Derby City Council

Annual Audit Letter for the year ended 31 March 2016

26 September 2017

Ernst & Young LLP

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working world

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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)

The 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 23 February 2017)'' 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 Annual Audit Letter 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 Steve Varley, 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.

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 2016.

Below are 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 give a true and fair view of the financial position of the Council as at 31 March 2016 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 concluded that you have not put in place proper arrangements to secure value for money in your use of resources.

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	Our predecessor, Grant Thornton LLP, issued a report in the public interest in June 2016. The report highlighted various matters of concern with respect to the Council's Governance arrangements (both historic and ongoing), Member/Officer relations, and Procurement and Project Management arrangements.
▸ Written recommendations to the Council, which should be copied to the Secretary of State	In June 2017, we used our statutory powers under Section 24 of the Local Audit and Accountability Act 2014 and issued written recommendations to the Council. This followed significant delays in the finalisation of the Council's 2015/16 Statement of Account and an unacceptable length of time being taken to respond to and correct control weaknesses identified in our audit procedures, and communicated to the Audit and Accounts Committee in September 2016.
▸ Other actions taken in relation to our responsibilities under the Local Audit and	We had no matters to report.

Accountability Act 2014

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	Given the significant delay in publishing the Final Statement of Account, we have been informed by the National Audit Office that they do not require any reporting from us in this regard for 2015-16.

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 7 September 2017.
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.	Our certificate was issued on 19 September 2017.

In December 2016 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

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

Stephen Clark

Partner
For and on behalf of Ernst & Young LLP

Purpose

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 2015/16 Audit Results Report to the 19 September 2017 Audit and Accounts Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 23 March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
    - On the 2015/16 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 thy 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 you Whole of Government Accounts return. Given the significant delay in publishing the Final Statement of Account, we have been informed by the National Audit Office that they do not require any reporting from us in this regard for 2015-16.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. 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.

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's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 19 September 2017.

Our detailed findings were reported to the 19 September 2017 Audit and Accounts Committee.

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

Significant Risk	Conclusion
Management override of controls	
A risk present on all audits is that 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. Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.	► Inappropriate capitalisation of revenue expenditure We have performed substantive testing of both additions to Property, Plant and Equipment (PPE) in the year, and the existence of PPE capitalized in prior years. Our existence testing identified £5.5m of parks and open spaces which did not exist. The Council have amended the financial statements to remove this balance. In selecting our samples for testing for valuation we selected material assets. All were found to exist. This therefore provides us with assurance that the £5.5m of parks was an isolated error and is unlikely to be representative of the population. Taken together with the audit procedures we have performed over PPE, we believe that these errors were a result of poor maintenance of the asset register rather than deliberate management override of controls.
For Derby City Council we considered that this risk presented itself in: ► The risk of inappropriate capitalisation of revenue expenditure. ► The determination of accounting estimates.	► Determination of accounting estimates We have reviewed accounting estimates for evidence of management bias. We found errors in the valuation of property plant and equipment, as well as the methodologies used for calculating debt provisions. The Council amended the draft financial statements to correct the errors found. Further investigations led us to conclude that these errors were the result of a poor control environment at the Council rather

► The posting of manual journals to the general ledger.	than deliberate management override of controls. ► The posting of manual journals to the general ledger We have used our analytics tools to focus our testing on specific risk characteristics identified at the planning stage of our audit. Our testing has not revealed any indicators of management override of controls. In addition, due to the extended time and number/value of journals posted between preparation of the draft and final versions of the statement of accounts, we updated our journal entry testing to cover all journals covered in the period 1 April 2016 – 31 July 2017 into the 15/16 general ledger. No issues were noted as a result of this work.
Revenue and expenditure recognition Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. For Derby City Council we consider that this risk presents itself in other service expenses. We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.	Our testing focussed on the Council's main income/expenditure streams. Specifically we: ► Reviewed and tested revenue and expenditure recognition policies; ► Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias; ► Developed a testing strategy to test material revenue and expenditure streams; ► Reviewed and tested revenue cut-off at the period end date; and ► Performed unrecorded liabilities testing. Various errors were found in our testing of creditors. These were caused by a variety of factors, many due to the weak control environment at the Council. The majority of the errors noted have been adjusted by management in the final statement of account. We considered the need to perform additional testing based on the nature and extent of errors detected as a result of our work but conclude that since most errors noted were small individually in value (less than our nominal amount) and most related to either a user posting error or as a result of the anticipated expenditure being accrued differing from the actual invoice amount when it arrived, a material error was unlikely to be detected from further testing.
Valuation of Property, Plant and Equipment (PPE) Land and buildings are the most significant balance in the	We have used our EY valuation specialists to understand the valuations methodologies adopted by the Council's Estates team, and the systems and

Council's Statement of Financial Position.

The valuation of land and buildings is subject to a number of assumptions and judgements and even a small movement in these assumptions could have a material impact on the accounts.

The Council has undertaken an extensive review of its asset valuations following concerns raised in October 2015 by a whistle-blower. This work was the reason for the delay in issuing the draft financial statements, and failing to meet the 30 June 2016 statutory publication deadline.

processes in place, and to perform testing of those valuations on a sampled basis.

Our initial testing revealed a large number of material errors in the valuation of PPE. As a result of these findings, in our Progress Report presented to the Audit and Accounts Committee on 28 September 2016 we stated that, "In summary, the issues noted with respect to the Council's asset portfolio are extensive and exceed those which were originally highlighted by the whistleblower. A significant amount of work needs to be undertaken by the Council to satisfy itself that the assets held on its balance sheet both at 31 March 2016 and 31 March 2015 are complete, exist, and are valued appropriately."

The Council presented a revised set of valuations for audit on 1 December 2016, from which we selected a sample of assets for further testing.

Various errors were found within these revised valuations, most significantly we noted inconsistencies in the assumptions applied which undermined the validity of the resulting building valuations. This led to the Council being unable to justify the valuations of school buildings presented for audit in December 2016.

At this point, the Council engaged external valuers – Cushman & Wakefield, and Innes England to value the 'other land and buildings' property portfolio. The valuations were performed at 31 March 2017 and then at the advice of the valuers 'rolled back' to earlier years where appropriate using indexation.

We have used our EY valuation specialists to review the revised valuations, following up our original sample of assets, and increasing that sample to reflect the types and extent of errors found. We are now satisfied that the valuations recorded in the financial statements at 31 March 2016 are free from material misstatement.

Other Key Findings	Conclusion
Valuation of Pension scheme assets and liabilities	Funding of the Council's participation in the local government pension scheme will continue to have an impact on both Council cash flows and balance sheet liabilities. The pension liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions could have a material impact on the balance sheet. Our approach has focussed on: ► Reviewing the output of the report from the Administering Council's actuary; ► Reviewing the assumptions used by the actuary to determine whether they are in our expected range; and ► Testing the journal entries for the pensions transactions to check that they have been accurately processed in the accounts. We have not identified any issues as a result of the work performed.
Equal Pay Provision	The equal pay provision at 31 March 2016 has been reduced to £280k. This reduction has been made as the Council has received very few claims after its Job Evaluation Review was announced. However, on 1 June 2016, Derby City Council implemented its job-evaluation scheme. 29 August 2016 was the cut-off date for equal pay claims and no further claims have been received. Many employees accepted their new terms of employment, but the Council needed to dismiss and re-engage a minority of employees. This led UNISON to ballot its school-based members. Discontinuous strike activity started in the city's schools on 16 June 2016. The issue was eventually settled at a level of financial liability to the Council which does not require adjustment to the Statement of Account in respect of post balance sheet events.
Backdated Non-Domestic Rates claims by NHS Trusts	The sector is subject to an emerging issue with respect to NHS Trusts and Foundation Trusts lodging applications to their Local Authority to claim backdated relief on the Non- Domestic Rates paid. The Council is in receipt of such applications. The likelihood and value of any possible settlement is unknown, and due to the scale of the issue, is unlikely to be known for some considerable time as test cases are put before the Courts. The Council have signed up to a Local Government Association (LGA) initiative to fight these

	claims on a national level. The Council has not included within its draft financial statements a provision in respect of this claim, nor disclosed the matter as a contingent liability. We agree with this treatment.
Private Finance Initiative (PFI) Arrangements	The Council has 5 PFI schemes (4 are recorded on the balance sheet, 1 is not). We have reviewed the Council's rationale for the on/off balance sheet treatment and concur with the treatment adopted. We have used our PFI specialist to perform a review of each of the schemes to obtain assurance that the schemes have been accounted for appropriately. Our work in this area has revealed that the assumptions used in the PFI models used by the Council to calculate the liabilities arising under the PFI models were not in compliance with the CIPFA code and guidance notes. The Council has posted a £6m prior period adjustment in the final statement of account with respect to the PFI schemes.
Deficiencies in internal control	Our audit procedures highlighted a significant number of errors in the draft statement of accounts. These errors were caused by a lack of robust internal controls at the Council. These control weaknesses and errors were first reported to the Audit and Accounts Committee in September 2016. At March 2017 the Council had not, in our view, made sufficient progress toward improving the internal control arrangements and so we exercised our powers under s24 of the Local Audit and Accountability Act 2014, making written recommendations to the Council with regard to the control deficiencies found.

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.

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 to be £6.9 million, which is 1% of gross revenue expenditure.

	We consider gross revenue 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 and Accounts Committee that we would report to the Committee all audit differences in excess of £346k.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

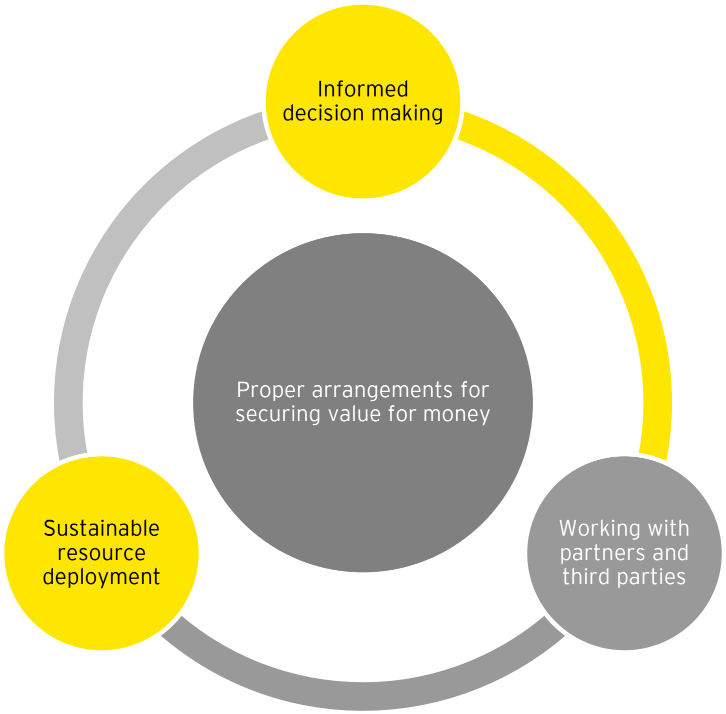
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on 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.



We identified significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified.

Significant Risk	Conclusion
Proper arrangements for informed decision making	The absence of a Medium Term Financial Plan (MTFP) for the majority of the year leads us to conclude that the Council does not have proper arrangements in place to ensure informed decision making. There was no corporate risk strategy in place that covered 2015/16. The public interest report issued by Grant Thornton in June 2016 made several recommendations with respect to issues continuing in the 2015/16 financial year which are relevant to the Council's arrangements for ensuring informed decision making. In addition, in year the Council received a whistle-blowing allegation with respect to the valuation processes and practices being used by the in-house Estates team. This has led to a significant exercise being undertaken by the Council to review and reperform asset valuations. Two members of staff have had their employment with the Council terminated. EY have involved our valuations experts. Our testing has revealed numerous issues with respect to the completeness of the asset register, the existence of assets on the register, the valuation techniques/assumptions being used, and the data management with respect to the fixed asset register entries and the valuations determined by the valuers. This has led us to conclude that the Council does not have proper arrangements in place in order to make informed decisions with respect to PPE. Whilst performing our audit procedures 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 (or in some cases not performed at all). This increases the risk of fraud or errors remaining undetected.
Proper arrangements for sustainable resource deployment	Since the Council have not had a MTFP in place throughout the entire period under audit, this demonstrates that they have 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
Working with partners and other third parties	We believe that the Council has not worked effectively with the Central Midlands Audit Partnership to deliver a robust internal audit function. 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.

As a result of the procedures we have performed, we identified significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued a qualified 'adverse' value for money conclusion on 19 September 2017.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We did not perform the procedures typically required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. Due to the extreme lateness of the final accounts for 2015/16, we have received confirmation from the National Audit Office that they do not require us to perform procedures regarding the Whole of Government Accounts submission.

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.

Our predecessor, Grant Thornton LLP issued a report in the public interest in June 2016.

The report highlighted various matters of concern with respect to the Council's Governance arrangements (both historic and ongoing), Member/Officer relations, and Procurement and Project Management arrangements.

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.

In June 2017 we issued a report containing recommendations concerning the Council's internal control arrangements designated under Section 24 of the Local Audit and Accountability Act 2014. This followed significant delays in the finalisation of the Council's 2015/16 Statement of Account and an unacceptable length of time being taken to respond to and correct control weaknesses identified in our audit procedures, and communicated to the Audit and Accounts Committee in September 2016

Objections Received

We did not receive any objections to the 2015/16 financial statements from member 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 19 September 2017. 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 approach and have therefore not tested the operation of controls.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

As communicated in our Recommendations made under Section 24 Schedule 7 (2) of the Local Audit and Accountability Act 2014 issued to the Council 27 June 2017:

Issue	Action	Who	When
A. Property, Plant and Equipment			
1. There were no reconciliations performed between the SAM system (used by the Estates team) and the RAM system (used by the finance team). This meant that the Council was unable to satisfy itself that the assets recorded in the financial statements were complete, exist, owned by the Council, and valued appropriately. A reconciliation has now been	**Agreed and accepted.** A formal process of review and reconciliation will continue on a quarterly basis. The reconciliation will be signed off by both system owners and evidence of review by senior managers documented. In the longer term an automated interface will be	MN JSW	Quarterly from June 2017 September 2017

Issue	Action	Who	When
performed at our request. **This reconciliation must be maintained going forward.**	developed to eliminate the need for data transfers by spreadsheet between SAM and RAM. Moving forward, the reconciliation should be extended to include the Legal team to ensure all titles are matched to property assets, and a plan will be developed. See later notes on key reconciliation processes		September 2017
2. All valuations are performed manually using Microsoft Excel. The data from the Excel spreadsheet is then manually entered into the SAM/RAM systems. The use of Excel spreadsheets to calculate valuations and the manual transfer of data from the spreadsheets to the SAM/RAM systems increases the risk of calculation errors occurring through accidental amendments to spreadsheet formulae and data loss or error on manual transfer from Excel to SAM/RAM. We have seen evidence of poor control over the valuation models in Excel which leads to errors and inconsistency of approach. **The Council must put in place robust controls over the data within the Excel valuation models and the transfer of such data to the SAM/RAM systems**.	**Agreed and accepted.** The use of spreadsheets without appropriate quality assurance and development controls can lead to the creation of erroneous data entry. The relevant spreadsheet model will be reviewed to ensure it is supported by appropriate documentation which describes its operation and to determine whether control totals can be built it to sense check data entry. In future, formal valuations will be prepared by an independent expert to eliminate the need for internal calculations. A procurement exercise will commence in July 2017 and information will be available for 2017/18 accounts preparation In addition the Estates team will be more closely engaged with the finance team throughout year end planning to ensure effective quality assurance is applied to data submission. This will be evidenced through 2017/18 year end closure timetable and plan.	MN JSW JSW MT	August 2017 July 2017 Sept 2017
3. The Council obtains significant amounts of data to support the asset valuations made. However, the source of the data is not always clear, and the analysis of the data and how it has been applied to the resultant valuation is not clearly documented.	**Agreed and accepted.** This a further example where effective quality assurance and review should enhance the quality of source data provided. The development of clear working paper standards	MT	July 2017

Issue	Action	Who	When
There is a tendency to list comparable data without analysis as to the context and asset in question. With so many assets in similar geographic area, often a single list is applied to multiple assets without application to the specific asset in question. This means that asset valuations are difficult to review and challenge. **All asset valuations should be evidenced as reviewed by an appropriately qualified individual.**	is in progress and will be tested during the production of the 2016/17 statement of accounts. In future the Council will formally contract the services of an independent, expert to support the internal process. It should be noted that in respect of the 2015/16 valuation data, the relevant Strategic Director has documented the directorate's quality assurance review of base data. This included the implementation of standard templates to ensure consistency and transparency within the valuation process and comparability of data.	JSW	September 2017
4. The Robust review and challenge of valuations has been difficult for the Authority to achieve. We note that there have been several changes made to staffing within the Council's Estates team since late 2015 in an attempt to address issues around the lack of dual sign-off for major asset valuations, the lack of peer review of valuations from a suitably qualified and experienced individual, and the lack of in-house experience of more technical aspects of asset valuation. **A stable robust staffing structure needs to be created and maintained within the Council's Estates team, supported, as deemed necessary, by the use of outside expertise.**	**Agreed and accepted.** Going forward, sufficient resource will be made available to ensure the Estates team are effectively supported by external expertise with the relevant technical knowledge. The current Estates team have worked hard to support the revised valuation process and are now deemed to be fit for purpose. Lessons have been learnt and in future the Estates Team will be more closely engaged within the planning process and timetables of the finance team and be involved in training and awareness of any changed reporting requirements.	JSW MT	July 2017 September 2017
5. There is no robust process in place to ensure that significant events giving rise to impairment or other significant change in valuation are appropriately considered in the valuation of PPE. This has meant that valuations are not updated on a timely basis to reflect significant events impacting on the valuation of assets. **The Council's close-down process for the**	**Agreed and accepted.** This activity is fundamental requirement within the production of the statement of accounts and will be reinforced in future years. The use of the CIPFA checklist provides an effective control to ensure all aspects of the "code" are considered in the preparation of the accounts.	MN	For 2016/17 accounts

Issue	Action	Who	When
preparation of the annual statement of accounts needs to include provision for the documented review of indicators of impairment			
6. Asset lives are not reassessed on a timely basis. Our audit procedures found that assets that had a 1 year life span at beginning of period were not assessed for a new useful life where capital additions had been made, and so fully depreciated in the year. The value of these additions and depreciation is £4.9m. Failure to reassess asset lives on a timely basis leads to: · • Depreciation charges at risk of misstatement, • Inaccurate information used for maintenance/capital replacement programs, and insurance needs. **The Council's close-down process for the preparation of the annual statement of accounts needs to include provision for the documented review of asset lives**	**Agreed and accepted.** Again, the review of asset lives is a fundamental requirement in the preparation of the annual accounts and this process will be built into future year end planning processes commencing with 2016/17 accounts. The use of the CIPFA checklist provides an effective control to ensure all aspects of the "code" are considered in the preparation of the accounts and this will form part of the working papers to support the accounts.	MN	For 2016/17 accounts
7. A significant proportion of PPE additions relates to 'Eureka fees', effectively the capitalisation of management time to projects. The rates used are not formally approved and the amounts logged in the spreadsheet for eureka fees did not reconcile to the general ledger. **Capitalisation rates should receive formal approval and there should be evidence of review and approval by the Service Directors for the amount of capitalized spend at the end of each financial year.**	**Agreed and accepted** The capitalisation of "internal" project management costs should be reviewed on a project by project basis to ensure the appropriate charges are reflected in both revenue and capital costs. A review of the process, scope and control of the capitalisation of internal costs will be undertaken to develop a more structured and transparent policy and appropriate working papers prepared to evidence management review and approval	MT NG MT MN	Initial review in July 2017 Update financial regs in Autumn 2017
8. No reconciliation between the fixed asset register and the general ledger takes place throughout the year – everything is done at the year end. This puts	**Agreed and accepted.** Best practice, issued by CIPFA some years ago, indicated that balance sheet management was as important as revenue management.		

Issue	Action	Who	When
significant pressure of the limited resource in the finance team to close and reconcile the PPE balances. This increases the risk that the Council is unable to meet the statutory deadline for preparation of its statement of accounts. **Management should consider processing addition/disposal transactions throughout the year, and undertaking asset valuations at an earlier point to enable sufficient time for transactions to be processed and reviewed to ensure quality of financial reporting is maintained.**	The finance team resource is directed to revenue management but will be revised to ensure capital monitoring within directorates have equal focus. This will ensure that capital expenditure is identified and accounted for on a more timely basis. In addition future year end planning will seek to accelerate the asset valuation process will be complete by December and capital accounting completed in February in advance of the year end.	MT MT	Re-focus Finance Team Summer 2017 September 2017
7. The use of indexation to approximate asset valuation movements is a blunt instrument and difficult to justify when individual asset valuations are challenged. **Indexation should only be used as a tool to revalue assets when the indexation basis can be demonstrated to be directly relevant to the assets to which it is being applied.**	**Agreed and accepted**. To support the use of indexation, in respect of certain asset categories, an appropriate rationale will be provided in order for the basis to be both understood and constructively challenged. Where the use of indexation is expected to be significant, an early meeting with yourselves will be programmed into the year end timetable to ensure a consensus of approach.	 JSW MN	 Update for 2016/17 accounts
8. Assets had multiple lines in the asset register due to componentisation of individual assets. The value was not appropriately apportioned between the various individual line items in the asset register and caused uncertainty as to which assets were included in the valuation. This issue, coupled with weaknesses in the SAM to RAM reconciliations above, increases the risk that the valuation of PPE recorded in the financial statements will be materially misstated. **The valuation provided by the Council's valuers should be agreed to the total value recorded in the fixed asset register for the particular asset subject to valuation.**	**Agreed and accepted**. Where assets have separate components in the asset register, revised valuation estimates will be fully reflected against the entire asset. To enhance the process, and evidence action, a separate working paper will be developed to document componentised assets to demonstrate that valuation estimates have been properly accounted for.	 MN	 August 2017

Issue	Action	Who	When
9. Descriptions of assets were not clear due to historical capturing of the capital expenditure. This resulted in certain assets being written off in the asset register as a result of not being verified. Assets to the value of £5.5.million relating to parks could be not verified and was written down. **The Council should ensure that all capital expenditure is appropriately described in the asset register, and matched to the relevant existing asset (where applicable).**	**Agreed and accepted** It is clear that there are weaknesses in the financial accounting and monitoring processes regarding the identification and recording of capital expenditure. Planned changes in the structure and focus of the finance team should support the resolution of this matter and progress will be monitored to ensure the improvement is delivered.	MT	Finance team restructure Summer 2017
10. Timelines were not appropriately set, adhered to and monitored to ensure that adequate review time was set for working papers across departments. **The Council needs to ensure that a detailed project plan is in place for preparation of the statutory financial statements and an individual is given responsibility for ensuring that all departments adhere to the quality and timing requirements contained therein.**	**Agreed and accepted** The year end planning process will be refined to ensure that a clear timetable, resource and responsibility plan is prepared well in advance of year end. The revised process will include guidance on working paper standards and quality assurance and evidenced review of information supporting key account balances	MT	July 2017
B. Cash and Bank Balances			
The Council has insufficient oversight of the cash management function and this should be addressed as a matter of priority. We have noted several concerns with respect to the record keeping and financial controls in place around the management and recording of cash balances. The Council should put in place the following recommendations: • **Cash in hand balances should be reconciled at the year-end date, or for school balances; where school holidays fall over the year-end date, as near to it as practicable.** • **All cash/bank accounts should be reconciled, regardless of value.**	The control framework around cash and bank balances is in the process of being completely reviewed and re-designed to ensure effective and timely reconciliation processes are in place. A schedule of key reconciliations and timescales will be developed to ensure key balances are fully reconciled and reflected in ledger at an appropriate time (daily/weekly/monthly/annually) A "monthly control review" of reconciliations and challenge of unreconciled items will be performed by the relevant Head of Finance All reconciliations will be subject to review by the DofF on a monthly basis starting with month end reconciliations as at the end of May 2017 Evidence of review and actions required will be	TN TN TN MT TN	Monthly from May 2017 June 2017 June 2017 Monthly from June 2017 Monthly form June 2017

Issue	Action	Who	When
• **Reconciling items should be cleared in a timely manner.** • **Evidence should be presented with the cash and bank reconciliations to enable the reviewer to be satisfied that the reconciliation has been performed correctly and to an appropriate quality.** • **All cash/bank reconciliations should be subject to a detailed review. This detailed review should be evidenced on the working paper.** • **A high level review and challenge of balances in the cash/bank accounts should be performed on a monthly basis such that the Council understands the reasons for significant movements.**	maintained throughout the year on a monthly basis.		
C. Record keeping and reconciliations to the general ledger			
1. Reconciliation between Council Tax and NNDR System and the General Ledger: No reconciliations have been performed between the Council Tax/NNDR system and the general ledger throughout the year. **The Council should reconcile these feeder systems to the General Ledger on a monthly basis, clearly setting out the reason/source of reconciling differences by way of working papers to support the reconciliation. The reconciliation should be subject to a detailed review, and evidenced as having received such.**	**Agreed and accepted** The effective reconciliation between the general ledger and these two key income streams will be prepared on a monthly basis and form part of the "monthly control review" process. Reconciliations will be prepared, reviewed and challenged to ensure the correct information is reflected in the accounting records.	TN MT	Monthly from May 2017 June 2017
2. Reconciliation between Tenants Rental Income Ledger and the General Ledger: No reconciliations have been performed between	**Agreed and accepted** The effective reconciliation between the general ledger and these two key income streams will be prepared on a monthly basis and form part of the	TN	Monthly form May 2107

Issue	Action	Who	When
the Tenants Rent system and the general ledger throughout the year. **The Council should reconcile these feeder systems to the General Ledger on a monthly basis, clearly setting out the reason/source of reconciling differences by way of working papers to support the reconciliation. The reconciliation should be subject to a detailed review, and evidenced as having received such.**	"monthly control review" process. Reconciliations will be prepared, reviewed and challenged to ensure the correct information is reflected in the accounting records.	 MT	June 2017
3. We have observed several instances of control failure and poor practice with respect to record keeping which appears to have been caused by a lack of appropriately experienced resource, and effective supervision and review. Examples include: • Failure to determine NNDR write-offs (In 2014/15 NNDR Debt Write Offs were £1.4m. For 2015/16write-offs have been £200k). We have been told that this is due to a shortage of staff able to perform this exercise. • Lack of understanding/challenge of provisions made against Tenants Rents receivable • Accounts receivable and Accounts payable reconciliations have not been performed on a monthly basis throughout the audit period. **The Council should put in place the following recommendations**: • **The Council should put into place procedures to ensure that write-offs are identified, approved and actioned on a timely basis.** • **Where provision is made with respect to receivables balances, this should be done based on a documented and reviewed approach, taking**	**Agreed and accepted** The Council's Financial Regulations provide guidance as to how debt write-offs should be managed, reported and authorised. The disciplines required by the Financial Regulations will be reinforced and a monthly review of NNDR debt and Tenants' rent debts will be established between the Head of Revenues and Benefits and the Director of Finance. Following the completion of the 2015/16 and 2016/17 accounts a review of provisioning policy will be performed In addition, the Financial Regulations will be subject to review to ensure they reflect best practice and are relevant within the context of the Council's £220m net budget. **See response to reconciliations and general ledger controls above**	 JM MT MT TN MT JB	 Start end of 1st qtr 2017 By October 2017 By September 2017

Issue	Action	Who	When
into account all relevant data and assumptions. • **Further, the Council should be reconciling all sub-ledgers to the general ledger on a monthly basis and ensuring that reconciling items are appropriately dealt with, and in a timely manner.**			
4. Role transition, accountability and review/support without appropriate handover: We have noted several instances where resource changes in the year have occurred, but the required amount of handover has not been performed. This has led to individuals being unclear as to the requirements of the role, and despite their best efforts, being unable to respond to audit enquiries. **The Council needs to ensure that there is a sufficiently robust process for role transition in place, together with sufficient cross-working arrangements to enable appropriate levels of support and coaching to individuals new to roles.**	Agreed and accepted		
5. Lack of accountability of individual service teams: Our audit procedures revealed examples of service teams providing information to the corporate accounting team for inclusion in the year-end financial statements which is delivered either late, without proper review, or both. For example, the schedule of accumulated absences provided to the Corporate accounting team by HR was so inaccurate that they were unable to use the data and instead resorted to re-using the prior year data as an approximation to current year. **The Council needs to put in place a process to ensure that data inputs to the statutory accounts**	**Agreed and accepted** Effective planning for year end is critical to prepare timely, accurate and robust annual accounts. A revised planning process has been developed and is being applied to the 2016/17 accounts to minimise omissions and inaccuracies. For the 2017/18 year end, planning will commence in September 2017 to ensure Estates are fully engaged. This will be rolled out across the council in December 2017 to ensure all relevant services are aware of the roles and responsibilities and the timescales to be met to support an effective and efficient closedown. Once 2015/16 and 2016/17 accounts are prepared	MT MN MT HofF MT HofF	September 2017 December 2017 October 2017

Issue	Action	Who	When
closedown process are provided in accordance with specifications discussed and agreed in advance with service contributors, and with sufficient time for review and challenge by the finance team.	an internal post implementation review will be conducted to identify all issues which impacted the accounts production and lessons learnt documented to future-proof future year end accounts closures.		

The following control observations were raised early on in the audit process and have subsequently been resolved:

Observation description	Impact narrative	Management response
IT systems		
Administrator rights are granted to business users End users on the application are assigned security permissions to perform functions on the application. The security permission is assigned specific application programs to perform certain tasks. The application program 'sy3010' is required by the system administrator to create and modify user accounts on the application. This program is assigned to security permissions 'SY Batch Scheduler' and 'SY Password reset'. These permissions have been assigned to 44 users. We understand business users were previously responsible for resetting their own passwords if the user account was locked hence this	If segregation of duties is not established between business and IT functions, there is an increased risk of a user deliberately or accidentally creating or amending user accounts to have system access greater than required for that user's role and responsibilities.	*Addressed – Admin permissions for password resets have already been removed.*

Observation description	Impact narrative	Management response
access. In addition business users would also be responsible for setting up adhoc schedule jobs to perform transactions on the system.		
System supplier has access to develop and deploy changes The system supplier has continued remote access to the production environment which allows them to develop and implement changes on the application both functional and data changes. There is no periodic monitoring performed to ensure the suppliers access is valid each time they access the production environment.	A lack of segregation of duties within the change management process without an effective monitoring control could result in unauthorised changes being released into production that go unnoticed by management. These changes could impact the functionality of the system and/or the integrity of data used by management for financial statement reporting purposes.	*Addressed – New monthly script put in place to list all updates by supplier login. A script is run every month, the most recent being 1 March and this was reviewed and signed off on 15 March.*
Periodic user access review not retained A bi-annual review is performed by management to assess whether permissions granted to users are appropriate. However, we identified the following: 1. No evidence of management sign-off is retained to confirm the review had taken place. 2. Privileged access is not included in the review. 3. The review is performed by management (Head of	The absence of controls to periodically review and monitor the appropriateness of end user and particularly privileged user access increases the risk that this access does not remain commensurate with the user's job role. This could lead to unauthorised access and changes being made to financially significant applications, which may compromise the integrity or confidentiality of data used for financial reporting and management's decision	A formal procedure was put in place in November 2016. A user acess rights review was last carried out by business managers on 23rd February 2017. A further review was generated on 14th March 2017 and is awaiting review. Details and dates are retained on a shared network drive.

Observation description	Impact narrative	Management response
Service) who also has access to administer accounts on the application.	making purposes.	
Weak password parameters Single sign on (SSO) authentication is in use; as such we identified the following findings on the network: 1. Account lockout attempts are set to 10. 2. Account lockout duration is set to 15 minutes.	Inadequate password settings can result in password security being compromised and therefore increasing the risk of unauthorised access to financially significant data.	*DCC have applied the guidance contained in Password guidance: simplifying your approach published on 8 September 2015.* *https://www.gov.uk/government/publications/password-policy-simplifying-your-approach/password-policy-executive-summary*
New user process does not define access requirements The access required on the application for a new joiner is not explicitly documented in the access template or the service ticket.	There is a risk that unnecessary and/or inappropriate user access rights will be granted to the system user which can be used to compromise the integrity and confidentiality of the financially significant data.	As part of the periodic user access review, the access rights listing that is now supplied to business managers also sets out which users are in which security groups and what permissions are assigned to each security group.
Other observations		
Several general ledger accounts marked by the council as petty cash or cash floats should be made obsolete as have no movement passing through them.	Excess general ledger accounts increases the risk of fraud and erroneous journal postings.	A Review of the TB format and content has been completed and obsolete codes moved.

Observation description	Impact narrative	Management response
Difference between the general ledger and the trial balance The trial balance is a report which summarises the closing balances of all accounts in the general ledger. We have noted a difference between the general ledger and the trial balance for the 'Surplus/Deficit on the provision of services'. The value on the trial balance shows £32,146,000 however the value in the general ledger shows £31,268,000. We have traced all individual items which make up the total 'Surplus/Deficit on the provision of services' on the trial balance to the general ledger and not found any exceptions. In addition, we have reviewed the general ledger for items not appearing on the trial balance, and again have not found any exceptions. We therefore believe that this issue is likely to have been caused by an addition error within the general ledger in Oracle.	There is no obvious reason why the trial balance should show a balance which does not agree to the general ledger. Management should investigate and resolve this issue as a matter of priority.	The discrepancy is limited to the total of one high level parent even though all lower parent and transaction are complete. This is a result of the parent code not updating for changes in the trial balance structure when queries are run direct from Oracle. As the detail within Oracle, reporting from Oracle and from the Council's reporting tool OBI are all correct it is unlikely that this discrepancy can cause any issues. A solution was identified on 26 September 2016 which updates the parent balances and corrects the issue.

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ED None

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