

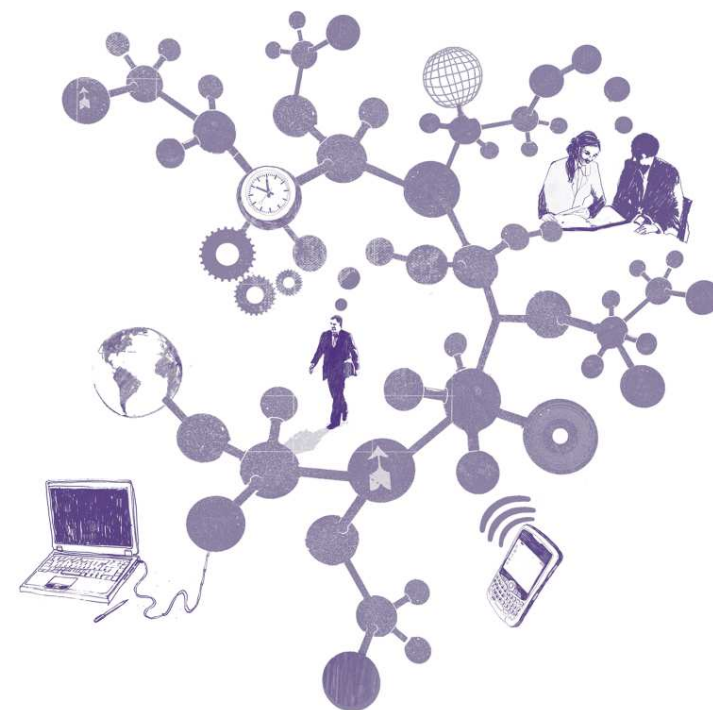
The Annual Audit Letter for Derby City Council

Year ended 31 March 2014

27 October 2014

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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.

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Derby City Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued 12 March 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Financial statements audit (including audit opinion)	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 24 September 2014 to the Audit and Accounts Committee. The key messages reported were:</p> <ul style="list-style-type: none">• We have identified five adjustments affecting the Council's reported financial position. The draft financial statements recorded a net surplus of £161,258k; the audited financial statements show a net surplus of £190,230k. Most of this change relates to the audit adjustments for revaluation of property, plant and equipment, the equal pay provision and the Affordable Housing PFI asset impairment.• We identified a significant number of audit adjustments during the course of the audit. Management have adjusted the financial statements for all these misstatements.
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	<ul style="list-style-type: none">• We experienced significant delays in obtaining some supporting evidence for our testing.• We have also identified a number of adjustments to improve the presentation of the financial statements. <p>We issued an unqualified opinion on the Council's 2013/14 financial statements 26 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
Value for Money (VfM) conclusion	<p>We issued an unqualified VfM conclusion for 2013/14 on 26 September 2014.</p> <p>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 2014.</p>

Key messages

Whole of Government Accounts	We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements.
Certification of grant claims and returns	Our work on certification of grant claims is on-going. Our work to date has not identified any issues which we wish to highlight. The detailed findings of our work will be reported in our Grant Certification report upon completion of our work.
Audit fee	Our fee for 2013/14 was £198,941 compared with the planned fee and fee for last year of £189,000. Further detail is included within appendix B.
Certificate	We are unable to issue the certificate to certify the 2013/14 audit is closed. This is because we are awaiting the outcome of the Council's work to investigate issues relating to failures of governance highlighted in the Council's Annual Governance Statement.

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible officer/ due date
1.	<p>We identified a significant number of audit adjustments during the course of the audit. We also experienced significant delays in obtaining some supporting evidence for our testing.</p> <p>Recommendation: The Council should review its quality assurance arrangements and level of resources for producing the financial statements and responding to audit queries.</p>	High	<p>As for all previous years we will conduct a post audit review of our arrangements for preparing the Councils accounts. Quality assurance and response times will be key consideration and will be shared across relevant parties within Directorates. The level of resources assigned to the closure of the accounts will be subject to overall resource levels across the service and the Council.</p> <p>Responsible officer: Corporate HoF Due date: March 2015</p>
2.	<p>Internal Audit has reported a number of weaknesses in its review of payroll and gave only limited assurance. In common with Internal Audit we had long delays in receiving information from the payroll department and in a number of instances the information provided was incomplete. This resulted in significant delays to the audit of payroll expenditure.</p> <p>Recommendation: The Council should ensure that the payroll weaknesses identified by Internal Audit are addressed as a priority. In addition, a review of the arrangements for filing and retrieval of HR files should be carried out.</p>	High	<p>The Council takes weaknesses identified very seriously. The Chief Executive has initiated a review of the HR service of which this will form part.</p> <p>Responsible officer: Interim Director of HR Due date: March 2015</p>

Appendix A: Key issues and recommendations

No.	Issue and recommendation	Priority	Management response/ responsible officer/ due date
3.	<p>We identified a control weakness from our testing of welfare expenditure. The Academy System allows claims to be set up with the same national insurance number as a claim already in progress. The weakness could lead to fraudulent activity.</p> <p>Recommendation:</p> <p>The Academy System should automatically generate a warning message if a national insurance number is duplicated or entered in an incorrect format.</p>	Medium	<p>The identified weakness will be corrected in a new software release due by the year end.</p> <p>Responsible officer: J Massey Due date: March 2015</p>
4.	<p>Our review of the Council's ICT arrangements identified the following weaknesses:</p> <ul style="list-style-type: none"> • Lack of updated information security policies – network • Lack of user access rights review – network and payroll • Lack of robust password controls – network and payroll • No automatic notification of leavers – all applications • Back-up testing/restoration is not routinely performed – payroll • Lack of robust change management processes – network • Lack of proactive review of audit logs – all applications <p>Recommendation:</p> <p>The Council should ensure that the ICT weaknesses identified are addressed as a priority.</p>	High	<p>We have responded directly on the ICT weakness issues raised. Seven issues were raised, all of which are accompanied by appropriate management responses, with lead officers and deadlines.</p> <p>Responsible officer: Various</p>

Appendix A: Key issues and recommendations

No.	Issue and recommendation	Priority	Management response/ responsible officer/ due date
5.	<p>We noted that 17% of annual declarations had not been returned by Members. There is the potential for non disclosure of related party transactions regarding these Members.</p> <p>Recommendation: The Council should ensure that all annual declarations are returned by Members.</p>	Medium	<p>We will continue to remind members of the responsibility to return annual declarations, including via representatives from the Audit and Accounts Committee</p> <p>Responsible officer: Janie Berry Due date: March 2015</p>

Appendix B: Reports issued and fees

We confirm below the fee charged for the audit and provision of non-audit services

Fees

	Per Audit plan £	Actual fees £
Audit Fee	189,000	198,941
Grant certification fee	37,700	30,764
Total fees	226,700	229,705

There is an additional fee of £1,070 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for unitary authorities and is subject to agreement by the Audit Commission.

There is also an additional fee of £8,871 in respect of the additional work on financial statements as a result of the significant number of audit adjustments, the delays in obtaining some supporting evidence and the time spent in connection with the governance issues reported in the Council's Annual Governance Statement. This is subject to agreement by the Audit Commission.

Fees for other services

Service	Fees £
Assurance statement to the Regional Growth Fund	6,050

Reports issued

Report	Date issued
Audit Committee Update	27 February 2014
Certification work plan	11 March 2014
Audit Plan	12 March 2014
Informing the Audit Risk Assessment	26 March 2014
Audit Findings Report	15 September 2014
Annual Audit Letter	27 October 2014



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