Derby City Council

Annual Audit Letter for the year ended 31 March 2020

May 2021

EY

Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Derby City Council (the Council) following completion of our audit procedures for the year ended 31 March 2020.

Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
▶ Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.
Impact on our risk assessment	
▶ Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
▶ Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
▶ Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Council.
Impact on the scope of our audit	
▶ Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk: ▸ Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and ▸ Agree IPE to scanned documents or other system screenshots.
▶ Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	Unqualified – the financial statements do give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
► Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We conclude that a qualified 'except-for' conclusion with respect to your arrangements over working with third parties effectively to deliver strategic priorities in relation to implementing the disability and special educational needs (SEND) reforms.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 04 November 2020.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We issued our audit completion certificate on 30 April 2021.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Helen Henshaw
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 04 November 2020 Audit and Accounts Committee, representing those charged with governance. We also wrote to the Chair on the Committee to communicate the results from the remaining areas of the audit. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 04 June 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 30 April 2021.

Our detailed findings were reported to the November 2020 Audit and Accounts Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	We did not identify any matters to report to the Audit Committee.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Risk of fraud in revenue and expenditure recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Having considered the factors for expenditure recognition, we believe the risk is focused on year-end balance sheet and in particular the completeness and valuation of creditors and the existence and valuation of debtors. There is also a risk of incorrect cut-off in relation to revenue and or expenditure leading to transactions being reported in the wrong period. We also believe the risk is linked to the existence of capital expenditure arising from the potential to incorrectly capitalise revenue expenditure.	We reported the following matters as a result of our audit procedures: Revenue expenditure funded by capital under statute (REFCUS) had been incorrectly classified as capital expenditure by £1m. Overstating capital expenditure and understating REFCUS. The income and expenditure internal recharges disclosed at Note 8 – expenditure and Income analysed by nature, were understated by £4m, We further identified, £2.2m of recharges had also been omitted in prior year, as the value is not material, the accounts have not been adjusted for the error. There is no impact to the net income and expenditure disclosed on the comprehensive income and expenditure statement Receipts in advance were incorrectly classified as short term creditors. £348k has been reclassified as long term creditors. The accounts were adjusted for these findings and we were satisfied that the level of undetected misstatements is sufficiently low to enable us to conclude that no material misstatement has arisen as a result of fraud in revenue and expenditure recognition.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Risk Valuation of land and buildings Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. The fair value of other land and buildings represents a significant balance in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. The Authority has rolling valuation process , which annually values 20% of the land and building assets, is subject to a number of assumptions and judgements, which if inappropriate could result in a material impact on the financial statements. There is a potential risk of material misstatement that the remaining 80% of unvalued assets may have experienced a material change in value which has not been identified and accounted for correctly.	The Authority's valuer included a material uncertainty sentence in their valuation report. We have reviewed the asset classes, valuation methods and potential uncertainty impact of Covid 19 to the valuations. The assessment concluded the material uncertainly is specific to the assets valued using fair value, these are the surplus assets, assets held for sale and investment properties held by the council, totalling £21m, out of £1,164m. The council has updated note 6, Assumptions made about the future and other major sources of estimation uncertainty, highlighting the 'material valuation uncertainty' declaration and that it does not mean that the valuations cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. Further the material uncertainty clause is to serve as a precaution and does not invalidate the valuation. Given the unknown future impact that COVID-19 might have on the real estate market and the difficulty in differentiating between short term impacts and long-term structural changes. The Council are keeping the valuations under review.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Risk Valuation of land and buildings (continued)	Our valuation specialist has reviewed the valuation methods used by management's specialist valuer. We draw to your attention the Industrial Museum – Silk Mill, the asset is undergoing enhancements with circa £16 million being spent over 2 years, The cost of enhancements to the property have not been recognised as at 31 March. Normally, our expectation would be that a specialized asset such as this which is effectively undergoing redevelopment would be categorized as Assets Under Construction and held at cost incurred, subject to testing for impairment through the redevelopment period. We noted, in this case, whilst some of the grants are being routed through the Council, the Council is not paying for the refurbishment – nor are they in control of the project which is being managed by the Trust and therefore it would be inappropriate to recognise any enhancement prior to completion of the project. The agreed approach therefore is to recognize the property at a value which reflects its unimproved state prior to the works – in effect, a large, listed building which could be put to a range of uses but which would most likely attract a secondary rent. As a way of establishing a base value for the asset (i.e. land value plus some value for the existing, unimproved buildings). The resultant value reflects a significant discount from more standard commercial buildings and reflects the bespoke nature and unimproved condition of the property prior to the works. Clearly as at 31 March 2020, this building was undergoing refurbishment and was not capable of being let. Our review confirms the value included as at 31 March 2020 reflects its unimproved state prior to the works, and does not capture the value of the improvement works undertaken and this should be fully appreciated. Upon completion, a DRC valuation of the museum will be undertaken and the Council will recognize the property on its balance sheet at the resultant value. The Council has included a disclosure within their PPE note, to explain this and that an uplift in value for this asset will occur in the year ending 31 March 2021. Once the building is completed and operational then a Depreciated Replacement Cost (DRC) valuation should be undertaken.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Derbyshire County Council. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	Following the conclusion of the McCloud judgement, the Authority requested an update to the Actuary report to take into consideration the impact of the judgement, the revised actuary report indicated the pension liability had been overstated by £2.9m, the Authority have updated their accounts. We received an IAS19 assurance letter from the Pensions fund auditor which highlighted a number of issues impacting the figures reported in the Derby City Council statement of accounts the combined impact of which was a £1.18m overstatement of the pension fund liability. Management did not adjust the financial statements for this on the grounds of immateriality.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
PFI Financing The Authority has a number of assets held under PFI arrangements. Four of these are recorded on the Authority's balance sheet, one is not. Such arrangements are complex and substantial in value.	We did not identify any matters to report to the Audit Committee.
Accounting for SinFIn Waste Plant Derby City Council and Derbyshire County Council contracted with Resource Recovery Solutions Derbyshire (RRS) to manage the Sinfin Waste Plant. The waste treatment centre was due to open in Sinfin in 2017, but RRS has been unable to resolve ongoing issues that would allow the facility to pass the certified performance tests required to bring it into full service. In April, the two councils issued a formal notice to the project's funders to take action under the contract to progress the project. The agreement with RRS to manage the Sinfin Waste Plant was cancelled in August 2019 when the banks funding the project issued a legal notice. There is a risk that any associated transactions are not accurately accounted for in the financial statements.	We reviewed the transactions associated with SinFIn and noted that spend to date to secure the site and carry out viability assessment has been capitalised. There is a risk, should the Authority not progress with the waste plant, the expenditure will need to be written off to revenue. We have recommended the Authority disclose the costs to date, and its impact, to the fair value of the asset and risk should the asset not be purchased. In addition we will request management representation from the Audit Committee and management confirming the costs incurred to date should be capitalised. When we wrote to the Chair of the Audit and Accounts Committee in April 2021 we noted that the Council remained at stage 2. We recommended that the Committee monitor the progress of the decision making process to ensure that sufficient challenge and oversight is given to the speed with which decisions are made and action taken to resolve the situation, particularly in the light of operational challenges in similar waste plants in other entities where the plants failed to ever deliver sufficient productivity
Recognition of grant income The Authority has received additional funding in the form of grants as a result of the Covid-19. There is the potential for the recognition and treatment of these grants to be manipulated to improve the reported position	We have tested the grant income received as a result of Covid -19, and have assurance the grant income has been accurately recorded and recognized in the correct period.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Going Concern	We did not identify any matters to report to the Audit Committee.
Information Produced by the Entity (IPE)	We undertook the following to address this risk: used the screen sharing function of Skype to evidence re-running of reports used to generate the IPE we audited; and agreed IPE to scanned documents or other system screenshots.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality for the council to be £6.55m, which is 1% of prior year gross revenue expenditure reported in the accounts of £655 million. We determined planning materiality for group to be £6.5m, which is 1% of prior year gross revenue expenditure reported in the accounts of £650 million. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit & Accounts Committee that we would report to the Committee all audit differences in excess of £0.33m.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits:
- Related party transactions.
- We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

Value for Money

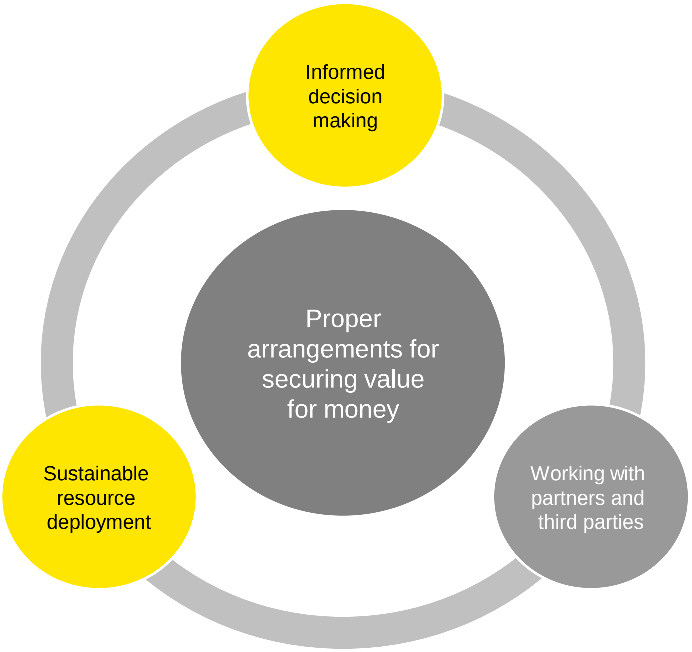
Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider NHS bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.



We identified 4 significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention. As a result of our procedures, we conclude that a qualified 'except-for' conclusion with respect to your arrangements over working with third parties effectively to deliver strategic priorities in relation to implementing the disability and special educational needs (SEND) reforms.

We have performed the procedures outlined in our audit plan to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Value for Money (cont'd)

Significant Risk	Conclusion
Results of regulatory reviews and commentary During June 2019, Ofsted and the Care Quality Commission (CQC) conducted a joint inspection of the local Derby area to judge the effectiveness of the area in implementing the disability and special educational needs (SEND) reforms. The inspection raised significant concerns about the effectiveness of the local area and a written statement of action to Ofsted that explains how the local area will tackle the following areas of significant weakness is to be submitted: the failure of the local area to take the joint commissioning actions required to implement the reforms across education, health and social care; the lack of an overarching coproduced strategy for improving provision for and outcomes of children and young people with SEND; the number of significant weaknesses in the EHC processes, timeliness, quality and outcomes of plans; the long-standing systemic issues with waiting times to access a large number of key services; poor parental engagement with plans for local area SEND provision and high levels of parental dissatisfaction.	Nationally the looked after children and SEND service provision has seen increased pressures, specifically for SEND. We have obtained the written statement of action to the inspectorate, which details plans to address the significant weaknesses highlighted. We note the Authority has a clear action plan with dates to complete implementation. The inspectorate reviewed the action plan and wrote to the Authority in December 2019, and concluded the statement of action is deemed to be fit for purpose in setting out how the local area will tackle the significant areas of weakness identified in the published report letter. However, some minor improvements are required noting many actions have quite short time frames for completion, therefore these timescales may require further review to ensure they are fully achievable. It is clear from discussions with officers, the significant weaknesses highlighted by the report have been understood by the Authority and addressing the weaknesses was a key priority for 2019/20. On review of the significant weaknesses highlighted by the report we have concluded that the Authority's arrangement, to work effectively with partners to deliver required services and outcomes to the local population specifically over SEND, were not in place throughout 2019/20 and a qualified 'except-for' has been issued.

Value for Money (cont'd)

Significant Risk	Conclusion
Results of regulatory reviews and commentary From the medium term financial strategy (MTFS), updated in February 2020, the Council has identified it will experience budget gaps across the next three years ranging from £3.1m in 2021/22 and decreasing to £2.9m in 2022/23. The proposed saving planned over the three years total £8.8m, with £4.7m planned in 2020/21. A one off £2.7m use of reserves is to be utilised to fund the collection fund deficit in 2020/21. Going forward the Council will need to reassess its financial strategy in light of Covid-19 and the impact to its financial plans, to achieve budget savings in order maintain delivery of Council services, and to enable it to hold an adequate level of useable reserves.	We have performed the work as set out in our Audit Plan and are satisfied that based on the evidence reviewed, the Authority has put in place adequate arrangements to address this significant risk. In forming this view, and at the time of issuing our conclusion we noted that; The Authority set a budget of £224.6m and a £7.813m savings target for 2019/20, our work confirmed the savings target was delivered, however the balanced position was achieved after use of the Budget Risk reserve of £6.195m. The 2020/21 budget set of £238m in February showed the Authority will be using reserves of £2.77m, to balance the budget, and a savings requirement of £4.746m. At Quarter 1, the forecast was an overspend of £8.3m and the expectation that £2.970m savings will be delivered. The Authority's current full year potential forecast pressure is £28.7m as a result of Covid-19 and have received £17.3m in government funding. The Authority expect to receive further funding in the form of income guarantee allocation, if no further funding is made available, the Authority will require £11.9m reserves funding to meet the pressure. In 2020/21 the council had planned to use of reserves of £2.772m however £2.580m of this is to the fund collection fund deficit, the £11.9m is in addition to the planned use of balances of £2.7 million from the General reserve which are unmarked funds. By way of context, reserves as at 31 March 2020 were £215.5 million (subject to year-end adjustments and audit). The revenue earmarked reserves held by the Council total £84.827m, plus £10.933 general fund. The revenue reserves include a £13m Budget Risk Reserve and a £7m Covid 19 Reserve. Therefore the use of revenue reserves of £11.9million would not leave the Council exposed in 2021/22. It would reduce the earmarked reserves from £84.8m by £11.9m, the latest monitoring report shows there are other pressures over and above Covid-19, which would also require use of reserves, this would reduce the earmarked reserves to £53.6m, plus £10.933 general fund, a total of £64.533m revenue reserves. The latest medium term finance plan, forecasts a declining use of reserves through 2021/22 to 2023/24. We note that the MTFP and the process of identifying achievable savings and quantifiable pressures is sufficiently robust. Adequate plans and reporting is in place to deliver and monitor the identified savings. We conclude that the robustness of the MTFP has no impact on our VFM conclusion.

Value for Money (cont'd)

Significant Risk	Conclusion
Sinfin Waste Management Derby City Council and Derbyshire County Council contracted with Resource Recovery Solutions Derbyshire (RRS) to manage the Sinfin Waste Plant. The waste treatment centre was due to open in Sinfin in 2017, but RRS has been unable to resolve ongoing issues that would allow the facility to pass the certified performance tests required to bring it into full service. In April, the two councils issued a formal notice to the project's funders to take action under the contract to progress the project. The agreement with RRS to manage the Sinfin Waste Plant was cancelled in August 2019 when the banks funding the project issued a legal notice. The Councils are currently in a 6 stage process to assess the options available	We have held discussions with the Council Officers to understand the assessment undertaken and planned course of action. The key decisions were communicated to the Authority in a timely manner, the meetings held were as follows : Cabinet – 20 September 2018 Cabinet – 12 December 2018 Cabinet – 28 February 2019 Urgent Leaders report – 2 August 2019 There has also been an Audit and Accounts Risk Surgery on 11 June 2020. The Authority is currently at stage 2 of the decision making process and we will continue to monitor this as the Authority progresses to each stage of the process. We have not noted any weakness in arrangement arrangements for informed decision making and therefore there is no impact on our VFM conclusion.

Value for Money (cont'd)

Significant Risk	Conclusion
Significant overspend on capital projects The A52 improvement project is a significant capital project, which is still ongoing. In 2018/19, we reported the project had been subject to substantial overspend, which highlighted reporting and control issues. This provided evidence of weaknesses in proper arrangements for informed decision making, sustainable resource deployment and working with partners and other third parties. Assembly rooms - The latest projections show that the project will now cost £30 million, £6 million more than the £24 million budget, calling into question the sustainability and viability of the business case for a renewed Assembly Rooms. Work on the project has now been stopped while an in-depth evaluation takes place and consideration is given to the appropriate next steps and the options going forward. We will continue to monitor progress of the A52 improvement project and the assembly rooms in 2019/20.	The Authority created the Project Management Office (PMO) in September 2018, aimed at improving the oversight, monitoring and reporting of capital projects. The Authority has continued with the reporting by project teams to ensure project risks and issues are reported and considered by the senior leadership team. We have not noted any weakness in arrangement arrangements for informed decision making. The progress of the A52 Transport Improvement scheme and Assembly rooms followed the process set up by the Authority and are summarised below: A52 Transport Improvement scheme - we note slippage of (£1.036m) and was reported as part of the capital outrun report, This is due to the February works (£0.928m) which were less than forecast because of a delay in surfacing caused by wet and cold weather and a delay in the works to install the attenuation tanks due to protracted design certification. The budget for the speed cameras (£0.108m) has been slipped because the installation programme has been re-arranged around other site activities. Assembly rooms - the Authority reported to the Cabinet on 15 July 2020, of the options available, with a recommendation to be demolish the existing building and have the performance venue in Becketwell. It is anticipated that £10.750 million of the existing budget approved for the refurbishment of the Assembly Rooms will be available to be redirected into the Becketwell Performance Arena business. This is net of abortive costs on the Assembly Rooms, estimated demolition costs and the refunding of external funding previously secured from the LEP. New External Funding is being sought for the new Performance Venue at Becketwell which if secured would reduce the net borrowing costs. We have not noted any weakness in arrangements for informed decision making and therefore there is no impact on our VFM conclusion.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We have completed our work and have no matters to bring to the Committee's attention.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Accounts Committee on 04 November 2020. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit. We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Section 6

Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It was proposed that IFRS 16 (Leases) would be applicable for local authority accounts from the 2021/22 financial year, deferred a year due to the impact of Covid-19. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. However in response to the ongoing pandemic and its pressures on council finance teams, the CIPFA LASAAC Local Authority Accounting Code Board has announced that the implementation of IFRS 16 in the Code of Practice on Local Authority Accounting in the UK (the Code) will be deferred until the 2022-23 financial year. This decision brings the Code in line with the decision by the Government’s Financial Reporting Advisory Board to put back the effective date for the implementation of the standard to 1 April 2022. CIPFA LASAAC has indicated that the deferral is limited to one year only and that there is no intention to grant any further extensions based on a lack of preparedness. The announcement is available on CIPFA’s website.	There are transitional arrangements within the standard and It is assumed this will be reflected in the 2021/22 Accounting Code of Practice for Local Authorities when published. CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.

Section 7

Audit Fees

Audit Fees

The table below sets out the final audit fee for the 2019/20 audit which is subject to approval by PSAA Limited.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Final Fee 2018/19 £
Annual Audit Fee – Code work	109,766	109,766	109,766
Additional audit fee (scale fee variation to rebase the scale fee to a sustainable level – as communicated in our audit plan)	138,869	155,117**	N/A
Additional audit fee (additional costs incurred specific to the current year audit)*	64,813	N/A	42,000
Total Audit Fee	**313,448**	**264,883**	**151,766**
Total Non-audit work	31,346	31,346	31,346
Total Fees	**344,794**	**296,229**	**183,112**

*There have been specific additional costs incurred in the delivery of the 19/20 audit which can be summarised as follows:

Property, Plant and Equipment – valuation	£10,766
Going concern	£6,372
Value for money qualification and risks	£15,080
Pension valuation	£5,119
Group audit requirements	£3,727
Covid 19 – reassessment of audit risks	£2,127
Delays in receipt of required audit evidence	£14,697
Technical accounting issues in respect of Sinfin Waste Plant	£4,700
Internal recharges error	£2,225
Total	**£64,813**

** As reported in our Audit Planning Report dated 4 June 2020

Note that the £155,117 reported in the audit plan was made up of specific 19/20 specific additional charges which could be anticipated at the time of the plan, together with our estimate of the extent to which the scale fee should be uplifted to reflect the changing risk profile and regulatory requirements of the sector.

These elements have been separated our in our Final Fee analysis now that the audit is complete and all factors influencing the cost of service are known.

We have discussed the scale fee variation with management who agree elements of the fee but not all of the fee. It is subject to approval by PSAA Limited.

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