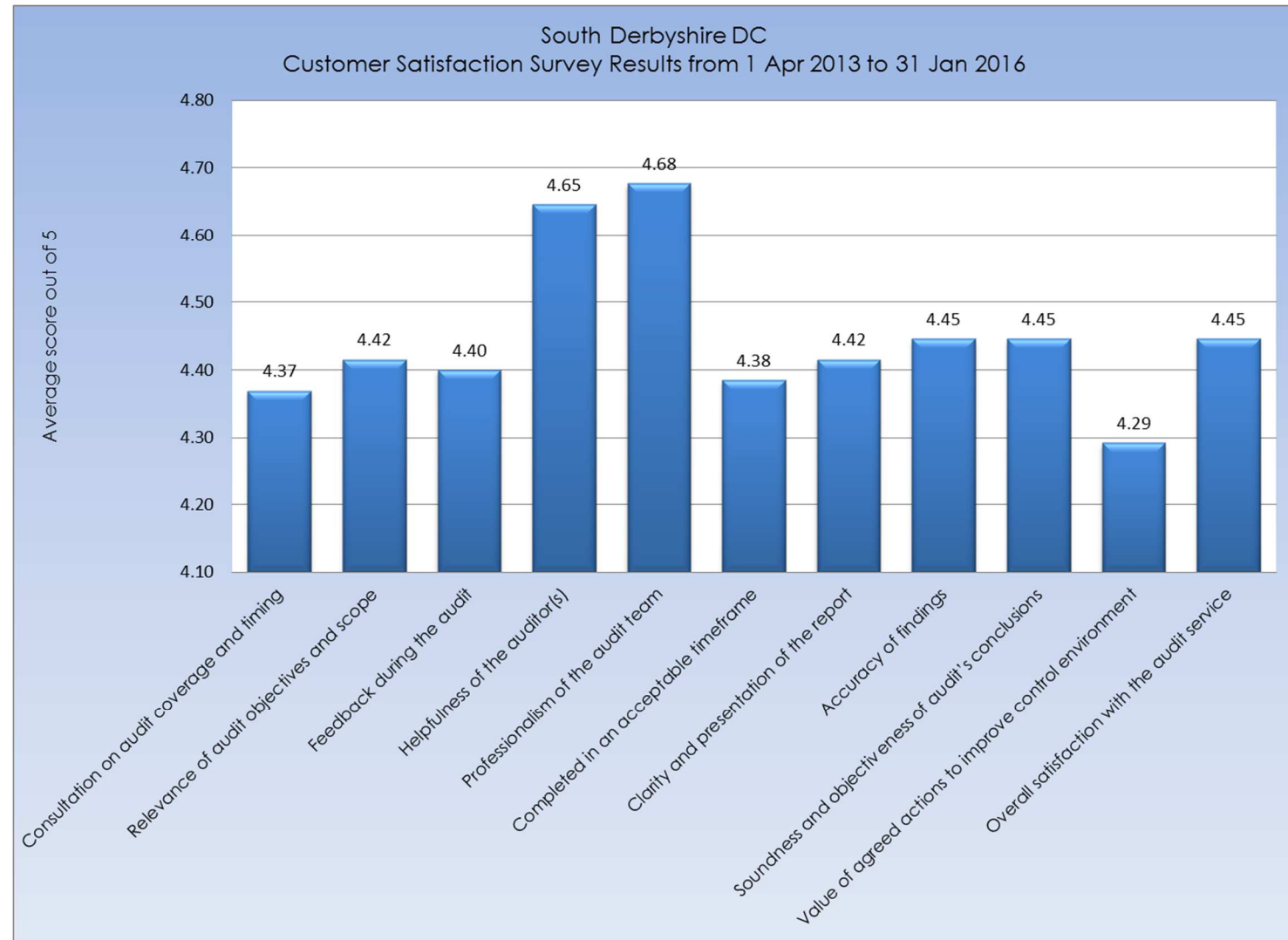
We confirmed the entries in the HCA's Investment Management System (IMS) to the supporting evidence held by the Council's Housing Department and found no issues or action points as a result of the audit checks.

South Derbyshire District Council – Internal Audit Progress Report

Audit Performance

Customer Satisfaction

The Audit Section sends out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent. The chart across summarises the average score for each question from the 65 responses received between 1st April 2013 and 31st January 2017. The overall average score from the surveys was 48.9 out of 55. The lowest score received from a survey was 40, whilst the highest was 55 which was achieved on 9 occasions.



South Derbyshire District Council – Internal Audit Progress Report

Audit Performance

Customer Satisfaction

Since 1st April 2013, we have sent 97 Customer Satisfaction Surveys (CSS) to the recipients of audit services. Of the 97 sent we have received 66 responses.

28 Customer Satisfaction Surveys have not been returned which have already been reported to this Committee and relate to assignments undertaken in previous plan years. Responses to these surveys will no longer be pursued as responses are unlikely to be reliable after this length of time.

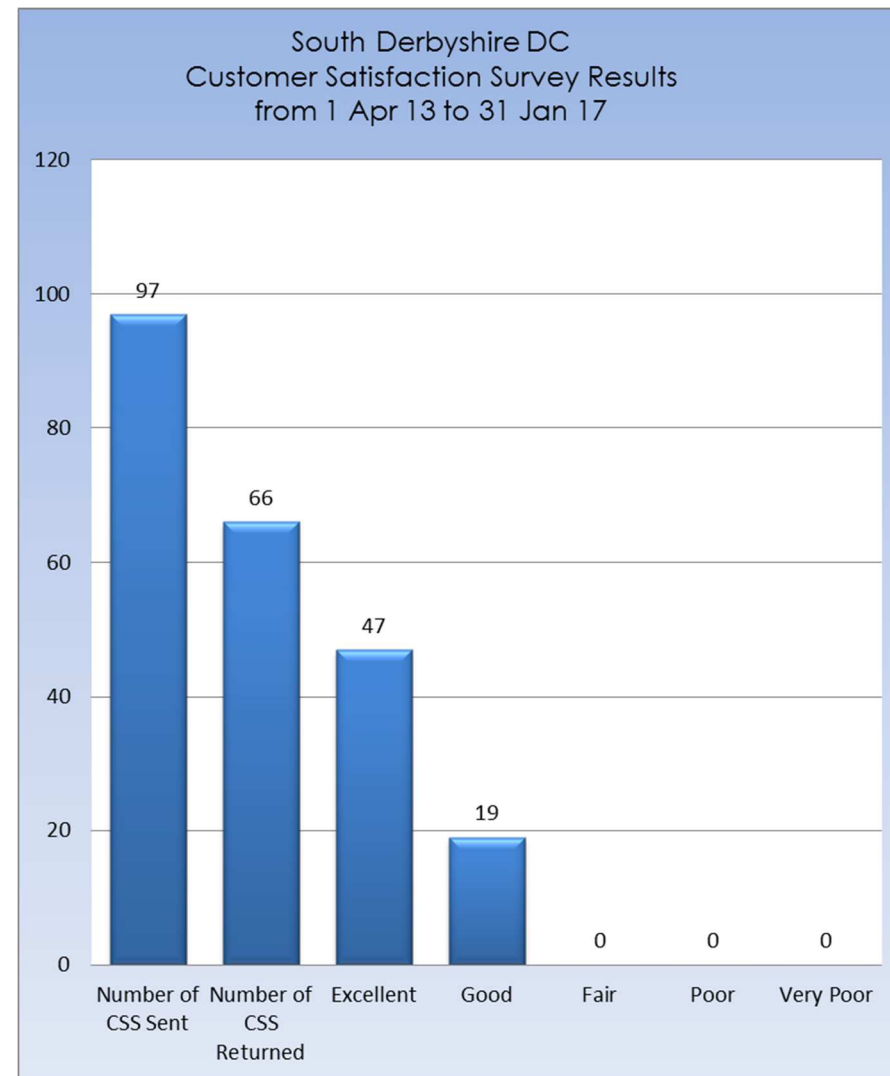
The following Customer Satisfaction Survey has yet to be returned from the period:

Job Name	CSS Sent	Officer
Land Charges	7-Dec-16	Corporate Asset Manager
NDR 2016-17	26-Jan-17	Client Services Manager
Gypsy Sites	1-Feb-17	Environmental Health Manager

The overall responses are graded as either:

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

Overall 47 of 66 responses categorised the audit service they received as excellent, another 19 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.



South Derbyshire District Council – Internal Audit Progress Report

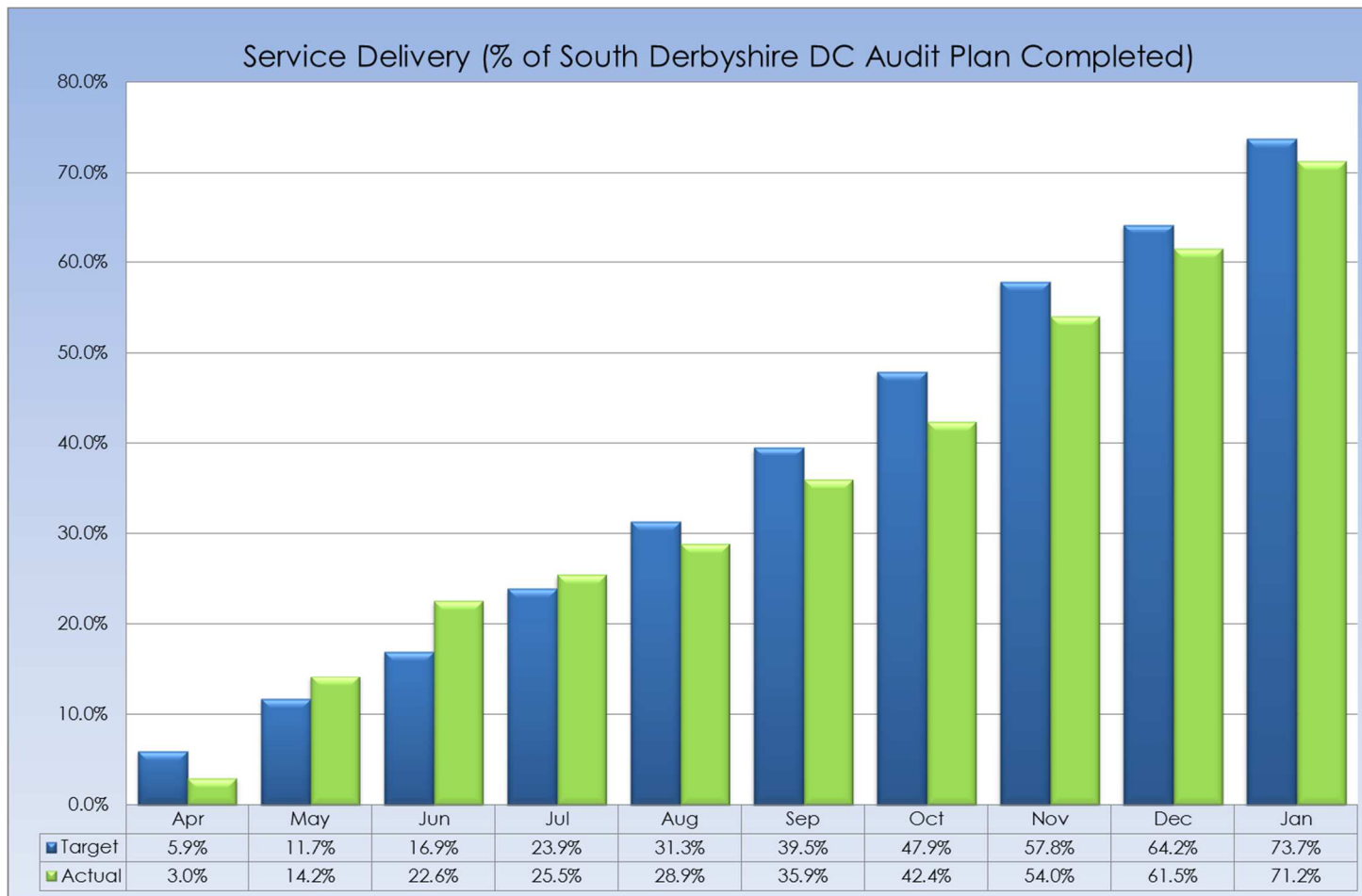
Audit Performance

Service Delivery (% of Audit Plan Completed)

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

Shown across is the estimated percentage complete for South Derbyshire's 2016-17 Audit Plan (including incomplete jobs brought forward) after 10 months of the Audit Plan year.

The monthly target percentages are derived from equal monthly divisions of an annual target of 91% and do not take into account any variances in the productive days available each month.



South Derbyshire District Council – Internal Audit Progress Report

Recommendation Tracking

Follow-up Process

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

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

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

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

Implementation Status Details

The table below is intended to provide members with an overview of the current implementation status of all agreed actions to address the control weaknesses highlighted by audit recommendations that have passed their agreed implementation dates. All of the recommendations made between 1st October 2010 and 31st March 2013 have now been appropriately addressed and as such have been removed from the following tables and charts.

	Implemented	Being implemented	Risk Accepted	Superseded	Action Due	Future Action	Total
Low Risk	361	14	12	4	0	18	409
Moderate Risk	69	4	1	4	0	8	86
Significant Risk	2	0	0	0	0	0	2
Critical Risk	0	0	0	0	0	0	0
	432	18	13	8	0	26	497

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

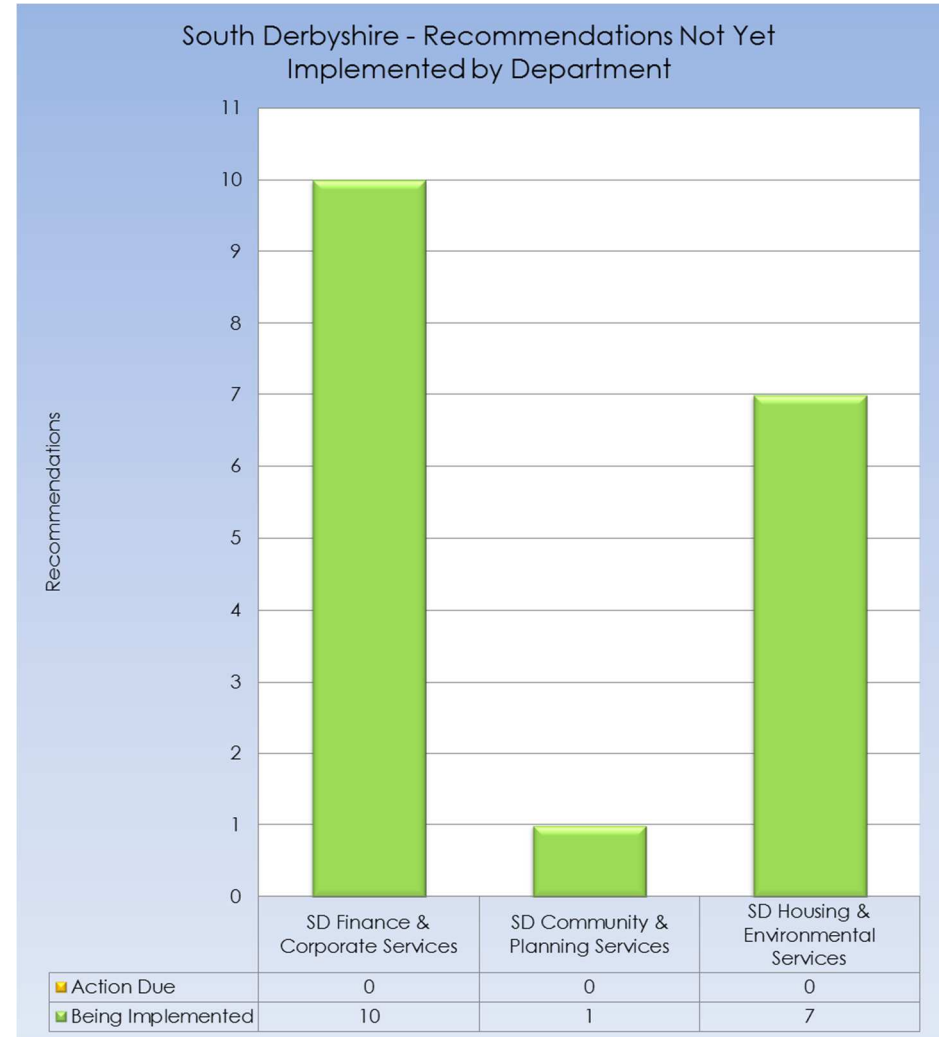
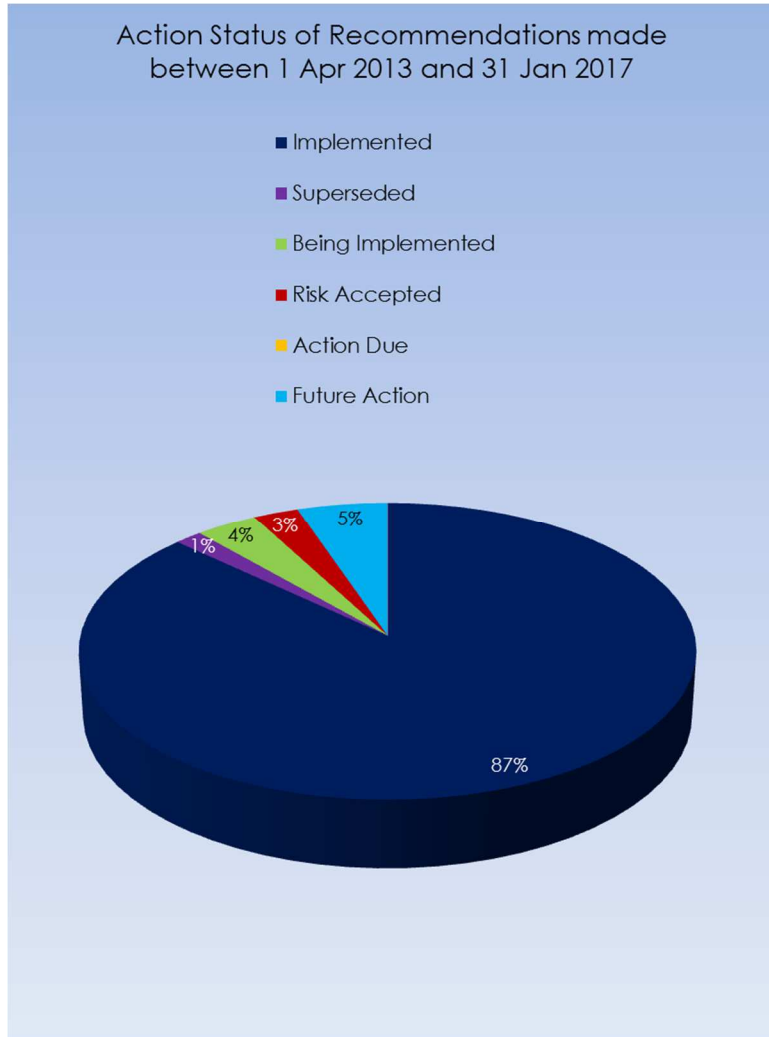
Recommendations Not Yet Implemented	Corporate Services	Community & Planning Services	Housing & Environmental Services	TOTALS
Being Implemented	10	1	7	18
Action Due	0	0	0	0
	10	1	7	18

Internal Audit has provided Committee with summary details of those recommendations still in the process of 'Being Implemented' and those that have passed their due date for implementation. As stated earlier in this report, we will now only provide full details of each moderate, significant or critical risk issue where management has decided not to take any mitigating actions (shown in the 'Risk Accepted' category above). All the risk accepted issues shown above have already been reported to this Committee with the exception of an additional 2 low risk recommendations which arose from the Petty Cash & Inventories audit completed in this period (details of which can be found earlier in this report).

South Derbyshire District Council – Internal Audit Progress Report

Recommendation Tracking

Implementation Status Charts



South Derbyshire District Council – Internal Audit Progress Report

Recommendation Tracking

Recommendations Not Yet Implemented

At a previous meeting we agreed that we would no longer bring every outstanding recommendation in detail to this Committee. Instead we have sought to highlight those which we believe deserve Committee's attention, either through the level of risk associated with the control issue or the length of the delay in implementing agreed actions or our inability to obtain satisfactory progress information from Management. Accordingly, the following are detailed for Committee's scrutiny:

Corporate Services

Council Tax / NNDR / Cashiering 2013-14

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

Risk Rating – Low Risk

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

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

Information@Work

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

Risk Rating – Low Risk

Status Update –

Original Action Date 31 Oct 16 **Revised Action Date** 30 Dec 16

Risk Management

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

Risk Rating – Low Risk

Status Update – Recruitment to the DCC Fraud Service has now been completed and the new team established, which the Council will be buying into. It is planned to develop a Fraud Plan in conjunction with the Annual Audit Plan which will be reported to the Committee on 29th March 2017.

Original Action Date 31 Dec 15 **Revised Action Date** 29 Mar 17

Council Tax / NNDR / Cashiering 2014-15

Control Issue 2 – Credit balances on accounts were left until claimed by the customer, but the only action to notify the customer of the credit was when an adjustment notice was issued. If this was not responded to, the credit would stay on the account with no further action being taken.

Risk Rating – Low Risk

Status Update Progressing but not yet complete, target set of end of March 2017.

Original Action Date 31 Mar 16 **Revised Action Date** 1 Apr 17

South Derbyshire District Council – Internal Audit Progress Report

Council Tax / NNDR / Cashiering 2015-16

Control Issue 2 – Recovery of Council Tax debt was being hindered as data on Council Tax accounts were not being cleansed, to maintain relevance and accuracy. It was not immediately obvious which debts were longstanding irrecoverable debts on indefinite hold (which could be written off) and which were current debts on hold that needed to be progressed.

Risk Rating – Moderate Risk

Status Update – The review of outstanding debts and cleansing of records is a large-scale job which requires resource allocation – a revised action-by date has been agreed for the end of March 2017 and will be included going forward as an end-of-year task.

Original Action Date 30 Jun 16 **Revised Action Date** 31 Mar 17

Control Issue 6 – Permanent recovery holds were in place on accounts for precepting bodies which prevented simple reminders being issued when a debt remained unpaid. As recovery action was not taking place, the accounts should have been subject to review and any unpaid amounts pursued.

Risk Rating – Moderate Risk

Status Update – Initial discussions have commenced in the best way to carry out a yearly review of internal and precepting bodies accounts. This needs to be a cost effective work process dealing with the accounts in bulk not individually.

Original Action Date 1 Aug 16 **Revised Action Date** 31 Mar 17

CRM Security Assessment

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

Risk Rating – Low Risk

Status Update – The CRM is now being phased out and is only being utilised on a limited basis. It will not be supported nor developed by the software provider after March 2018. The Council is replacing the functionality of the CRM system in the new web site. This is planned to be implemented by 31st May 2017 at which point the existing servers will be decommissioned.

Original Action Date 30 Apr 15 **Revised Action Date** 31 May 17

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

Risk Rating – Moderate Risk

Status Update - The CRM is now being phased out and is only being utilised on a limited basis. It will not be supported nor developed by the software provider after March 2018. The Council is replacing the functionality of the CRM system in the new web site. This is planned to be implemented by 31st May 2017 at which point the existing servers will be decommissioned.

Original Action Date 31 Aug 15 **Revised Action Date** 31 May 17

South Derbyshire District Council – Internal Audit Progress Report

Business Continuity

Control Issue 11 – The Business Impact Assessment had received no recent formal update. There was no documentation to support any updates in recent years.

Risk Rating – Moderate Risk

Status Update - The SDDC contract with Northgate Public Services terminates on 31st January so the new SDDC staffing incorporating services previously outsourced takes effect from 1st February 2017. Already started work on revisions to the emergency plan, BC plan and combined contact list which supports both, with the intention they are issued no later than 31st March 2017 (earlier if all goes well).

Original Action Date 30 Sep 15 **Revised Action Date** 31 Mar 17

Declaration of Interest

Control Issue 2 – A Declarations of Interest Policy did not exist and the Employee's and Members Codes of Conduct did not cover all of the expected areas within a Policy of this kind.

Risk Rating – Low Risk

Status Update Planning to put this policy before Full Council in April for approval.

Original Action Date 31 May 16 **Revised Action Date** 30 Apr 17

Community & Planning Services

Bereavement Services

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

Risk Rating – Low Risk

Status Update – A policy decision from members would be required as to a charge being set as not one currently listed in the Fees & Charges structure. We will include a charge in this year's budget setting, web site has been updated and policy and charges will be updated once formalised. Seeking advice on policies and pricing through APSE. Once feedback/advice has been received a new policy will be written on the extension of Grants.

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

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	15th FEBRUARY 2017	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE & CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/audit/EY/audit plan cover
SUBJECT:	EXTERNAL AUDIT PLAN FOR THE YEAR ENDING 31ST MARCH 2017	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 01

1.0 Recommendations

1.1 That the proposed Audit Plan for the year ending 31st March 2017 is considered and the proposed approach to undertaking audit work for the year is approved.

2.0 Purpose of Report

2.1 For Ernst and Young LLP, as the Council's appointed auditors, to present their Audit Plan and approach for the year ending 31st March 2017.

3.0 Detail

3.1 The Plan sets out where the External Auditors will focus their activities for the year ending March 2017. Predominantly, this will involve work in respect of the Council's Annual Accounts and Financial Statements, together with assessing the Council's arrangements for securing Value for Money.

3.2 This is a broad plan and details how the Auditors will approach their work in order to satisfy statutory requirements and to benefit the Council. It details the work and testing to be undertaken and identifies potential risk areas that will be followed up over the coming months.

3.3 The outcome will be reported to the Audit Sub-Committee in September, with the Annual Audit Letter being reported to Full Council in November 2017.

4.0 Financial Implications

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

5.0 Corporate Implications

5.1 None directly.

6.0 Community Implications

6.1 None directly.

7.0 Background Papers

None

South Derbyshire District Council

Year ending 31 March 2017

Audit Plan

2 February 2017

Ernst & Young LLP



Audit Sub-Committee
South Derbyshire District Council
Civic Offices
Civic Way
Swadlincote
DE11 OAH

2 February 2017

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Sub-Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

We welcome the opportunity to discuss this Audit Plan with you on 15 February 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Steve Clark
For and behalf of Ernst & Young LLP
Enc

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4. Our audit process and strategy	5
5. Independence	9
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Appendix B UK required communications with those charged with governance	12

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

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

- ▶ Our audit opinion on whether the financial statements of South Derbyshire District Council give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended;
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<p>We will</p> <ul style="list-style-type: none"> ▶ Review and test revenue and expenditure recognition policies ▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias ▶ Test material revenue and expenditure streams ▶ Review and test revenue cut-off at the period end date
Risk of management override	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We will</p> <ul style="list-style-type: none"> ▶ Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ▶ Review accounting estimates for evidence of management bias, and ▶ Evaluate the business rationale for significant unusual transactions ▶ Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.
Other Financial statements risks	
Valuation of Property, Plant and Equipment	
<p>The Council's land and buildings, including the housing stock, totalled £113million at 31 March 2016, representing 85% of the total asset base.</p> <p>The valuation of land and buildings is subject to a number of assumptions and judgements and even a small movement in these assumptions, could have a material impact on the accounts.</p>	<p>We will</p> <ul style="list-style-type: none"> ▶ Test the revaluation cycle, including instructions and completeness of information provided to the Council's external valuer ▶ Review the classification of assets and assess how the Council has determined that the correct valuation methodology has been applied by the expert ▶ Consider the approach adopted by the external valuer and their findings ▶ Consider the valuation implications of the planned Depot move.
Valuation of Pension Liability	
<p>Funding of the Council's participation in the local government pension scheme will continue to have an impact on both Council cash flows and balance sheet liabilities.</p> <p>The pension liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions could have a material impact on the balance sheet.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Reviewing the output of the report from the Administering Council's actuary ▶ Reviewing the assumptions used by the actuary to determine whether they are in our expected range ▶ Testing the journal entries for the pensions transactions to check that they have been accurately processed in the accounts

Financial statements presentation – Expenditure and funding analysis and Comprehensive income and expenditure statement

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

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

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

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

Our Approach will focus on:

- ▶ Review of the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code
- ▶ Review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.
- ▶ Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

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

For 2016-17 this is based on the overall evaluation criterion:

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

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

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

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

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

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

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

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

Significant value for money risks

Our audit approach

Securing financial resilience

In its latest medium term financial plan, the Council has identified it will experience budget deficits from 2018/19 to 2021/22 with the general fund depleting to just over the £1 million minimum level by 2021/22.

Going forward the Council will need scrutinise its financial plans to achieve base budget savings of £850k ahead of 2018/19.

Our approach will focus on:

- ▶ Reviewing the MTFs including the adequacy of major assumptions
- ▶ Review the Council's arrangements to develop a robust savings plan to address the future financial challenges.

An additional significant risk to our Value for Money conclusion has been included in an addendum to this Audit Plan which will be presented to the Committee in the exempt part of the meeting on 15 February 2017.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

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

We report whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require;

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

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

4.2 Audit process overview

Processes

Having considered the effectiveness of IT and entity-level controls we will be taking a substantive testing approach for the audit of the 2016/17 financial statements.

Analytics

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

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

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

Internal audit

We do not plan to place reliance on the work of internal audit however we will review internal audit plans and the results of their work should the results have a potential consequence on

the year-end financial statements, we will assess the impact on our audit strategy and update the Audit-Sub Committee should our risk assessment change.

Use of specialists

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

Area	Specialists
PPE	Council's valuer
Pensions	PSAA consulting actuary and the actuary of the Derbyshire Pension Fund

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

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

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

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

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

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.

- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is £920k based on 2% of gross net cost of services expenditure. We will communicate uncorrected audit misstatements greater than £230k to you.

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

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of South Derbyshire District Council is £49,275.

The completion of the 2015/16 certification of claims work identified a large number of errors on the housing benefit claim that were not expected. We are currently discussing the impact to the current audit fee with management, and will report this to the Audit-Sub Committee when finalised.

4.6 Your audit team

The engagement team is led by Steve Clark, who has significant experience in the Local Government sector. Steve is supported by Helen Henshaw (Senior Audit Manager) who is responsible for the day-to-day direction of audit work and is the key point of contact for the Council.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Sub-Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Sub-Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit-Sub Committee timetable	Deliverables
High level planning	December 2016	N/A	
Risk assessment and setting of scopes	January 2017	15 February 2017	Audit Plan
Testing routine processes and controls	February 2017	29 March 2017	
Year-end audit	July 2017		
Completion of audit	September 2017	September 2017	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements and overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2017	November 2017	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

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

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

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

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

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no self-interest threats.

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

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

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

Self-review threats

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

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

Management threats

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

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

Other threats

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

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

Overall Assessment

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

5.3 Other required communications

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 within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 current year £	Outturn fee 2015/16 prior year £	Explanation
Opinion Audit and VFM Conclusion	49,275	49,275	49,275	
Total Audit Fee – Code work	49,275	49,275	49,275	
Certification of claims and returns ¹	13,590*	13,590	16,313	
Non-audit work	0	0	0	

All fees exclude VAT.

* The fee for 2016/17 is currently being reviewed with management.

The agreed fee presented above is based on the following assumptions:

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

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

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

¹ Our fee for the certification of grants is based on the indicative scale fee set by the PSAA.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to those charged with governance. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<p>Significant findings from the audit</p> <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 ▶ Findings and issues regarding the opening balances on initial audits [delete if not an initial audit] 	▶ Audit Results Report
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	▶ Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Audit Sub Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	▶ Audit Results Report
<p>Related parties</p> <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
<p>External confirmations</p> <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
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit-Sub Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit-sub Committee may be aware of 	▶ Audit Results Report

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director'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 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report ▶ Annual Audit Letter if considered necessary
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<ul style="list-style-type: none"> ▶ Certification Report ▶ Annual Audit Letter

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