

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

Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2017 issued on 19 December 2017 we reported that, in our opinion, the financial statements:

- gave a true and fair view of the financial position of Derby City Council as at 31 March 2017 and of its expenditure and income for the year then ended;
- gave a true and fair view of the financial position of the Group as at 31 March 2017 and of its expenditure and income for the year then ended; and
- had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Issue of adverse value for money conclusion on Derby City Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

In our audit report for the year ended 31 March 2017 issued on 19 December 2017 we reported an adverse value for money conclusion in the following terms:

Basis for adverse conclusion

- Medium Term Financial Planning and strategic risk management

There was no corporate risk strategy in place for the year ended 31 March 2017. The draft strategic risk register went to Chief Officer Group in November 2015, as a working copy for them to comment on. At September 2017, the new strategy document was still in the process of being redrafted.

The risk management annual report for 16/17 which was presented to the audit committee on 31 October 2017 stated "One of the key tasks for 2017/18 will be to address the gaps in the Council's risk management procedures."

The continued absence of a corporate risk strategy and risk register lead us to conclude that the Council does not have proper arrangements in place to ensure informed decision making.

The Council have not had a robust MTFP in place throughout the year ended 31 March 2017, with identified savings and sensitivity analysis performed. This demonstrates that the Authority has not planned finances effectively over the entire year under review in order to effectively support the sustainable delivery of strategic priorities and maintain statutory functions.

- Completeness, Existence and Valuation of Property, Plant and Equipment (PPE).

The Council received a whistleblowing allegation with respect to its valuation processes in the financial year ended 31 March 2016 which led to a significant

exercise being undertaken to review the Council's entire PPE portfolio to assess its completeness, existence and valuation and significant adjustment being required to the asset valuations previously reported. This work continued throughout the 2016/17 year of account. This provides evidence of weaknesses in proper arrangements for informed decision making.

- Governance issues and management of major projects

Derby City Council was the subject of a public interest report issued by Grant Thornton in June 2016 in relation to identified failures of governance at Derby City Council in the management of major projects and in relation to Member conduct.

The recommendations made in the public interest report are evidence of weaknesses in proper arrangements for informed decision making.

- Maintaining a sound system of internal control

We found that some of the basic financial controls were not working as expected, for example, the regular completion and review of reconciliations was not timely. This increases the risk of fraud or errors remaining undetected and provides evidence of weaknesses in proper arrangements for informed decision making. In July 2017 we issued a statutory written recommendation to the Council with respect to these issues.

- Working with third parties effectively to deliver strategic priorities

Our observation is that the Council has not worked effectively with the Central Midlands Audit Partnership to deliver a robust internal audit function throughout the 2016-17 financial year. Reporting to the Audit and Accounts Committee by internal audit is superficial, we have not seen evidence of Officers being held to account for issues highlighted in internal audit reports but not addressed in a timely manner, nor evidence of challenge where risks are considered 'acceptable' by Officers.

Adverse conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are not 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 2017.

Certificate

In our report dated 19 December 2017, we explained that we could not formally conclude the audit on that date until we had completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We have now completed this work.

No matters have come to our attention since that date that would have a material impact on the financial statements on which I gave an unqualified opinion or a significant impact on our conclusion on the authority's arrangements for securing economy, efficiency and effectiveness.

We certify that we have completed the audit of the accounts of Derby City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

A handwritten signature in dark ink, appearing to read 'S R Clark', with a stylized flourish at the end.

Stephen Clark
for and on behalf of Ernst & Young LLP, Appointed Auditor
Birmingham
17 April 2018

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

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