

# The Audit Findings for Derby City Council

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**Year ended 31 March 2013**

September 2013

**Phil Jones**  
Director  
E [phil.w.jones@uk.gt.com](mailto:phil.w.jones@uk.gt.com)

**Mark Surridge**  
Senior Manager  
E [mark.n.surridge@uk.gt.com](mailto:mark.n.surridge@uk.gt.com)

**Matt Berrisford**  
Executive  
E [matthew.j.berrisford@uk.gt.com](mailto:matthew.j.berrisford@uk.gt.com)



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## **Appendices**

- A Audit opinion
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- C Letter of representation

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Section 1: Executive summary

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**05. Communication of audit matters**

# Executive summary

## **Purpose of this report**

This report highlights the key matters arising from our audit of Derby City Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. 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 (the Value for Money conclusion).

## **Introduction**

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan.

Our audit is substantially complete although we are finalising our work in the following areas:

- completion of our work on housing and council tax benefits
- final concluding procedures, including management representations and subsequent events
- final validation arrangements for the value for money conclusion
- review of the Whole of Government Accounts submission.

## **Key issues arising from our audit**

### **Financial statements**

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

We have not identified any adjustments that affect the Council's reported financial position. Our audit work has made a small number of presentational adjustments to the financial statements. None of which made a material difference to the overall presentation of the Council's reported financial performance.

Further details are set out in section 2 of this report.

### **Value for money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

### **Objection to the accounts**

A local elector has made an objection to the accounts in relation to Taxi Licensing. We are currently considering the issues raised.

# Executive summary

## **Controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

We have identified a small number of control deficiencies in the IT control environment.

## **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance.

## **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**September 2013**

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## Section 2: Audit findings

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# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you.

## **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out at Appendix A.

## **Audit certificate**

Local electors have a right to inspect the accounts, raise a question with the external auditor and object to an item in the accounts as being unlawful. During the audit of the Council's accounts, we received such an objection relating to Taxi Licensing. The matter has been raised with the Council and we are progressing our response. We do not believe the matter is material to the financial statements nor the value for money conclusion. However, until the matter is closed, we are unable to issue our audit certificate, which closes the audit.

On completion of this work, we shall write to the Council and the local elector to formally conclude on the matter. Following which, we shall issue our audit certificate.

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journals entries</li> <li>• review of accounting estimates, judgements and decisions made by management</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls.</p> <p>Whilst our testing of journals identified some adjustments to the financial statements, as set out on page 11, these are not an indication of management over-ride of controls.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>





# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	<p>Operating expenses understated</p> <p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• tested key controls</li> <li>• tested operating expenses</li> </ul>	<p>Our audit work identified audit adjustments as set out on pages 11 and 12.</p> <p>These have been corrected by the Council.</p>
<b>Employee remuneration</b>	<p>Remuneration expenses not correct</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• tested a sample of pay costs</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<b>Welfare expenditure</b>	<p>Welfare benefits improperly computed</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> </ul>	<p>We are planning to complete our testing by September 2013. We have not identified any material errors in our testing to date.</p>

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Comments	Assessment
<b>Revenue recognition</b>	The Council's accounting policies are in accordance with International Financial Reporting Standards, as adapted through the Code of Practice on Local Authority Accounting for 2012/13. We have also confirmed that the accounting policies adopted for 2012/13 were consistently applied to the material transactions in the Council's financial statements .	 [green]
<b>Judgements and estimates</b>	We evaluated the underlying assumptions and reasonableness of the significant estimates and judgements made by the Council in preparing the financial statements. These mainly affected the accounting for property, plant and equipment assets, provisions, pension assets and pension liabilities. We are satisfied that a reasonable approach has been taken.	 [green]

## Assessment

-  [red] Marginal accounting policy which could potentially attract attention from regulators
-  [amber] Accounting policy appropriate but scope for improved disclosure
-  [green] Accounting policy appropriate and disclosures sufficient

# Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 <b>Recharges</b> Journal entries in respect of recharges were miscoded, resulting in an overstatement to both income and expenditure. This has no impact on the net cost of services.	Gross income and expenditure both reduced by £71,074	N/A	Nil
2 <b>Asset Register – Council Dwellings</b> When the draft accounts were issued the Council had not fully updated its asset register for Council Dwellings transactions. Further work undertaken to update the asset register has identified some errors within Property, Plant and Equipment affecting both Council Dwellings and Vehicles, Plant and Equipment. Adjustments have been posted to reduce the carrying value of Property, Plant and Equipment at 31 March 2013 by £5,562k, with corresponding entries to the revaluation reserve (£8,307k) and the Capital Adjustment Account (£2,745k).	N/A	5,562  Reduction in Total Assets and Unusable reserves	Nil
3 <b>St Benedicts RC School - Revaluation</b> This voluntary aided school was revalued at 1 April 2012 and the new valuation (£25,109k) recognised in the asset register (Increase £24,689k). Because it is an RC aided school, the Council has no legal interest in the land or school buildings, other than small areas of playing field which are in the Council's ownership. The valuation increases therefore should not have been recognised in the asset register. The school became an academy on 1st September 2012 and, as a result, was treated as a disposal and removed from the asset register. The disposal amounts have therefore been overstated by an equal and opposite amount, since the value should not have been recognised in the first instance.	N/A	Nil overall effect.  The original transaction increased the value of the asset by £24,689k before decreasing it for disposal by the same amount.	N/A
4 <b>Unpresented cheques</b> An audit adjustment has been posted to correct a prior period adjustment for whereby unpresented cheques written out in the prior period.	N/A	1,042  Increase to current liabilities and decrease to current assets	Nil

# Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	1,499	Provisions Current liabilities	<b>Provision for repayment of subsidy</b> The provision recognised in the accounts should be transferred to creditors as amounts payable for the 2009/10, 2010,11 & 2011/12 claims have all been confirmed with DWP.
2 Misclassification	Various	Cashflow	<b>Cashflow</b> Audit adjustments were posted to ensure the cashflow statement reconciled to the financial statements.
3 Misclassification	18,017 17,783	Comprehensive Income and Expenditure Account (CIES)	<b>CIES - 2011/12 Comparatives</b> As part of the 2011/12 closedown no adjustment was put through to recode Council Tax Benefit expenditure and subsidy income, to the Central Services line within the CIES.  As a result 'Other housing services' income and expenditure is overstated and 'Central Services to the public' income and expenditure is correspondingly understated. Expenditure transfer of £18, 017k and income transfer of £17,783k.
4 Misclassification	5,767	Comprehensive Income and Expenditure Account	<b>Revaluation Loss - Council House</b> A revaluation loss of £5,767k has been recognised following the revaluation of the 'Council House' building. The loss has been incorrectly recognised as part of 'Non distributed costs' expenditure, instead of 'Central Services to the public' within the CIES.
5 Disclosure	Various	Notes to the accounts	We made a small number of narrative and presentational corrections to the supporting notes to the financial statements. None of which were individually significant, but briefly comprise: <ul style="list-style-type: none"> <li>• additional disclosure of changes resulting from the componentisation of council dwellings</li> <li>• additional disclosure explaining the impact of prior period adjustments</li> <li>• related party transactions to disclose transactions with an organisation where a Councillor acts as trustee. The omission arose due to late receipt of the annual declaration form.</li> </ul>

# Unadjusted misstatements



The table below provides details of adjustments identified during the audit but which have not been made within the final set of financial statements. The Audit and Accounts Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Account balance	Reason for not adjusting
<p>1 When an entity posts a prior period adjustment, International Accounting Standards require that entity to disclose the impact over three balance sheet dates.</p> <p>The Council should therefore present its restated financial position as at 31 March 2011, 31 March 2012 and 31 March 2013.</p> <p>The Council's financial statements only include the reported financial position as at 31 March 2013 and 31 March 2012.</p>	Balance sheet	The Council does not believe this omission detracts from the overall true and fair view of the Council's financial affairs for the period ending 31 March 2013.


# Internal controls

The purpose of an audit is to express an opinion on the financial statements.



Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1.	 [amber]	<p><b>Periodic user access reviews</b>                      No formal user access rights reviews are performed, for the network and payroll (Vision) and approved by management, to ensure that only authorised staff have access and the levels of access granted is appropriate for their roles and responsibilities.</p> <p>If user access is not reviewed by management on a regular basis, there is a risk that leavers and unauthorised users may continue to have access to the Council's systems and data. The level of access provided may be disproportionate to roles and responsibilities.</p>	<p>Management should consider implementing a process to review user access on a regular basis to ensure that only authorised users have access to the network and applications and the levels of access granted is appropriate for their roles and responsibilities.</p> <p><b>Management response:</b>                      Network -This is currently in the process of change where job role responsibilities are being used to identify the access privileges of users to the network and folders. We anticipate this project being complete by March 2014.</p> <p>Payroll - The Payroll team's access levels are requested by the Payroll Management. The only time users would receive elevated rights would be when they are promoted. Again if users leave the authority then their access would automatically be curtailed.</p>
2.	 [amber]	<p><b>Accumulation of folder rights</b>                      No formal reviews are undertaken to ensure that folder rights are not accumulated by staff as they move to different roles internally. There is currently no close liaison between IT and departments on folder rights management.</p> <p>There is a risk of inappropriate access rights if processes are not put in place for the administration of folder access rights.</p>	<p>A form should be developed and used to document and evidence approval of folder access rights variations. This will help to ensure that users have correct folder access rights and that previous folder access rights are removed before new access rights are granted.</p> <p><b>Management response:</b>                      A new process is now in place for staff transferring between departments, where they do not retain their previous network roll access. The new manager completes the new staff starters and leavers form with the new role group the user will be undertaking. The previous access will be stripped from the user's profiles and will be replaced with the new role group rights.</p> <p>There will be certain groups where multiple accesses is required which is in the roll of business support but managers will be expected to review this access on an annual basis.</p>



**Assessment**

-  [red] Significant deficiency – risk of significant misstatement
-  [amber] Deficiency – risk of inconsequential misstatement

# Internal controls

	Assessment	Issue and risk	Recommendations
3	 [amber]	<p><b>Payroll system user IDs are not required to be unique</b>                      Best practice requires that user IDs are unique for each account set up, to ensure accountability for user activity within the system. Our review of the payroll password policy identified that the password configuration has not been set to require the set up and use of unique user IDs for the current payroll system (Vision). The payroll system is due to be replaced on 1<sup>st</sup> April 2013 by a system known as i-Trend.</p> <p>There is a risk that generic accounts may be used to access the application and to process or mask unauthorised transactions.</p>	<p>The Council should ensure that the new payroll system's password policy is set in accordance with best practice. The policy should require that all user IDs are unique, to ensure accountability for all transactions posted within the payroll system.</p> <p><b>Management response:</b>                      For both the Vision Payroll and Vision HR system a unique user name is connected to the users employee number so that there is a clear record of who has updated the system. This allows us to curtail the users access as soon as they have left the Council's employ.</p>
4.	 [amber]	<p><b>Oracle patch update problems</b>                      Best practice requires that patch updates are applied regularly to applications to ensure their continued stability and security from new and emerging threats. The Council relies on the change management procedures of Paytech and SERCO (for network), for the update of the Oracle systems and related databases. Patch updates are tested by Council IT and Oracle team before being applied to production. However, we noted that the most recent update, patch 12, has resulted in system malfunctions which have impacted negatively on invoicing processes including invoice release. Timely payment of supplier invoices and benefits to claimants are critical requirements of the Council's operations.</p> <p>There is a risk of Council's operations being disrupted if Oracle updates are not tested thoroughly, to identify issues for resolution, before being applied to the live environment.</p>	<p>Management should ensure that all Oracle updates are thoroughly tested before being applied to the live environment. This will help identify and resolve application issues before new builds or updates are applied to the live environment and enhance the Council's operations are not disrupted by delayed payments to suppliers and claimants.</p> <p><b>Management response:</b>                      This was not a patch release but a major upgrade from Oracle 11.5.10 to Release 12 and subject to an extensive testing regime. The issues experienced with invoice processing in the live environment did not materialise in the testing phase. The issue affects a small percentage of invoices and did not become apparent until high volume processing in the live environment was taking underway. Whilst every effort is made to identify issues during the test stage it is not possible to replicate the high volume processing of the live environment. The live system processes tens of thousands of invoices and in this scenario the incidence of affected invoices was too low to have any significant probability of occurring in a test phase. Those invoices still affected are now identified and fixed on an ongoing basis and the underlying software fault has been replicated in the standard Oracle product and is now being investigated by the software supplier, Oracle.</p>

**Assessment**

-  [red] Significant deficiency – risk of significant misstatement
-  [amber] Deficiency – risk of inconsequential misstatement

# Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have not been made aware of any significant incidents in the period and no issues have been identified during the course of our audit procedures</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation will be requested from the Council</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>



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## Section 3: Value for Money

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# Value for Money

## Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Our findings are summarised on the following page, with our overall conclusion being that the Council has proper arrangements in place for each of the three characteristics. Our detailed report on Financial Resilience will be presented to Members in due course.

### Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within.









We concluded that the Council has proper arrangements in place for each of these characteristics and there are no further matters we need to bring to your attention.

## Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

# Financial resilience

## Overview of Arrangements

Risk area	Summary	Risk assessment 2012	High level risk assessment 2013
Key Indicators of Performance	<p>In our consideration of the following financial performance measures, we have not identified any indications that the Council's arrangements have deteriorated:</p> <ul style="list-style-type: none"> <li>• Liquidity</li> <li>• Borrowing</li> <li>• Workforce statistics</li> <li>• Performance against budgets</li> <li>• Reserves.</li> </ul>	 [green]	 [green]
Strategic Financial Planning	<p>We have considered the Council's arrangements to prepare its Medium Term Financial Strategy, including stakeholder engagement and planning assumptions. We have identified any indicators that arrangements may have deteriorated.</p>	 [green]	 [green]
Financial Governance	<p>We have updated our understanding of the Council's financial governance arrangements. This includes stakeholder engagement, and the arrangements in place to monitor and review performance.</p>	 [green]	 [green]
Financial Control	<p>In conducting our review of financial control we have assessed the Council's arrangements for budget setting, financial systems and aspects of the financial control environment, including internal Audit.</p> <p>We have not identified any matters that indicate a deterioration in the Council's overall arrangements for financial control.</p>	 [green]	 [green]

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## Section 4: Fees, non audit services and independence

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# Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Fees

	Per Audit plan £	Actual fees £
Council audit	189,000	189,000
Grant certification	44,550	44,550
<b>Total audit fees</b>	<b>233,550</b>	<b>233,550</b>

Note – our grant certification work is on going with an expected completion date of November 2013.

## Fees for other services

Service	Fees £
Assurance statement to the Regional Growth Fund	3,000

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

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# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices



# Appendix A: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DERBY CITY COUNCIL**

### **Opinion on the Authority financial statements**

We have audited the financial statements of Derby City Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. Include only the description of the financial statements relevant to the local government body's circumstances.

This report is made solely to the members of Derby City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Strategic Director of Resources and auditor**

As explained more fully in the Strategic Director of Resources' Responsibilities, the Strategic Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Derby City Council as at 31 March 2013 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

### **Opinion on other matters**

In our opinion, the information given in the explanatory for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

**Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources**

***Respective responsibilities of the Authority and the auditor***

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

***Conclusion***

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Derby City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

***Delay in certification of completion of the audit***

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the authority’s Whole of Government Accounts consolidation pack.
- our consideration of matters brought to our attention by local authority electors

We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

## Appendix B: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

### Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you.

Account	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Change to the Audit Plan	Audit findings
Cost of services - operating expenses	Operating expenses	Medium	Other	Operating expenses understated	No	Yes – see page 11 and 12
Cost of services – employee remuneration	Employee remuneration	Medium	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	No	Yes – see page 11 and 12
Cost of services – other revenues (fees & charges)	Other revenues	Low	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	Low	None		No	Yes – see page 11 and 12
Precepts and Levies	Council Tax	Low	None		No	None

Account	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Change to the Audit Plan	Audit findings
Interest payable and similar charges	Borrowings	Low	None		No	None
Pension Interest cost	Employee remuneration	Low	None		No	None
Interest & investment income	Investments	Low	None		No	None
Return on Pension assets	Employee remuneration	Low	None		No	None
Impairment of investments	Investments	Low	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	Low	None		No	None
Income from council tax	Council Tax	Low	None		No	None
NNDR Distribution	NNDR	Low	None		No	None
Revenue support grant & other Government grants	Grant Income	Low	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	Low	None		No	None
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	Low	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	Low	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	Low	None		No	None

## 4. An audit focused on risks (continued)

Account	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Change to the Audit Plan	Audit findings
Property, Plant & Equipment	Property, Plant & Equipment	Low	Other		No	Yes – see page 11 and 12
Heritage assets & Investment property	Property, Plant & Equipment	Low	None		No	None
Intangible assets	Intangible assets	Low	None		No	None
Investments (long & short term)	Investments	Low	None		No	None
Debtors (long & short term)	Revenue	Low	None		No	None
Assets held for sale	Property, Plant & Equipment	Low	None		No	None
Inventories	Inventories	Low	None		No	None
Cash & cash Equivalents	Bank & Cash	Low	None		No	None
Creditors (long & Short term)	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	Low	None		No	Yes – see page 11 and 12
Pension liability	Employee remuneration	Low	None		No	None
Reserves	Equity	Low	None		No	Yes – see page 11 and 12

# Appendix A: Audit opinion

## We propose a standard letter of representation from management

### To Grant Thornton UK LLP

Dear Sirs

### Derby City Council

#### Financial Statements for the year ended 31 March 2013

This representation letter is provided in connection with the audit of the financial statements of for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### Financial Statements

1. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
2. We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

6. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).
7. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.
8. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.
9. We have not adjusted the misstatements brought to our attention in the Audit Findings report, which are considered to be immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
10. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
11. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

**Information Provided**

1. We have provided you with:
  - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - additional information that you have requested from us for the purpose of your audit; and
  - unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
2. We have communicated to you all deficiencies in internal control of which management is aware.
3. All transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
5. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
6. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
7. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
8. We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

**Annual Governance Statement**

We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

**Approval**

The approval of this letter of representation was minuted by Audit and Accounts Committee at its meeting on 24 September 2013.

**Signed on behalf of the Council**

Name.....

Position.....

Date.....



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