

# Derby City Council

## 2005/06 Report to those charged with governance

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Ladies and Gentlemen

**2005/06 Report to those charged with governance**

We are pleased to present our report on the results of our audit work for 2005/06. We hope that the information contained in this report provides a useful source of reference for members.

Yours faithfully

PricewaterhouseCoopers LLP

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## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In March 2005 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

# Executive summary

## **The purpose of this report**

This report summarises the results of our 2005/06 audit of Derby City Council.

It covers the issues arising from our audit of the financial statements and those issues which we are formally required to report to you under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance".

It also includes the results of the work we have undertaken under the Code of Audit Practice in forming our opinion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our work during the year was performed in line with the plan that we presented to you in December 2005.

We have set out below the most important issues that have arisen during the course of our work.

## **Financial Statements**

We anticipate issuing an unqualified audit opinion on the financial statements.

There are no unadjusted misstatements for us to bring to the attention of members.

We have identified no material weaknesses in the Council's accounting and internal control systems during our audit.

The presentation of the final accounts and standard of working papers to support underlying transactions incorporated within the accounts were of a good standard.

There are no matters of irregular expenditure, fraud or misconduct, or poor standards of financial integrity that we need to bring to your attention.

## **Use of Resources**

We intend to issue an unqualified use of resources conclusion.

The Council achieved an overall use of resources score of 3 out of 4 and therefore an assessment of performing 'consistently above minimum requirements'.

Our initial data quality assessment has indicated that the Council has met minimum requirements. We anticipate concluding that the Council demonstrates at least 'adequate performance' or above in respect of data quality.

We have completed our work in respect of the 2005/06 Best Value Performance Programme. We were pleased to issue an unqualified opinion and we did not make any recommendations in relation to the programme.

# Financial statements

ISA 260 - "Communication of audit matters to those charged with governance" requires us to communicate relevant matters relating to the audit of the financial statements to those charged with governance of the entity, sufficiently promptly to enable them to take appropriate action. We have agreed with you that these matters should be communicated to members through this letter.

## **Audit opinion**

We have completed the audit of the Authority's accounts in line with the Code of Audit Practice and Auditing Standards. We intend to issue an unqualified audit opinion on the financial statements.

## **Unadjusted misstatements**

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. We are pleased to advise that none of the misstatements identified during our work have been deemed as non-trivial.

We would also use this report to bring to your attention any misstatements which have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities. There are no significant misstatements of this type to bring to your attention.

## **Systems of internal control**

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit. We have reported to

management a small number of minor control issues identified during the course of our work. We have identified no material weaknesses in the Council's accounting and internal control systems during our audit.

## **Accounting practices**

We are also required to report to you our view on qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority.

We are pleased to report that the presentation of the final accounts and standard of working papers to support underlying transactions incorporated within the accounts were of a good standard.

As part of our audit work on the financial statements, we have also considered other qualitative aspects of the Council's accounting practices and financial reporting, including:

- the appropriateness of accounting policies to the particular circumstances of the Council;
- the timing of transactions and the period in which they are recorded;
- the appropriateness of accounting estimates and judgements, for example in relation to provisions included in the accounts;
- potential effects on the financial statements of any uncertainties including

significant risks and exposures;

- the extent to which any unusual or one-off transactions affect the financial statements, and the adequacy of the disclosures relating to such transactions; and
- disagreement about matters which, either individually or in aggregate, could be significant to the financial statements or our report.

There are no significant matters arising from this work.

### Other matters

There were a number of minor issues which we identified during the course of our work which do not impact on our audit opinion. We have agreed with the Corporate Director of Resources that these issues will be addressed during the current financial year. For information, these issues are summarised below:

- The Housing Revenue Account includes a £330,000 brought forward provision for bad debts in relation to a scheme set up in 2002 for the leasing of white goods to housing tenants. The requirement for this provision has not been reviewed for a number of years. We recommend that management review the level of this provision in relation to the current level and recoverability of outstanding debt.
- As part of our final audit we reviewed the reconciliations that are carried out in each of the key financial cycles at the year end. We noted that a small number of reconciliations had not been promptly performed or evidenced as having been reviewed following the year end. In addition, reconciling items remained unresolved on the some reconciliations which were performed at the year end, although the amounts concerned were not material. We understand that management have reviewed the arrangements for performing key reconciliations and have introduced a formalised process whereby the performance of reconciliations in 2006/07 is monitored. We recommend that the monitoring is used to ensure the timely completion and review of reconciliations.

There are no matters that we need to bring to your attention in respect of any other relevant matters arising from the audit of the financial statements, including our work on financial standing, legality and standards of financial conduct, the prevention and detection of fraud and corruption and electors questions or objections relating to the financial statements.

# Use of Resources

## Work performed

In accordance with the Code of Audit Practice, we have performed work to conclude on the Authority's arrangements for achieving economy, efficiency and effectiveness in its use of resources. Our work to support our conclusion comprised the following elements:

- Use of Resources assessment for CPA:
  - Financial Reporting
  - Financial Management
  - Financial Standing
  - Internal Control
  - Value for Money
- Mandatory Data Quality Review work
- Review of the Statement on Internal control
- Audit of the Best Value Performance Plan

## Use of Resources Conclusion

Under the new Code of Audit Practice we are required to provide a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. This conclusion is reached by assessing the Authority's arrangements against a set of criteria issued by the Audit Commission. Our conclusion is based on the use of resources assessment undertaken in October 2005 as part of the CPA process and updated as necessary, our Local Government data quality work, and other information that came to our attention during the course of our audit work.

In reaching this conclusion, we are required to have regard to 12 Code of Practice criteria published by the Audit Commission. These Code criteria are linked to the CPA and Data Quality Review Key Lines of Enquiry (KLoEs). A score of Level 2 or higher in relation to the KLoEs will usually result in an assessment of 'adequate' arrangements for the purpose of the Code criteria. Appendix A shows the linkage between the criteria and CPA and Data Quality Review KLoEs

We intend to issue an unqualified use of resources conclusion.

## Data Quality work

We have undertaken a review of management arrangements in respect of data quality, in the context of the provision of accurate Best Value Performance Indicators prepared by the Council.

Our initial data quality assessment has concluded that the Council has overall met minimum requirements on the above criteria and has therefore achieved an assessment of at least 'adequate performance' in this area. This assessment is subject to us discussing our detailed findings with your officers. However, we do not expect this score to be amended downwards upon the completion of our work.

#### **Statement on Internal Control**

We reviewed the Statement on Internal Control to consider whether it complied with CIPFA guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern.

#### **Best Value Performance Plan**

Our work on the 2005/06 Best Value Performance Plan (BVPP), issued by the Authority in June 2005, did not identify any matters to report upon. Our audit report on the BVPP was issued in December 2005. Our work on the 2006/07 BVPP forms part of our 2006/07 audit work.



# Audit fee update

## Audit fees update for 2005/06

We reported our fee proposals as part of the Audit Plan for 2005/06.

Our actual fees were in line with our proposals.

Our fees charged were:

|                  | 2005/06 Outturn | 2005/06 Fee proposal |
|------------------|-----------------|----------------------|
| Accounts         | £187,500        | £187,500             |
| Use of Resources | £65,000         | £65,000              |
| <b>Total</b>     | <b>£252,500</b> | <b>£252,500</b>      |

The fees set out above exclude those fees relating to the work of the Audit Commission's Relationship Manager.

The outturn fees for 2004/05 were £187,500 (Accounts) and £75,000 (Use of Resources).

# Appendix A: Use of Resources conclusion

The Audit Commission has published 12 Code of Practice criteria on which auditors will be required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its Use of Resources for 2005/06.

These code criteria are linked to the 2005/06 CPA and Data Quality Review Key Lines of Enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment of adequate for the purposes of the Code criteria. The Code criteria and the linked KLoEs are shown in the table below:

| Code Criteria | Description  | Associated KLoE | 2005/06 CPA Score   | 2005/06 Use of Resources Conclusion |
|---------------|--|-----------------|---------------------|-------------------------------------|
| 1             | The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.   | N/A             | N/A                 | Adequate                            |
| 2             | The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.           | N/A             | N/A                 | Adequate                            |
| 3             | The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members. | N/A             | N/A                 | Adequate                            |
| 4             | The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.  | LG DQ KLoEs     | At least 'adequate' | Adequate                            |
| 5             | The body has put in place arrangements to maintain a sound system of internal control  | 4.2             | Level 3             | Adequate                            |

| Code Criteria | Description  | Associated KLoE | 2005/06 CPA Score | 2005/06 Use of Resources Conclusion |
|---------------|--|-----------------|-------------------|-------------------------------------|
| 6             | The body has put in place arrangements to manage its significant business risks.   | 4.1             | Level 3           | Adequate                            |
| 7             | The body has put in place arrangements to manage and improve value for money.  | 5.2             | Level 3           | Adequate                            |
| 8             | The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities. | 2.1             | Level 4           | Adequate                            |
| 9             | The body has put in place arrangements to ensure that its spending matches its available resources.  | 3.1             | Level 4           | Adequate                            |
| 10            | The body has put in place arrangements for managing performance against budgets.   | 2.2             | Level 3           | Adequate                            |
| 11            | The body has put in place arrangements for the management of its asset base.   | 2.3             | Level 3           | Adequate                            |
| 12            | The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.                                 | 4.3             | Level 4           | Adequate                            |

*In the event that, pursuant to a request which Derby City Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Derby City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Derby City Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Derby City Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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