



Derby City Council

Audit of Accounts 2009-10
Annual Report to those Charged with Governance

14 September 2010

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1 Executive Summary

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected.

Purpose of the report

- 1.1 This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Audit and Accounts Committee of Derby City Council (the Council). The purpose of this report is to highlight the key issues arising from the audit of the Council's financial statements and value for money opinion work for the year ending 31 March 2010.
- 1.2 This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit and Accounts Committee. The requirements of ISA260, and how we have discharged them, are set out in more detail at Appendix A.
- 1.3 The Council is responsible for the preparation of financial statements which record its financial position as at 31 March 2010, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements present a true and fair view of the financial position.
- 1.4 Under the Audit Commission's Code of Audit Practice we are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Audit conclusions

Financial Statements Opinion

- 1.5 The Council produced its draft 2009/10 accounts in advance of the 30 June 2010 deadline and presented them to the Audit and Accounts Committee on 24th June 2010. It is pleasing to report that the improvement in the overall quality of the Council's working papers presented for audit in 2008/09 was continued in 2009/10.
- 1.6 We anticipate providing an unqualified opinion on the Council's financial statements, following approval of the accounts by the Audit and Accounts Committee on 23 September 2010.
- 1.7 Further details of the outcome of our financial statements audit are given in Section Two and Appendix B (adjustments to the financial statements).

Value for Money Conclusion

- 1.8 In providing our opinion on the financial statements, we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion). We are pleased to report that we propose to issue an unqualified Value for Money conclusion.
- 1.9 Further information on the outcome of our Value for Money audit is contained in Section Two.

Closure of the audit year

- 1.10 We are in the process of reviewing concerns raised by a number of electors in the City (including two Councillors) in relation to the waste management contract planning appeal. We will issue the audit certificate, marking the closure of the audit and the end of the exercise of the auditor's powers and duties in respect of that audit, when the findings from this work have been determined and reported.

The way forward

- 1.11 Matters arising from the financial statements and Value for Money audit have been discussed with the Strategic Director of Resources. We have made a number of recommendations, which are set out in the action plan at Appendix C. This has been discussed and agreed with the Strategic Director of Resources and his senior finance team.

Use of this report

- 1.12 This report has been prepared solely for use by the Council to discharge our responsibilities under ISA260 and the Code of Audit Practice, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Council's Letter of Representation.

Acknowledgements

- 1.13 We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP

14 September 2010

2 Detailed Findings

Introduction

- 2.1 This section provides a summary of findings arising from our audit of the financial statements and Value for Money (VFM) audit.

Financial Statements Audit

Status of the audit

- 2.2 We carried out our audit in accordance with the Audit Approach Memorandum (AAM) presented to the Audit and Accounts Committee on 25 March 2010. Our audit is substantially complete, subject to the following finalisation procedures:
- review of the final version of the financial statements
 - obtaining and reviewing the Council's Letter of Representation
 - updating our post balance sheet events review, to the date of signing the accounts.

Key risks

- 2.3 Our 2009/10 Audit Approach Memorandum set out the key risks relating to the audit of the financial statements. As part of our interim audit, we completed work in a number of areas to consider the audit risks identified and reported our findings in our Interim Audit Report. Our work at that time enabled us to conclude on a number of key risk areas. As part of our final accounts audit, we reviewed the remaining audit risks and have set out in Exhibit One, along with the outcome of work completed. Our review of the risks facing the Council has not identified any additional risk areas.

Exhibit One: 2009/10 Key audit risks

Risk identified in AAM	Conclusion
Private Finance Initiatives (PFI) Potentially significant changes in accounting for PFI schemes due to the early adoption by the 2009 SoRP of elements of International Financial Reporting Standards.	No reportable matters were identified from our work in this area. We also considered whether the Council has any non-PFI long term agreements that may be caught by the scope of IFRIC 12. No such arrangements were identified from our work or from the Council's own assessment.

Risk identified in AAM	Conclusion
<p>The Economic Climate Impact on the Council's ability to manage its finances and risk of misstatement in the accounts related to asset valuations, treasury management, increased pension costs and debtor recoverability.</p>	<p>We have noted that the Council has not observed any major adverse shift in levels of debtors or debt collection rates for general council tax and business rates debtors.</p> <p>The current economic climate has resulted in a reduction in the asset values of some of the Council's operational land and buildings and a total impairment adjustment of £34.7m has been applied to the Gross Book Asset Values at 31 March 2010. The impact has not been as significant as in the 2008/09 accounts as the opening asset values were already lower due to the downwards adjustment in 2008/09 or from previous years' rolling programme revaluations.</p>
<p>Fixed Asset Register (FAR) Completeness and accuracy of the new FAR developed by the Resources Department incorporating the asset register of the Estates Department.</p>	<p>Our audit procedures identify a number of issues in relation to the FAR. These are discussed in more detail at Section 2.7. However, we are pleased to note that there has been a significant improvement in the administration and management of the FAR</p>
<p>Creditors/Accruals Cut Off Accuracy of the allocation of liabilities between accounts years.</p>	<p>Our 2009/10 audit procedures did not identify a reoccurrence of the cut off issues noted in our 2008/09 report.</p>
<p>Group Accounts Appropriateness of the accounting treatment adopted and the consistency of the accounting policies applied by Derby Homes Limited and Connexions Derbyshire Ltd.</p>	<p>No consolidation adjustments were deemed necessary in 2009/10, on the basis that any adjustment would not be material.</p> <p>However, we have made a recommendation at Appendix C that Derby Homes Ltd's and Connexions Derbyshire Ltd's accounting policies are fully aligned with those of the Council, or that resulting consolidation adjustments are quantified.</p>

Risk identified in AAM	Conclusion
<p>Capitalisation Policy and Non Enhancing Capital Expenditure Appropriateness of the updated capitalisation policy and the new formal policy for capitalising non-enhancing capital expenditure.</p>	<p>As detailed at Appendix B, an amendment has been made to the accounts to reduce non-enhancing expenditure by £2.057m, with a corresponding adjustment to asset additions and impairments. This is as a result of our testing which identified that non-enhancing expenditure included amounts that added value to existing fixed assets and should have been capitalised.</p> <p>We have included recommendations at Appendix B regarding the Council's capitalisation policy.</p>
<p>Technical Review of Financial Statements Adequacy of additional procedures introduced to strengthen arrangements in this area.</p>	<p>We are pleased to note that the Council has strengthened its internal review procedures which this year included documented reviews of the final draft accounts undertaken by two senior officers within the Resources Department.</p>
<p>Presentation and Format of the Accounts Compliance with financial reporting requirements as set out in the 2009 SoRP.</p>	<p>The findings from our audit procedures identified a number of misstatements that required adjustment. A number of balances have been reclassified within the notes to the accounts and some enhancements to disclosures have been recommended and made. These are summarised at Appendix B.</p>
<p>Joint Waste Project Appropriate recognition of this project in the accounts.</p>	<p>This project has yet to reach financial close.</p>

- 2.4 The Audit and Accounts Committee should confirm that it is not aware of any additional material risk areas facing the Council, including significant fraud risks.

Matters arising from the financial statements audit

- 2.5 We were presented with the draft financial statements on 24th June 2010, in advance of the statutory deadline of 30 June 2010. The supporting working papers were also provided in accordance with the agreed timetable for audit.
- 2.6 Regular liaison meetings were held between the audit team and key finance officers prior to the preparation of the draft accounts, and throughout the audit fieldwork. This enabled early resolution of emerging issues. We would like to place on record our appreciation to those officers involved in this process, which we consider to have worked particularly well. We are also pleased to recognise that whilst there are still some issues to be addressed on fixed assets, the 2009/10 audit has identified a significant improvement on the previous year.

- 2.7 Matters arising from the financial statements audit are set out below. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix C.

Exhibit Two: Matters arising during the course of our audit

Matter identified	Conclusion
<p>Fixed Asset Register (FAR) Procedures to confirm the completeness and accuracy of the new FAR developed by the Resources Department incorporating the asset register of the Estates Department, identified the following matters:</p> <ul style="list-style-type: none"> • a number of valuation reports selected for testing could not be matched, or in some cases traced, to the FAR; • a number of fixed assets had been double counted on the FAR; • a small number of fixed assets had been disposed of during the year but remained on the FAR at the year end date; • a small number of fixed assets had been transferred to Derby Homes Ltd during the year but remained on the FAR at the year end date; • a surplus property had been left off the FAR. 	<p>The errors were identified from audit tests performed to reconcile the valuers' reports with movements in the FAR. In discussion with officers, we have been able to conclude that the adjustments identified represent the full extent of the errors made in this area.</p> <p>The amendments made to the Statement of Accounts to address these errors are detailed at Appendix B and have resulted in a reduction in the carrying value of fixed assets of £3.6m, which is not considered to be material in the context of the Council's fixed assets. A number of recommendations related to these matters have been included at Appendix C.</p>
<p>Provision for Redundancy Costs Over the past year the Council has carried out a restructure of senior officer posts. From this, as at 31 March 2010, a number of redundancy and retirement costs were expected to arise and a provision was therefore established to meet these anticipated costs.</p> <p>Accounting standards require that a present obligation (legal or constructive) exists at the balance sheet date in order for a provision to be made in the accounts.</p> <p>Audit testing of the evidence provided to support a constructive obligation indicated that plans were not sufficiently advanced to justify the inclusion of the provision.</p>	<p>Following discussion with officers, an amendment has been made to the accounts to reduce provisions by £523k, with a corresponding adjustment to the Income and Expenditure account. The adjustment is detailed at Appendix B,</p>

Adjusted misstatements

- 2.8 Our audit identified a number of adjustments, which have been processed by officers.

- 2.9 The adjusted misstatements are included at Appendix B. These adjustments resulted in the reported Income & Expenditure Account deficit decreasing by £2.6m to £27.3m but had no overall impact on the General Fund deficit which remained unaltered at £12.1m after audit adjustments.
- 2.10 Members are required to formally consider officers' treatment of the accounting adjustments referred to in this report and minute their decision accordingly.

Unadjusted misstatements

- 2.11 We are pleased to report that all the amendments identified during the course of our audit have been processed by the Council.

Other accounts issues arising

- 2.12 In addition to the matters raised above, there were a number of presentational changes that arose during the course of our audit and these have been made to the accounts. These adjustments are summarised at Appendix B.

Financial Statements Opinion

- 2.13 We anticipate providing an unqualified opinion on the Council's financial statements, following approval of the accounts by the Audit and Accounts Committee on 23 September 2010.

Financial performance

- 2.14 In 2009/10, net spending on the Council's General Fund services was £197.115m creating a £1.168m net under-spend, which represents 0.59% of the Council's 2009/10 budget requirement. The overall year end variance target performance measure within the corporate plan has been achieved.
- 2.15 The current economic climate has placed significant pressure on the public sector and local government in particular, to generate efficiencies and operate within reduced resources.
- 2.16 The Council's medium term revenue financial plan for 2010/11 to 2012/13 delivers a fully balanced position after providing for rising costs, which will maintain priority services and invest for the future.
- 2.17 The balanced position relies on the delivery of £8.6m savings in 2010/11, a further £10.4m from 2011/12 and £6.9m from 2012/13, to generate recurring annual savings of £25.9m by 2012/13.

Of this total, £11.1m will be delivered from identified service savings and £2.1m from base budget service reviews. In addition, the Council's Transformation programme 'One Derby One Council' is expected to deliver £2.2m of savings in 2010/11, a further £6.5m from 2011/12 and a further £4.0m from 2012/13, to generate recurring annual efficiency savings of £12.71m by 2012/13.

- 2.18 The Council will need to carefully consider the implications of Central Government funding reductions, as they become known, for its medium term revenue and capital spending plans.

Evaluation of key controls

- 2.19 We reported the results of our interim audit to Audit and Accounts Committee on 24 June 2010 including improvement opportunities identified from our review of relevant elements of the Council's control environment.
- 2.20 A number of additional recommendations have been identified during the course of our final audit visit which are detailed at Appendix C.

Annual Governance Statement

- 2.21 We have examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS). In addition, we read the AGS to consider whether the statement is in accordance with our knowledge of the Council.
- 2.22 We have concluded that the Council has good arrangements in place to compile the AGS and provide a strong audit trail for the Chief Executive and Leader to sign the statement.

International Financial Reporting Standards - IFRS

- 2.23 From 2010/11 the Council is required to produce its Statement of Accounts under IFRS based on an IFRS Code of Practice on Local Authority Accounting prepared by the Chartered Institute of Public Finance and Accountancy - CIPFA. As part of our procedures, we have discussed with the relevant officers their readiness for conversion to IFRS and the preparation they have undertaken to date. We are pleased to note that the Council is making positive progress towards conversion.
- 2.24 We will continue to work with the Council's finance team to ensure that arrangements are in place to transition to full IFRS for the 2010-11 Statement of Accounts. We will also continue to discuss with the Council the required accounting treatments under IFRS, where this will not compromise our independence, through sharing our experiences of IFRS transition from other public sector bodies and the commercial sector.

Value for Money

- 2.25 The Audit Commission's Code of Audit Practice requires us to assess whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.
- 2.26 Our 2010 Value for Money conclusion has been informed by work carried out on Use of Resources up until the abolition of Comprehensive Area Assessment, and other local risk based work carried out in accordance with our 2009/10 Audit Plan.
- 2.27 On the basis of the work completed, we propose to issue an unqualified Value for Money conclusion.
- 2.28 The key developments in the Council's arrangements include:
- Improvement in understanding of costs and performance: The DECATS transformational change programme report identified 14 areas across the Council where significant cost savings can be achieved through re-engineering processes and realigning services. In particular with regard to support functions.

- Improvements in achieving efficiencies: The Council has continued to seek and evaluate new ways of delivering services to achieve efficiencies, for example using business process re-engineering techniques to improve processes and structures through its Transforming Derby programme (e.g. Customer Service Improvement Programme).

2.29 The key areas for further development in the Council's arrangements include:

- Improving the effectiveness of asset management arrangements: We agreed to undertake a review of asset management arrangements as part of our 2009/10 audit programme. This project is ongoing and is focussed on refreshing the Council's existing asset management plan with a view to identifying rationalisation opportunities.
- Improving the effectiveness of workforce planning arrangements: The Council needs to ensure that its workforce plan is designed to improve efficiency, productivity and value for money outcomes against local priorities.

2.30 Whilst the Council's medium term financial plans and strategy are considered to be sound, the Council will need to continue to ensure that a flexible approach is taken in respect of future financial planning. With the on-going requirement to make significant savings across the activities of the Council, the need to identify and deliver new ways of increasing productivity and improving efficiency will become ever more critical.

2.31 As well as starting the review of arrangements for asset management, we also undertook a review of schools balances as agreed with the Council as part of the 2009/10 audit plan. This review has also informed our unqualified Value for Money conclusion and a full report has been issued separately to the Council along with agreed action plans to progress recommendations made within the reports.

2.32 Our review of schools balances was prompted by the concern of the Department for Children, Schools and Families (DCSF) that school balances in England are unacceptably high. Although 2008/09 saw a reduction in overall balances for the first time since the Audit Commission began publishing school balances data, the DCSF has warned that if balances do not reduce further, it intends to regulate.

2.33 We reviewed the position of the Council and compared it to other local authorities using the benchmarking tool provided by the Audit Commission. This showed that the surplus balances are relatively low in each of the benchmarking groups, with balances falling nationally in 2008/09. However the Council recognises that this issue must remain a priority. The cause for concern in holding large surplus balances is that these funds are not providing benefit for children currently attending schools but are being carried forward for use on projects which will realise benefit in the future.

2.34 Our approach examined the current policy and procedures in place to control balances. We found that these mechanisms are time consuming to administer and have not previously resulted in many clawbacks of unspent funds although a process of automatic clawbacks has now been introduced for 2009/10. The Council has a blend of activities which support the reduction of balances and the prevention of balances building up in the first place. A number of factors have contributed to the reduction in balances, including the adoption of a common accounting system, the support provided to schools in respect of financial management and using publicity to highlight schools' progress in the reduction of balances.

2.35 There were no issues arising from this review that impacted upon our Value for Money conclusion.

Next steps

- 2.36 The Audit and Accounts Committee is required to approve the financial statements for the year ended 2009-10. In forming its conclusions the Committee's attention is drawn to the adjustments to the accounts and the required Letter of Representation.

A Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

To reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance.

To share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities.

To provide to those charged with governance constructive observations arising from the audit process.

ISA260 reporting requirement	Key messages
Independence	<p>We are able to confirm our independence and objectivity as auditors and draw attention to the following points:</p> <ul style="list-style-type: none">• We are independently appointed by the Audit Commission.• The firm has been assessed by the Audit Commission as complying with its required quality standards.• The appointed auditor and client service manager are subject to rotation in line with the Audit Commission's requirements.• We comply with the Auditing Practices Board's Ethical Standards.• We have not provided any non audit services in 2009-10.

ISA260 reporting requirement	Key messages
Audit Approach	<p>Our approach to the audit was set out in our 2009-10 Audit Approach Memorandum. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice. Other key factors to highlight include:</p> <ul style="list-style-type: none"> • We consider the materiality of items in the financial statements in determining the audit approach and in determining the impact of any errors. • We have been able to place appropriate reliance on the key accounting systems operating at the Council for financial statement audit purposes. • In 2009-10 we have considered the work of internal audit in developing our approach to the Council's key accounting systems.
Accounting Policies	<p>The Council has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies are in accordance with the SoRP 2009.</p> <p>The Audit and Accounts Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by FRS 18.</p> <p>We have considered the Council's financial plans and consider it appropriate for the Council to continue to account on a going concern basis.</p>
Material Risks	<p>The Audit and Accounts Committee should confirm that it is not aware of any additional material risk areas facing the Council, including significant fraud risks.</p> <p>We have requested from the Council a Letter of Representation to confirm that there are no additional material risks and exposures as at September 2010, which should be reflected in the financial statements.</p> <p>We have also perform our own audit procedures to ensure that all significant risks and exposures to the Council have been recognised in the accounts as at September 2010. We will focus on accounting provisions and cash flow forecasting over the next 12 months.</p>

ISA260 reporting requirement	Key messages
Audit Adjustments	<p>We have discussed with management the adjustment to the accounts, primarily to improve the fair presentation of the financial statements, as well as the clarity and presentation of disclosure notes.</p> <p>These adjustments are summarised at Appendix B.</p>
Unadjusted Errors	<p>There are no unadjusted errors to the accounts which require reporting to those charged with governance.</p>
Other Matters	<p>We reported the results of our interim audit to Audit and Accounts Committee on 24 June 2010 including improvement opportunities identified from our review of relevant elements of the Council's control environment.</p> <p>A number of additional recommendations have been identified during the course of our final audit visit which are detailed at Appendix C.</p>

B Adjustments to the financial statements

Adjusted misstatements

The table below lists all significant audit adjustments which have been processed and agreed with the Strategic Director of Resources. These adjustments resulted in the reported Income & Expenditure Account deficit decreasing by £2.6m to £27.3m but had no overall impact on the General Fund deficit which remained unaltered at £12.1m, after audit adjustments.

Adjustment in £'000s	Report reference	I&E Acc ¹	Fixed Assets	Current Assets	Current Liabilities	Long Term Liabilities	Net Worth
Draft Statement of Accounts		(29,874)	1,184,289	106,823	(72,485)	(788,329)	430,298
Surplus property omitted from the fixed asset register, added back onto the register	2.7		607				607
Amendments for valuation reports not accurately reflected on the fixed asset register	2.7	(686)	(1,897)				(1,897)
Removal of fixed assets double counted on the fixed asset register	2.7		(1,914)				(1,914)
Removal of fixed assets disposed of in year but still held on the fixed asset register	2.7		(32)				(32)
Removal of fixed assets transferred to Derby Homes Ltd but still held on the fixed asset register	2.7	(399)	(399)				(399)
Amendment for depreciation calculated over incorrect life of asset	n/a	49	49				49
Amendment for fixed asset additions incorrectly treated as non-enhancing capital expenditure	2.7	2,057	2,057				2,057

¹ Income and Expenditure Account

Adjustment in £'000s	Report reference	I&E Acc ¹	Fixed Assets	Current Assets	Current Liabilities	Long Term Liabilities	Net Worth
Amendment for indirect use of revaluation reserve	n/a	145					0
Transfer of expenditure incorrectly classified as Revenue Expenditure Funded from Capital Under Statute to Assets under Construction	n/a	710	710				710
Adjustment for withheld amount on HMRC claim relating to treatment of output tax on car park income	n/a			(1,101)	1,101		0
Reverse netting off of council taxpayers debtors and creditors	n/a			1,192	(1,192)		0
Amendment for the overstatement of the general fund element of the bad debt provision	n/a	151		151			151
Debtors cut off - credit note accounted for in 2010/11 rather than 2009/10	n/a			(656)		656	0
Recognition of accrued benefit payments and the equivalent accrued income value for the subsidy due to fund these payments.	n/a	(80)		1,464	(1,544)		(80)
Amendment for retentions not accrued for at the year end	n/a		266		(266)		0
Release of provision for redundancy costs for non compliance with FRS12	2.7	523				523	523
Release of provision for asbestos claims for non compliance with FRS12	n/a	74				74	74
Final Statement of Accounts		(27,330)	1,183,736	107,873	(74,386)	(787,076)	430,147

¹ Income and Expenditure Account

The following reclassification adjustments have been made that correct the presentation of amounts within the accounts:

- Receipts in advance of £540,000 have been reclassified as government departments' creditors to ensure compliance with the SoRP.
- Government departments' debtors of £284,000 have been reclassified as other local authority debtors to ensure the correct categorisation of debtors.
- Surplus properties with an opening balance sheet value of £1,949,000 have been reclassified as community assets (£230,000), investment properties (£1,567,000) and other land and buildings (£152,000) to ensure the correct categorisation of fixed assets.
- Surplus properties to the value of £150,000 have been reclassified as community assets to ensure the correct categorisation of fixed assets.

The following adjustments have also been made which are not evident from the table above:

- Cash Flow Statement - the figure for interest received in the Cash Flow Statement has been increased by £1,016,000 from £1,743,000 to £2,759,000 to reflect the cash inflow rather than the amount receivable on an accruals basis.
- Collection Fund - business rates income and the payment to the national pool have both decreased by £685,000 to £80,788,000 and £76,955,000 respectively. This amendment is to ensure the new deferral scheme, permitting ratepayers to defer a portion of any increase in the 2009/10 demand caused by RPI inflation and the end of the previous transitional relief, has been accounted for correctly.
- Group Accounts - the Group Income and Expenditure Account has been amended to reflect adjustments made in late June 2010 to the Council's accounts in relation to:
 - various corporate overheads, totalling £1,707,000, being adjusted within the Non Distributed Costs line of the Council's Income and Expenditure Account, that had not been included in the consolidation. These costs needed to be apportioned across the other service lines in accordance with the Best Value Accounting Code of Practice.
 - the Council's Cash Flow Statement being adjusted for the misclassification of transactions within revenue earmarked reserves being incorrectly treated as capital, that had not been included in the consolidation. This has resulted in the 'Other net capital cash' figure increasing by £630,000 and the 'Net Revenue Activities Cash Flow' figure decreasing by the same amount.

Disclosure omissions

Our review identified a number of additional disclosures and amendments to existing disclosures before we could conclude that the Statement of Accounts were materially compliant with CIPFA's Statement of Recommended Practice. The following table sets out the key disclosure amendments identified through our audit.

Issue identified and amendments made	
1	<p>Recent Announcements</p> <p>The following two recent announcements have resulted in additional Post Balance Sheet Event disclosures being made in the Statement of Accounts:</p> <ul style="list-style-type: none"> Abolition of the Building Schools for the Future programme. Pension increasing being linked to the Consumer Prices Index ('CPI') from April 2011, as apposed to the previous links to the Retail Price Index (RPI).
2	<p>Explanatory Foreword</p> <p>The Explanatory Foreword has been expanded to include commentary on interest payable, other operating costs or income from grants and taxpayers, as required by the SoRP.</p> <p>We also recommended the following improvements to enhance the Explanatory Foreword, which have been updated by Council officers:</p> <ul style="list-style-type: none"> additional narrative outlining the monetary effect on the accounts of the significant changes in accounting policies; additional narrative to explain that the changes to the accounting treatment for Council Tax and National Non Domestic Rates have resulted in prior year adjustments to the accounts; narrative highlighting that legislation has changed the overriding requirement of the accounts to give a 'true and fair' view (rather than 'presents fairly') of the financial position and transactions of the Council; explanation that five note disclosures have been removed from the accounts as permitted by the 2009 SoRP, i.e. S137 expenditure; expenditure on publicity; the building control account; Business Improvement District Schemes; and income under the Local Authorities Goods and Services Act.
3	<p>Prior Period Adjustments</p> <p>Additional narrative has been added to Note 2, Prior Period Adjustment, to clarify the monetary impact of the prior period adjustment. Links to this note from the Statement of Total Recognised Gains and Losses (STRGL) have also been improved.</p> <p>The group accounts have also been enhanced to explanation why the 2008/09 figures have been restated and to reference through to appropriate notes in the Council's individual accounts provided.</p>

	Issue identified and amendments made
4	<p>Restatement of Opening Balance An explanatory note has been added to Note 33 Revaluation Reserve, to provide an explanation for the restatement of the opening balance.</p>
5	<p>Provisions We noted that the disclosure requirements of Financial Reporting Standard 12 relating to provisions had not been fully complied with in respect of the Council's 'Provisions for Future Pension Payments'. Additional narrative has been added to the notes to the accounts providing detail pertaining to the expected timing of any resulting transfers of economic benefits and an indication of the uncertainties about the amount or timing of the transfers of economic benefits.</p>
6	<p>Maturity of Financial Liabilities The maturity analysis of financial liabilities within Note 12, Financial Instruments was based on the maturity date rather than the actual debt principal repayment timetable. This has been updated so that it is based on the actual debt principal repayment timetable and is now consistent with Note 24, Long Term Borrowing. In addition, there was a misclassification within the maturity analysis whereby approximately £9m of loans were classified as maturing in more than fifteen years when in fact they actually mature between ten and fifteen years. This has been amended.</p>
7	<p>Revenue and Capital Grants The disclosure of the revenue received for Housing Benefit Subsidy, Council Tax Benefit Grant, and Rent Rebate - Housing Benefit in Note 42, Revenue and Capital Grants had been disclosed on an accruals basis, rather than on a cash basis. Note 42 (now Note 43), Revenue and Capital Grants has been amended as follows:</p> <ul style="list-style-type: none"> • Housing Benefit Subsidy revenue received in 2009/10 has been amended from £44,149,000 to £41,121,000; • Council Tax Benefit Grant revenue received in 2009/10 has been amended from £17,168,000 to £17,460,000; • Rent Rebate - Housing Benefit revenue received in 2009/10 has been amended from £27,881,000 to £27,802,000.

	Issue identified and amendments made
8	<p>Narrative disclosures</p> <p>Other disclosure issues were identified in the financial statements. The more significant revisions were as follows:</p> <ul style="list-style-type: none"> • Connexions Derbyshire Ltd being consolidated in the group accounts for the first time in 2009/10, and the resulting impact of this change of accounting treatment (compared to 2008/09), being explicitly stated; • Connexions Derbyshire Ltd being accounted for as an associate undertaking in the group accounts being explicitly stated; • disclosure of Connexions Derbyshire Ltd's net assets at the beginning and end of the accounting period, its surplus/deficit for 2008/09 and 2009/10, and the nature and amount of the indebtedness between the Council and the company, as required by the SoRP; • the value of investment properties held by the Housing Revenue Account moving significantly in 2009/10 being due to classification errors identified as a result of the data cleansing exercise carried out on all fixed assets, being explicitly stated; • the actual return on scheme assets being disclosed for both the Local Government Pension Scheme and the Teachers Pension Scheme; • a misclassification of £353,000 within Note 42 (now Note 43), Revenue and Capital Grants, between revenue and capital in respect of Growth Point grant funding; • separate disclosure in Note 7, Members' Allowances of Co-optee allowance payments of £2,000; • Note 13, Commitments under Operating Leases being re-analysed to reflect leases for certain vehicles being revised following production of the draft accounts; • Note 16, Commitments under Capital Contracts being amended to increase the commitment relating to 'Housing - Private Sector' by £252,000, from £4,664,000 to £4,916,000; • a minor number of presentational issues and typographical errors; and • a small number of casting errors.

C Action Plan

	Issue and Risk	Recommendation	Priority H/M/L	Council response
1	<p>Group Accounting Policies FRS 2 and FRS 9 require that the accounting policies of subsidiary companies, such as Derby Homes Ltd and Connexions Derbyshire Ltd, are aligned with the policies of the Council, for the purposes of Group Accounts.</p> <p>Inconsistencies currently exist between the policies of the Council and the Subsidiaries.</p> <p>No consolidation adjustments were deemed necessary in 2009/10, on the basis that any adjustment would not be material. However this was not formally quantified by the Council.</p>	<p>It is recommended that Derby Homes Ltd's and Connexions Derbyshire Ltd's accounting policies are fully aligned with those of the Council, or that resulting consolidation adjustments are quantified.</p>	<p>Medium</p>	<p>A full review of the Council's accounting policies is required as part of the transition to International Financial Reporting Standards. The accounting of all the Council's subsidiaries will be considered as part of this process and a restatement exercise will be carried out as part of the accounts preparation process for 2010/11 to ensure all subsidiary accounts are fully aligned to the Council's IFRS requirements.</p> <p>Responsible Officer: Chloe Kenny Deadline: March 2011</p>

2	<p><u>Provisions for Future Pension Payments</u> The Council has a provision in place for continued funding of liabilities for former DCT (passenger transport) employees' pensions. This provision relates to the Council's on-going pension liability for former employees of the Council when it provided a public transport service. The payments are made to Derbyshire County Council Superannuation Fund.</p> <p>The Council was informed in April 2010, by Derbyshire County Council, that a reliable estimate could not currently be attributed to the superannuation fund for these former employees.</p>	<p>It is recommended that the Council seek an actuarial valuation for the continued funding provision for former DCT employees' pensions to enable a fair value to be attributed to it.</p>	Medium	<p>Agreed. An actuary valuation will be requested via the County Council.</p> <p>Responsible Officer: Mark Nash Deadline: Request to the County will be sent by 30 September 2010 and responses monitored.</p>
3	<p><u>Credit Risk</u> There are no documented procedures for dealing with investments placed with institutions that have subsequently been downgraded on the counterparty list.</p>	<p>We recommend that the Treasury Management Strategy is updated to include a section on procedures to follow when existing investments are downgraded below the Council's thresholds.</p>	Low	<p>The strategy will be updated in the forthcoming Treasury Management progress report to Cabinet.</p> <p>Responsible Officer: Ciaran Guilfoyle Deadline: December 2010</p>

4	<p>Rent Debtor/Academy Our audit procedures identified that there is a reconciliation difference of £450,000 between the rent debtor balance in the general ledger and the total in Academy (or the total of Academy debtor account listings).</p>	<p>We recommend that the Council liaises with Derby Homes Ltd to identify the reason for the variance between the general ledger and Academy, and then resolve the issue to ensure that both the general ledger and Academy are consistent going forward.</p>	Medium	<p>A dedicated resource has been made available and work carried out to date will be continued to achieve the consistency required between the academy system and the financial ledger.</p> <p>Work is ongoing and liaison with Derby Homes will continue with a view to resolving the issue by March 2011.</p> <p>Responsible Officer: Peter Morris Deadline: March 2011</p>
5	<p>Rental Income for Investment Properties/Tenancy Details We were unable to obtain a total value for rental income in the year for investment properties (as detailed in the Fixed Asset Register) as there is no central system in place for recording cash flows relating to investment properties.</p> <p>In addition, tenancy details could only been extracted from information on the ledger (based on invoices) and not from a central database.</p>	<p>It is recommended that the Council operates a central system to aid with the cash flow management of rental income from investment properties.</p> <p>It is also recommended that a central database is maintained of all tenancy information (e.g. tenant, rate, dates, etc.)</p>	Medium	<p>Asset Management will liaise with Capital Accountancy Team regarding this matter and a system will be formulated in order to capture this information in the form required.</p> <p>Responsible Officer: Marcus Nicholson / Nicola Goodacre Deadline: March 2011</p>

6	<p>Contractor Retentions There is no central record maintained by the Council of contractor retentions, rather it is the responsibility of the individual departments to maintain records for their respective departments.</p>	<p>It is recommended that the Council maintains a central record of all contractor retentions, both due and to be recovered. This will help the Council to identify any overdue or unpaid retentions to be recovered or written off.</p>	Medium	<p>It is proposed that all contractor information will be maintained centrally by the capital team to enable overdue and unpaid retentions to be identified and aid in the closure process.</p> <p>Responsible Officer: Nicola Goodacre Deadline: 28 February 2011</p>
7	<p>Fixed Asset Register (FAR) Our audit procedures identified vehicle, plant & equipment assets on the FAR which had no unique identifier, e.g. registration number plate for vehicles.</p>	<p>We recommend that all assets on the FAR have a unique identifier to support a complete FAR.</p>	Medium	<p>It is proposed that departmental officers will do a physical verification of assets once a year which will incorporate giving all Vehicle Plant and Equipment (VPE) a unique identifier to be included on the FAR.</p> <p>Responsible Officer: Nicola Goodacre Deadline: 28 February 2011</p>

8	<p>Fixed Asset Verification Our audit procedures involved selecting a sample of fixed assets from the FAR for physical verification to confirm their existence.</p> <p>From the sample selected, one asset was found to have been sold at auction on 14 February 2007 and therefore should not have been on the FAR at the year end.</p> <p>The Council does not currently undertake periodic physical verifications of assets to ensure that the FAR is complete and accurate.</p>	<p>It is recommended that the Council undertakes a regular exercise of physically verifying assets on the FAR to support the completeness of the FAR.</p>	Low	<p>20% of assets are inspected annually for the rolling programme which includes the physical verification of the asset. It is proposed to continue with this practise due to the size of the FAR with a completed list to be sent to departmental property officers for confirmation of the existence of the asset.. Ongoing work on data cleansing will aid the verification process.</p> <p>Responsible Officer: Nicola Goodacre Deadline: 28 February 2011</p>
9	<p>Capitalisation Policy - Non-Enhancing Capital Expenditure</p> <p>Whilst the Council's capitalisation policy includes a section on the capitalisation of non-enhancing capital expenditure, it was noted that this section does not detail information such as:</p> <ul style="list-style-type: none"> • what constitutes non-enhancing capital expenditure; • how it should be identified; and • how it should be accounted for. 	<p>It is recommended that the Council reviews its capitalisation policy in relation to non-enhancing capital expenditure and ensure that it is fully compliant with the SoRP, FRS15 and best practice.</p>	Medium	<p>The capitalisation policy is reviewed annually and will continue to be updated to ensure compliance with the SORP and IFRS. Reference to Non Enhancing Capital Expenditure will be incorporated.</p> <p>Responsible Officer: Nicola Goodacre Deadline: 28 February 2011</p>

10	<p>Capitalisation Policy - REFCUS The Council's capitalisation policy does not include a policy for Revenue Expenditure Funded from Capital Under Statute (REFCUS).</p>	<p>We recommend that the Council updates its capitalisation policy to include a policy for REFCUS.</p>	Medium	<p>The capitalisation policy is reviewed annually and will continue to be updated to ensure compliance with the SORP and IFRS. Reference to REFCUS will be incorporated.</p> <p>Responsible Officer: Nicola Goodacre Deadline: 28 February 2011</p>
11	<p>Mixed Use Investment Properties There are no procedures in place at the Council to identify mixed use investment properties.</p> <p>This could have an impact on the depreciation charge for the year as investment properties are not subject to depreciation.</p>	<p>We recommend that procedures are adopted by the Council to identify mixed use investment properties.</p>	Medium	<p>A process of identification and recognition of mixed use investment assets will be carried out when the Fixed Asset Register (FAR) is restated for IFRS and the new classifications under IFRS are implemented.</p> <p>Responsible Officer: Marcus Nicholson Deadline: 31 October 2010</p>
12	<p>Embedded Derivatives within Leases A central record is not maintained by the Council of embedded derivatives contained within leases.</p> <p>This could result in an oversight of specific terms and conditions, and associated accounting treatment.</p>	<p>We recommend that a central record of leases is developed for the purposes of IFRS and that embedded derivatives are considered as part of this exercise.</p>	Medium	<p>The Council is in the process of developing a centralised leases register. This will be extended to include details of embedded derivatives where relevant.</p> <p>Responsible Officer: Chloe Kenny Deadline: 31 March 2011</p>

13	<p>Reclassified Assets A number of fixed assets have been identified for reclassification during the year at Appendix B - these assets have been carried in the Balance Sheet using the valuation basis for their old category of fixed asset.</p>	<p>It is recommended that those assets reclassified during the year are revalued in 2010/11 based on the valuation basis for their new category of fixed asset.</p>	High	<p>Any assets previously valued based on an incorrect classification will be recognised and subsequently revalued using their correct classification for the period 2010/11.</p> <p>Responsible Officer: Nicola Goodacre / Marcus Nicholson Deadline: 31 March 2011</p>
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