

Derby City Council

2006/07 audit - report to those charged with governance



The Members of the Audit and Accounts Committee
Derby City Council
The Council House
Derby
DE1 2FS

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Ladies and Gentlemen

2006/07 audit report to those charged with governance

We are pleased to present our report to you on the results of our 2006/07 audit. We hope that the information contained in this report provides a useful source of reference for members.

Yours faithfully

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

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

Executive summary

The purpose of this report

This report summarises the results of our audit work from our 2006/07 audit of accounts.

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

It also includes the results of the work we have undertaken on 'Use of Resources' under the Code of Audit Practice, to support our formal conclusion in this area.

Our work during the year was performed in line with the Joint Audit and Inspection Plan that was issued in May 2006.

We have set out below the most important issues and recommendations arising in the course of our work.

Financial statements

We anticipate issuing an unqualified audit opinion on the Council's 2006/07 financial statements.

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

We have reported some control weaknesses in the Council's accounting and internal control systems during our audit. None of these were deemed to be material.

The draft financial statements presented for audit and the standard of working papers to support the financial statements were of a good standard. However a number of the working papers we requested were not provided in line with the agreed timescales. This caused some delays in the completion of our audit.

There were a number of investigations undertaken during the year by Internal Audit into frauds and other irregularities. Whilst the matters under review are not material to our opinion on the Council's financial statements, the Committee should ensure oversight of the implementation of Internal Audit recommendations to strengthen internal control in these areas.

Financial standing

We concluded that the Council scored 4 out of 4 for Financial Standing in our last Use of Resources judgment (November 2006). Since this judgment, it has become clear that the Council will face significant financial challenges in delivering its Medium Term Financial Strategy (MTFS). There are a number of issues which have been clearly communicated to members on a regular basis. Potentially the most significant of these issues relates to financing the costs of job evaluation. We are satisfied that the Council has complied with the SORP requirements in disclosing a contingent liability relating to this within the 2006/07 financial statements. We understand that there is considerable uncertainty attached to implementing single status proposals

and that there is a risk that the cost of job evaluation could exceed current budgets.

Use of Resources

We intend to issue an unqualified Use of Resources conclusion.

The Council achieved an overall Use of Resources score of 3 out of 4 in November 2006 which equates to an assessment of performing at 'consistently above minimum requirements – performing well'. This represents no change to the overall assessment score reported to members as part of the 2005/06 ISA 260 report, although some improvements were seen at individual Key Line of Enquiry (KLOE) levels.

Our data quality assessment has concluded that the Council has met minimum requirements and has achieved an assessment score of at least 2 out of 4.

We have completed our work in respect of the 2006/07 Best Value Performance Plan (BVPP). We were pleased to issue an unqualified opinion and we did not make any recommendations in relation to the Plan.

Financial statements

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

Accounts

We have completed the audit of the Council's financial statements in line with the Code of Audit Practice and Auditing Standards. We anticipate issuing an unqualified audit opinion on the financial statements.

Accounting issues

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature.

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

We agreed a number of adjustments to the financial statements both in order to correct specific errors and to reflect best practice in financial reporting and adherence to Generally Accepted Accounting Practice (GAAP) and the Local Authority Statement of Recommended Practice (SORP) 2006.

We discussed all these matters with the Director of Resources and his team both prior to and at the clearance meeting on Monday 3rd September 2007.

The net effect of errors identified and adjusted was to decrease net expenditure by £251,000.

Systems of internal control

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

We have reported to management a small number of relatively minor control weaknesses identified during the course of our work. Our main area of concern relates to the need to strengthen processes around the completion of reconciliations and the clearance of longstanding reconciling items. It is noted that the Council has made some improvements to its control account reconciliation framework since our interim letter and further improvements are planned in 2007/08.

We would also emphasise the need for the Council to address the internal control weaknesses highlighted by the fraud investigation work that has been undertaken during the year (see 'other matters' below).

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

Accounting practices

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

The Council provided us with a draft set of 2006/07 financial statements for audit in accordance with the agreed timescale.

We are pleased to report that the presentation of the financial statements and standard of working papers to support underlying transactions, once received, were of a good standard.

However, the production of working papers requested was not in line with agreed timescales and in some instances this delayed the completion of our audit work.

During the period accounts closure period, finance staff were engaged in managing the transition from the CODAS General Ledger system to the ORACLE system. There were also a number of significant changes to the 2006 SORP which required significant input from senior accountancy staff during the year end closedown process.

Going forward, the Council should consider how it can use the new ORACLE financial system together with specific process changes to improve the timely production of the year end financial statements.

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

- The appropriateness of accounting policies to the particular circumstances of the Council;
- The timing of transactions and the period in which they are recorded;
- The appropriateness of accounting estimates and judgments, for example in relation to provisions included in the accounts;
- Potential effects on the financial statements of any uncertainties including significant risks and exposures;
- The extent to which any unusual or one-off transactions affect the financial statements, and the adequacy of the disclosures relating to

such transactions; and

- Disagreement about matters which, either individually or in aggregate, could be significant to the financial statements or our report.

There are no significant matters arising from the work which require reporting in this context.

Other matters

The Council's Internal Audit team has undertaken fraud investigation work in a number of areas during the year. The most significant area has been in relation to sundry debtors. We have taken appropriate action to understand and assess the impact of the findings of these investigations on the Council's financial statements and we have undertaken some additional audit procedures in response to them. We have concluded that these issues are not material in relation to our opinion of the Council's financial statements.

The number of fraud investigations during the year represents a shift in the anti-fraud culture of the Council. There have been a number of specific control weaknesses identified arising from this investigation work. Action is necessary and is being taken in response to the issues raised. However, the Audit and Accounts Committee will need to ensure that it maintains oversight of the timely implementation of internal audit recommendations.

Use of Resources

Use of Resources conclusion

Under the Code of Audit Practice we are required to provide an annual conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. This conclusion is reached by assessing the Authority's arrangements against a set of criteria issued by the Audit Commission (see Appendix A).

We have completed the work necessary to conclude on the Authority's arrangements for achieving economy, efficiency and effectiveness in its use of resources. Our work to support our conclusion comprised the following elements:

- Use of Resources assessment for the Comprehensive Performance Assessment (CPA);
- mandatory data quality review work;
- review of the Statement on Internal Control; and
- audit of the Best Value Performance Plan.

We intend to issue an unqualified Use of Resources conclusion. Details of our conclusion for each of the criteria specified by the Code of Practice are set out in Appendix A. Further commentary on each aspect of our work is set out below.

Use of Resources assessment for CPA

Our conclusion has been informed by the last use of resources assessment that was completed in November 2006 as part of the CPA process for that year. The Council achieved an overall score of 3 out of 4, based on the following theme scores:

- Financial Reporting (3 out of 4)
- Financial Management (3 out of 4)
- Financial Standing (4 out of 4)
- Internal Control (3 out of 4)
- Value for Money (3 out of 4).

Data quality work

The Audit Commission has developed a new three stage approach to the review of data quality at Local Authorities. It forms part of the mandatory work for the 2006/07 audit year, and has a direct impact on our 2006/07 Use of Resources Conclusion. The arrangements that the Audit Commission has put in place link directly to the Code of Audit Practice requirement to assess whether adequate arrangements are in place to monitor the quality of published performance information, and to report the results to members. In addition, the work on the Best Value Performance Indicators (BVPIs) flows through to the CPA process.

Following the completion of the data quality work, we submitted a detailed report in November 2006. In overall terms the Council's data quality arrangements were assessed as performing at least at the minimum requirements. We have recently completed the 2007 data quality work and it is likely that last year's assessment will remain unchanged.

Statement on Internal Control

Local Authorities are required to produce a Statement on Internal Control (SIC) which is consistent with guidance issued by CIPFA / SOLACE. The SIC was included in the financial statements.

We reviewed the SIC to consider whether it complied with the CIPFA / SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work.

We found no areas of concern to report in this context.

Best Value Performance Plan

We have completed our work in respect of the 2006/07 Best Value Performance Plan. We were pleased to issue an unqualified opinion and we did not make any recommendations in relation to the Plan.

As part of our work we also reviewed a sample of the Council's performance indicators to ensure that they were calculated and reported correctly. We identified a small number of issues which were reported in November 2006.

Financial standing

In relation to the overall financial standing of the Council, we continue to assess the Council's management of its finances as strong.

A 4.9% Council tax increase was required in 2007/08 in combination with a £7 million savings requirement. The Council's 2008/09 and 2009/10 indicative budgets assume that further savings will need to be achieved in order to deliver a balanced position. In addition, there are continuing uncertainties regarding job evaluation.

The Single Status agreement of 1997 introduced an obligation on councils to carry out job evaluation. This agreement introduced the requirement for the Council to evaluate all Council jobs to achieve equality proofed pay structures. This may require the Council to revise the pay of significant numbers of staff either upwards or downwards. The Council will also have to consider its position on backdating of pay awards, new pay and the protection of pay as well as revisions in pay agreements going forward.

This Council is still undertaking work which will enable it to finalise agreements in common with a number of other Councils. The Council recognised that around 1,500 female members of staff had arguable claims under the Equal Pay Act. £4.7 million of settlement payments were made during the year in relation to this.

The Director of Resources has reported to members on a number of occasions the potential financial impact on the Council and will continue to do so.

However we understand that the potential commitment may exceed that set

out in the latest MTFS and this will require the Director of Resources to revise current proposals. This will clearly significantly increase the risks and pressure on the Council's Financial Standing going forward.

The Council is well placed to address financial challenges going forwards and continues to manage financial risks whilst under significant cost pressures.

Appendix A: Use of Resources conclusion

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

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

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

Code Criteria	Description	Associated KLoE	CPA Score	Use of Resources Conclusion
5	The body has put in place arrangements to maintain a sound system of internal control	4.2	3	Adequate
6	The body has put in place arrangements to manage its significant business risks.	4.1	3	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	4	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	4	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	4	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	3	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	3	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	3	Adequate

