

Derby City Council

Interim report

June 2011



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1. Introduction

Introduction

This report is intended to provide additional details regarding our audit approach, as set out in our Audit Approach Memorandum presented to the Strategic Director of Resources in February 2011, as well as an update on our response to key risks from the results of interim audit work carried out to date.

Use of this report

This report has been prepared to advise you of the matters arising from our interim work and should not be used for any other purpose or be given to third parties without our prior written consent.

Our report is part of a continuing dialogue between the Council and ourselves and should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist. The Council should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implement them, seeking your own specialist advice as appropriate.

We accept no responsibility in the event that any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

The way forward

We have set out our findings and recommendations in the appendices to this report. We have agreed action to implement the recommendations made with the Director of Finance & Procurement.

Acknowledgements

We would like to record our appreciation for the assistance and co-operation provided to us during our interim audit by the Council's staff.

Grant Thornton UK LLP
June 2011



2. Executive Summary

The table below provides a summary for the Audit and Accounts Committee of the work performed during the year to date and our key findings. Further details are set out in relevant sections of this report. How this work has been performed, is outlined in the Audit Approach section of the report, on pages 4 to 6.

Risk assessment	<ul style="list-style-type: none">• Our audit risks were outlined in our 2010/11 Audit Approach Memorandum. We have identified four additional risks to bring to the attention of the Audit and Accounts Committee.
Review of internal controls	<ul style="list-style-type: none">• We have evaluated the design effectiveness of internal controls over the financial reporting process through a combination of inquiry and observation procedures, and, where appropriate, systems walkthroughs.• We have raised 3 recommendations from our review of controls, which are shown at Appendix C.
Detailed review of Internal Audit	<ul style="list-style-type: none">• We have concluded that the Internal Audit function continues to provide an independent and satisfactory service to the Council and that we can take assurance from its work in contributing to an effective internal control environment at the Council.• We have raised 2 recommendations from our review of Internal Audit and related documents, which are shown at Appendix C.
IFRS arrangements review	<ul style="list-style-type: none">• Our review identified that the Council is making good progress in its transition to IFRS, despite being slightly behind the key transition project milestones established by the Resources Department. This work is ongoing and we note the next steps required by the Council on page 19 of this report.• We will review this work during our final accounts audit for the year.

3. Our accounts audit approach

Audit approach

We will:

- work closely with the finance team to ensure that we meet audit deadlines and conduct the audit efficiently
- plan our audit on an individual task basis at the start of the audit, and agree timetables with all staff involved
- consider the materiality of transactions when planning our audit and when reporting our findings
- review the processes and position of the Council regarding its transition to International Financial Reporting Standards (IFRS).

The logistical details of our annual accounts audit are detailed at Appendix A to this memorandum.

In summary our audit strategy comprises:

Planning	<ul style="list-style-type: none">• Updating our understanding of the Council through discussions with management and a review of the management accounts• Reviewing the Council's IFRS transition arrangements
Control evaluation	<ul style="list-style-type: none">• Reviewing the Council's management accounts• Reviewing the design effectiveness and implementation of the Council's control framework
Substantive procedures	<ul style="list-style-type: none">• Reviewing material disclosure issues in the financial statements• Performing analytical review• Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate
Completion	<ul style="list-style-type: none">• Performing an overall evaluation of the audit issues identified from our work• Determining an audit opinion• Reporting to the Audit and Accounts Committee

3. Our accounts audit approach (continued)

Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true or fair view.

Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than **2% of materiality** will be recorded on a schedule of potential misstatements.

These are assessed individually and in aggregate, discussed with you and, if you do not adjust, signed off by you in your letter of representation to us, confirming your view that they are immaterial to the financial statements.

An item of low value may be judged material by its nature, for example any item that affects the disclosure of directors' emoluments. An item of higher value may be judged not material if it does not distort the truth and fairness of the financial statements.

Internal Audit

We will work with the Internal Audit function to ensure our audit approach takes account of the risks identified by them and the work they have conducted.

Review of IT and outsourced systems

Our audit approach assumes that our audited bodies use a computer system for accounting applications that process a large number of transactions. Accordingly, our approach requires a review of the Council's internal controls in the information technology (IT) environment.

We have involved our IT specialist team members during the audit. This approach is based on the complexity of IT used in the Council's significant transaction cycles and a risk assessment of the relevant IT controls.

Internal controls

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. Therefore, we will focus our control review on the high risk areas of the financial statements.

3. Our accounts audit approach (continued)

We are also required to assess whether controls have been implemented as intended. We have done this through a combination of inquiry and observation procedures, and, where appropriate, systems walkthrough tests. However, our work cannot be relied upon necessarily to identify frauds or other irregularities, or to include all possible improvements in internal control that a more extensive controls review exercise might identify.

Transition to International Financial Reporting Standards (IFRS)

The IFRS-based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) has effect from 1 April 2010. The 'transition date' to IFRS is therefore 1 April 2009.

The Council is responsible for the preparation of a restated opening balance sheet as at 1 April 2009 following the introduction of International Financial Reporting Standards (IFRS) and in accordance with the Code.

Auditors do not have any direct reporting responsibilities in respect of transition balances although they will form the opening balances for the comparative period.

Our work has taken the form of an arrangements review intended to provide feedback on the Council's approach to restatement and is not an audit of the

restated balance sheet figures. Detailed work on the restated figures will take place during the 2010/11 final accounts audit. This assessment has focussed upon material balances either in regard to their value or nature.

Our review identified that the Council is making good progress in its transition to IFRS. The transition balance sheet was, in most parts, supported by working papers which clearly set out the approach adopted by the Council and justified the conclusions reached.

4. Update on accounts audit risk assessment

As part of our planning and control evaluation work we have reviewed the audit risks identified in our Audit Approach Memorandum and have set out below the outcome of work completed to date and further work planned.

Our update of the audit risks facing the Council has identified four additional risks that we would like to bring to the attention of the Audit and Accounts Committee. These are shown on pages 9 and 10.

We will report our full findings and conclusions in respect of each risk identified in our Annual Report to Those Charged with Governance (ISA 260) on completion of our final accounts audit.

The areas of audit focus in response to the risks outlined on pages 7 to 10 of this report are at Appendix B.

Issue	Audit areas affected	Work completed	Further work planned
Accounting under IFRS for the first time	All areas of the financial statements	<ul style="list-style-type: none">We have reviewed the arrangements put in place by the Council for completing the transition to IFRS. Our findings from this review are reported at Section 6.	<ul style="list-style-type: none">Material areas which are impacted by the transition to IFRS will be reviewed in detail at the time of the final accounts audit.
Financial performance pressures	All areas of the financial statements	<ul style="list-style-type: none">We have reviewed the Council's financial controls and its budgetary pressures to enable us to update our financial statements plan and value for money risk assessment as required.	<ul style="list-style-type: none">Our audit work is to be tailored to meet the risks identified and we will continue to maintain a watching brief in this area.

4. Update on accounts audit risk assessment (continued)

Issue	Audit areas affected	Work completed	Further work planned
Revaluation of non-current assets	Property, plant and equipment	<ul style="list-style-type: none"> We have discussed with Council officers the approach being taken by the Council for revaluation of its assets. 	<ul style="list-style-type: none"> We will review the valuations undertaken and ensure that these are in compliance with the requirements of IFRS. We will review the housing price indices applied by the Council and also the judgements made in determining which indices to use.
Income Recognition	Housing benefit and council tax	<ul style="list-style-type: none"> Our testing of the Council's Housing and Council Tax Benefit Subsidy claim for 2009/10 resulted in a qualified certificate being issued, which reported a subsidy clawback of £1.8million. 	<ul style="list-style-type: none"> We will continue our ongoing discussions with Council officers to determine the level of additional audit testing required in 2010/11 to enable us to conclude on the Statement of Accounts for 2010/11.
Follow up of 2009/10 findings	All areas of the financial statements	<ul style="list-style-type: none"> Due to their nature, several recommendations made during the 2009/10 audit can only be followed up once the final accounts audit is underway. See Appendix D for further details of our follow up of the recommendations made in our reports issued last year. 	<ul style="list-style-type: none"> We will follow up all remaining outstanding recommendations during the final accounts audit and will report to you in our ISA260 if any of these continue to be outstanding.

4. Update on accounts audit risk assessment (continued)

The following **additional risks** have been identified since we presented our Audit Approach Memorandum to the Audit and Accounts Committee in February 2011.

Issue	Audit areas affected	Work completed	Further work planned
Accounting for Schools	Property, plant and equipment	<ul style="list-style-type: none"> Accounting for schools is currently the subject of discussion within the local authority accounting community. We have raised this matter with the Council and are awaiting its view on the proposed treatment in the accounts under IFRS. 	<ul style="list-style-type: none"> We will consider the Council's approach to accounting for schools under IFRS, in particular paying attention to the approach to the recognition of the differing categories of schools. We will discuss with and consider the Council's accounting judgments in relation to its accounting for schools.
Sinfin Waste Recycling Facility	All areas of the financial statements	<ul style="list-style-type: none"> We have continued to monitor the Council's progress in implementing the joint waste project, including the associated planning consent issues. 	<ul style="list-style-type: none"> We will consider the outcome of the legal action regarding planning consent once it is known and will conclude on the audit issues surrounding the original Planning Committee's decision.

4. Update on accounts audit risk assessment (continued)

Issue	Audit areas affected	Work completed	Further work planned
Redundancy Programme	Provisions	<ul style="list-style-type: none"> We have discussed with Council officers the redundancy programme that was taking place around year end and the requirements of IAS37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>. 	<ul style="list-style-type: none"> We will review the supporting documentation for all restructuring provisions and any associated disclosures (such as contingent liabilities) to assess whether the requirements of <i>IAS37 Provisions, Contingent Liabilities and Contingent Assets</i> have been met.
Group Accounting Policies	Group Accounts	<ul style="list-style-type: none"> We have reviewed the Council's revised accounting policies following the transition to International Financial Reporting Standards, and as part of this review discussed with Council officers the restatement exercise to ensure subsidiary accounts are fully aligned to the Council's IFRS, requirements, as recommended during our 2008/09 and 2009/10 audits. 	<ul style="list-style-type: none"> We will review the accounting policies of the Council's subsidiary/associate companies, Derby Homes Ltd and Connexions Derbyshire Ltd, to ensure that they are aligned with the policies of the Council, for the purposes of Group Accounts.

5. Results of interim audit work

Scope

As part of the interim audit, and in advance of our final accounts audit visit, we considered:

- the effectiveness of the Internal Audit function
- Internal Audit's work on the Council's key financial systems
- a review of closedown procedures in preparation for the final accounts under International Financial Reporting Standards (IFRS)
- the Council's Information Technology controls.

We have set out recommendations identified by our work at the appendices to this report. We have agreed actions to implement the recommendations with the Director of Finance & Procurement.

The Internal Audit function

We reviewed Internal Audit's overall arrangements against the 2006 CIPFA Internal Audit Standards. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by Internal Audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.

Overall, we have concluded that the Internal Audit function continues to provide an independent and satisfactory service to the Council and that we can take assurance from its work in contributing to an effective internal control environment at the Council.

In assessing the effectiveness of Internal Audit's work, we reviewed a number of internal audit files to ensure that:

- systems were adequately documented
- key controls have been identified and evaluated
- key controls have been tested
- weaknesses have been reported to management.

We were pleased to note from these files that no significant issues were identified with Internal Audit's work. We did however note some minor issues which are listed below.

- The CIPFA Code of Practice for Internal Audit requires that a Council's internal audit function has terms of reference that are reviewed on a regular basis. However, following initial approval of the Council's Internal Audit terms of reference by the Audit and Accounts Committee in December 2008, no review has taken place until March 2011
- The original Internal Audit Strategy was devised covering the 3 year period from 2007/08 to 2009/10. This has been followed up with a revised strategy covering the year 2011/12. Therefore, the year 2010/11 has not been covered by an Internal Audit Strategy.

We have raised recommendations with regard to these matters at Appendix C.

5. Results of interim audit work (continued)

Review of financial reporting controls

Our work in this area evaluates the design of the Council's controls, including relevant control activities, over risks that could lead to material misstatement in the financial statements, and determine whether they have been implemented. Emphasis is placed on identifying and obtaining an understanding of control activities that address the areas where we consider that material misstatements are more likely to occur.

Our work in this area considered the appropriateness of the Council's processes over the key accounting systems:

- housing benefit and council tax benefit
- HRA rental revenue
- council tax revenues
- NNDR revenues
- grant revenues
- other revenues
- cash
- investments
- financial instruments;
- property, plant and equipment
- employee remuneration

- operating expenses
- value added taxes
- debt.

In addition, for the areas identified as presenting a higher risk of material misstatement in the financial statements, as set out at Appendix B, we also evaluated the design of the Council's controls.

As at the time of our interim audit, we were unable to complete our documentation and assessment of processes and controls relating to property, plant and equipment, as many of the processes only take place as part of the year end closedown procedures. We will complete this work as part of the final audit.

Subject the limitations set out above relating to property, plant and equipment, we found that the Council's processes over its key accounting systems and controls in these areas were generally sound with no material weaknesses. We have however made a few minor improvement recommendations which are set out at Appendix C.

5. Results of interim audit work (continued)

Review of information technology controls

Our information systems specialist performed a high level review of the general Information Technology control environment, as part of the overall review of the internal controls system, and concluded that, from the work undertaken to date, there are no material weaknesses which are likely to adversely impact on the Council's financial statements.

We have, however, identified one area for improvement during the course of our work in this area relating to the lock out ability for desktops. We do not consider this to pose a significant risk to the accounts.

The Network Policy states that users should enable the password protected screensaver function on their desktops. However, this is not activated automatically. Although Oracle has the ability set to automatically time out after 30 minutes, this is not set on Academy.

There is a risk that without timeout facilities, unattended workstations are vulnerable to misuse and unauthorised access.

We have included a recommendation at Appendix C that the Council ensures that screensaver passwords are enabled after 15 minutes at the Group Policy setting levels.

Closedown procedures

We have reviewed the annual accounts closedown schedule and guidance issued to the finance team. The closedown schedule is comprehensive and outlines the necessary information required and the timescale for the preparation of the financial statements.

We have provided the Council with an arrangements letter which sets out our working paper requirements for the final accounts audit.

6. Review of arrangements for implementation of International Financial Reporting Standards (IFRS)

Introduction and background

Local authorities are required to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). From 2010/11 this Code will be based in International Financial Reporting Standards (IFRS) rather than a UK GAAP based Statement of Recommended Practice (SORP). The Code requires a restated balance sheet at 1 April 2009, restated 2009/10 accounts and full published IFRS accounts for 2010/11.

Audit objective

Auditors do not have any direct reporting responsibilities in respect of transition balances although they will form the opening balances for the comparative period.

Our work has taken the form of an arrangements review intended to provide feedback on the Council's approach to restatement and a review of restatement work completed by the Council to date. This work has been undertaken as part of our interim audit for the 2010/11 financial statements audit. A summary of the work performed is given on page 15.

Issues and risks identified from this work are documented on pages 16 to 19.



6. Review of arrangements for implementation of International Financial Reporting Standards (IFRS)

Summary of work performed

Management arrangements review

For each significant balance sheet item, we have considered the Council's arrangements against each of the following questions:

- are the Council's arrangements for identifying and reporting its accounting policies adequate?
- are the Council's arrangements for identifying and reporting its adjusted UK GAAP values at 1 April 2009 and 1 April 2010 adequate?
- are the Council's arrangements for reporting IFRS values adequate?
- are the Council's arrangements for restating its notes to the balance sheet adequate?
- are the Council's arrangements for preparing quality supporting working papers adequate?

The Council's arrangements for each line in the balance sheet have been assessed using a red/amber/green RAG rating using the following definitions:

Green (G)	Adequate arrangements appear to be in place for the balance sheet area to provide not materially misstated amounts for the restatement.
Amber (A)	Adequate arrangements are in place in some respects for the balance sheet area to provide not materially misstated amounts for the restatement. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red (R)	The Council's arrangements are generally inadequate to provide not materially misstated amounts for the restatement.

Our findings are detailed on pages 17 to 19 of this report. Where items and areas have been assessed as amber or red we have discussed these with officers and, as appropriate, made recommendations on page 19.

6. Review of arrangements for implementation of International Financial Reporting Standards (IFRS)

Adequacy of arrangements

Summary of findings

At the time of our review in March 2011, the Council had not fully completed the restatement of figures for 1 April 2009 and the 2009/10 accounts.

We have discussed restatement work performed to date with the responsible officers and obtained copies of any supporting work papers available.

We note that in respect of property, plant and equipment, investment properties, and assets classified as held for sale, due to the size and complexity of the Council's asset base, the Council has not yet been able to determine the final accounting entries required to restate the 1 April 2009 and 2009/10 accounts balances. We understand that this will be resolved as part of the year end closedown procedures, that will be subject to audit in July 2011.

Conclusion on restatement - March 2011

Property, plant and equipment, investment properties, and assets classified as held for sale, represent three of the most significant elements of the accounts restatement exercise and, while progress has been made in each area, these areas remain incomplete. As a result, we are unable to conclude on the Council's restated position for 2009/10 at this time.

This raises some concerns over the Council's ability to present IFRS compliant accounts for audit, and to meet statutory deadlines. However, we are aware that the Council is closely monitoring this position and considering resource requirements to ensure it can discharge its responsibilities in relation to the accounts.

Our findings are detailed on pages 17 to 19 of this report and include recommendations which have been discussed with officers.

6. Adequacy of arrangements - findings

Assets

Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Property, plant & equipment	G	G	A	R	R	A
Investment properties	G	G	A	R	R	A
Non-current investments	G	G	G	A	G	G
Non-current trade & other receivables	G	G	G	G	G	G
Current trade and other receivables	G	G	G	A	G	G
Investments	G	G	G	A	G	G
Cash and cash equivalents	G	G	G	A	G	G
Assets classified as held for sale	G	G	G	R	R	A

KEY: G - Green rating A - Amber rating R – Red rating

6. Adequacy of arrangements - findings

Liabilities

Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Trade & other payables	G	G	G	A	G	G
Bank overdraft and other current borrowings	G	G	G	A	G	G
Current liabilities	G	G	G	A	G	G
Non-current borrowings	G	G	G	A	G	G
Non-current other liabilities	G	G	G	A	A	A
Taxpayers' equity						A

We have considered the arrangements of the Council's IFRS transition process under three main themes: project planning, restatement and classification.

Project Planning - Green

The Council has a project plan in place which is being updated on an on-going basis and is comprehensive, and has included not only review of accounting standards and preparation of transition journals but also provision of training to the finance team and Audit and Accounts Committee.

Restatement - Amber

Significant work has been done to map many of the adjustments to the balance sheet and to support the movements proposed but there are currently no draft financial statements. We acknowledge that work is on-going by the finance team.

Classification - Amber

The Council has undertaken a classification exercise to translate UK balance sheet categories to IFRS balance sheet categories in line with guidance, however at present this remains incomplete.

6. Adequacy of arrangements – issues and risks identified

Item	Issue/Risk identified	Next steps
Supporting notes	Re-stated disclosure notes had not been completed in a number of areas at the time of our review.	Supporting notes and disclosures to be drafted and agreed to supporting working papers.
Accounting policies	Revised accounting policies have not yet been approved by members.	Revised accounting policies should be presented to members for approval prior to the approval of the 2010/11 Statement of Accounts.
PPE Investment properties Assets classified as held for resale	The Council has not yet determined the adjustments that need to be made in respect of PPE, investment properties, and assets classified as held for resale, due to the size and complexity of the Council's asset base. We understand that this will be resolved as part of the year end closedown procedures, that will be subject to audit in July 2011.	The Council should reach a conclusion in respect of the adjustments that need to be made for PPE, investment properties, and assets classified as held for resale, thereby allowing the restated figures for 1 April 2009 and the 2009/10 accounts to be finalised.
Grants	The transfer of government grants to either the capital grants unapplied account or the capital adjustment account is dependent on whether there are any conditions attached to the grant and whether the condition has yet to be satisfied. The finance team has gathered information from departmental accountants but is in the process of reviewing grant terms to finalise the proposed treatment.	The Council should ensure it is able to justify, on a grant by grant basis, the treatment of grant balances.

7. Value for Money Interim Update

Introduction and Background

The Use of Resources framework has been replaced by a new Value for Money framework which has no annual scored judgements and is risk-based. The Value for Money conclusion is now based on the criteria of the Council's arrangements for

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

Our Approach

We have conducted a risk assessment to identify key areas where the Council's ability to secure value for money may be compromised. In completing this we have gathered evidence and relied on our continuing audit knowledge to support our judgements. In some cases full information may not be known until the year end accounts are finalised.

To assess the Council on financial resilience, we have reviewed its key performance indicators using the Audit Commission's Value for Money benchmarking statistics and financial ratios, arrangements for strategic financial planning, financial governance and financial control.

To assess the Council on securing economy, efficiency and effectiveness, we have reviewed its ability regarding prioritising resources and improving efficiencies.

Our Interim Findings

The table overleaf show the summary observations and risk ratings for each area under review.

Next Steps

Throughout the process we are engaged in a continuous dialogue with the Council to provide a transparent approach and to discuss our findings with key staff. We will maintain this approach through regular meetings until our conclusion is published in September. In particular, we will focus on the area of governance by conducting a review of Audit Committee operations to assist the Council in its goal to strengthen its arrangements in this area.

The Council's arrangements for each line in the balance sheet have been assessed using a red/amber/green RAG rating using the following definitions:

Green (G)	No causes for concern
Amber (A)	Potential risks and/or weaknesses in this area
Red (R)	High risk area

7. Value for Money Interim Update (continued)

It is pleasing to note that no weaknesses were identified in any of the areas of our assessment.

Risk area	Summary observations	High level risk assessment
Financial Resilience		
Key Indicators of Performance	<ul style="list-style-type: none"> The Council generally shows a strong position relative to the Audit Commission nearest neighbour benchmark group, showing a balanced budget with sufficient reserves, liquidity and strength in its workforce strategy. Whilst not identified as a risk at this stage, the Council's borrowing is comparatively high and the Council is aware of the need to monitor this closely. 	G
Strategic Financial Planning	<ul style="list-style-type: none"> The Council maintains up to date corporate plans which are regularly reviewed and challenged, enabling swift responses to external factors. These are closely linked to budgets. Planning arrangements have been strengthened in the light of the Comprehensive Spending Review, using a collaborative approach combined with scenario planning to aid the prioritisation of resources. 	G
Financial Governance	<ul style="list-style-type: none"> The governance arrangements are generally fit for purpose. However, as the profile of Audit Committees within local government is set to increase, there will be an additional requirement for the Council to seek opportunities to strengthen its arrangements. Officers have developed plans which address this, including training programmes for members, which are being implemented in 2011/12. 	G
Financial Control	<ul style="list-style-type: none"> The Council has a strong understanding of its costs and financial control has seen significant improvements in 2010/11 largely as a result of the corporate efficiency programme. This has been complemented by other factors such as usage of internal and external assurance mechanisms. 	G

7. Value for Money Interim Update (continued)

Risk area	Summary observations	High level risk assessment
Economy, efficiency & effectiveness		
Prioritising Resources	<ul style="list-style-type: none"> Economic and demographic changes and trends, emerging pressures and stakeholder views are all incorporated into resource modelling in order to achieve the most efficient prioritisation of resources. 	G
Improving Efficiency and Productivity	<ul style="list-style-type: none"> The Council's DECATS efficiency programme has identified a large number of cost savings. Combined with this, opportunities for additional savings and efficiencies are constantly being identified through challenging service delivery methods. 	G

Appendix A. Logistics

Timetables and milestones

The following proposed timetable and deadlines have been set:

Event	Date
Pre year end fieldwork including internal controls review	February & March 2011
Interim audit report	June 2011
Commence accounts audit fieldwork	11 July 2011
Report to those charged with governance (ISA 260)	September 2011
Annual Audit Letter	December 2011

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we work closely with your team to achieve this timetable.

Information requirements

The information and working paper requirements that would assist us in an efficient and timely audit of the year-end financial statements have been communicated to the finance team within our Arrangements Letter, which was issued to the Head of Corporate Finance in March 2011.

Engagement team

In accordance with our Audit Approach Memorandum the main engagement team for the accounts audit will include:

Name	Role	Contact details
Jon Roberts	Engagement Partner	T: 0121 232 5410 E: jon.roberts@uk.gt.com
Kyla Bellingall	Director	T: 0121 232 5359 E: kyla.bellingall@uk.gt.com
Richard Moist	Assistant Manager	T: 0121 232 5397 E: richard.moist@uk.gt.com

Appendix B. Accounts risks

An audit risk is an area of the accounts where we believe there is a higher risk of a material misstatement occurring in the accounts. These areas are detailed below and are where we will focus our audit work through an appropriate response.

Grant Revenues

Risks	Response
Grant debtors may be erroneous	<ul style="list-style-type: none">• We will perform analytical procedures to ascertain whether the value of grant debtors is in line with expectations.• We will undertake after date testing to confirm the validity and accuracy of grant debtors as at the balance sheet date.

Financial instruments

Risks	Response
Fair value measurements not correct	<ul style="list-style-type: none">• We will ensure that all fair value calculations for financial assets and financial liabilities are accurately computed and appropriately disclosed.

Appendix B. Accounts risks (continued)

Property, plant and equipment

Risks	Response
Property, plant and equipment might include erroneous entries	<ul style="list-style-type: none">• Significant additions and disposals during the year will be reviewed for appropriate treatment and classification.• Revaluation and depreciation entries will be reviewed where significant.• Items of a capital nature that have been expensed during the year will be reviewed to assess if treatment is correct.
Revaluations and/or impairments of property may not be done correctly	<ul style="list-style-type: none">• Approach used to determine whether revaluations and/or impairments are required will be reviewed and where experts have been used we will evaluate the work done.
Allowance for depreciation may not be adequate	<ul style="list-style-type: none">• We will perform analytical procedures to ascertain whether the depreciation charge is in line with expectations.
Recognition of schools	<ul style="list-style-type: none">• We will review the Council's treatment against International Financial Reporting Standards and the 2010 Code.

Operating Expenses

Risks	Response
Cut-off of expenditure has not been observed appropriately.	<ul style="list-style-type: none">• Year end creditors and accruals will be tested for completeness.

Appendix C. Action plan

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
1	Internal Audit Terms of Reference We recommend that the Internal Audit terms of reference are reviewed and approved by the Audit and Accounts Committee on an annual basis.	Medium	Accepted. The Internal Audit terms of reference have been reviewed and updated for 2011. These were reviewed and approved by Audit and Accounts Committee on 24 March 2011. This will be done on an annual basis.	24 March 2011 Richard Boneham
2	Internal Audit Strategy We recommend that the Council ensures that all financial years are covered by an Internal Audit Strategy and that the Audit and Accounts Committee reviews the Internal Audit Strategy on an annual basis, to ensure that it remains up to date.	Medium	Accepted. The Internal Audit Strategy for 2011/12 was reviewed and approved by Audit and Accounts Committee on 24 March 2011. This will be done on an annual basis.	24 March 2011 Richard Boneham
3	Lock out ability for desktops We recommend that the Council ensures that screensaver passwords are enabled automatically after 15 minutes at the Group Policy settings level.	Medium	Agreed in principle. Whilst an automatic screensaver lock seems a good idea, a fifteen minute timeout period seems unnecessarily short. ICT propose to implement a 30 minute automatic screensaver lock on all client devices attached to the corporate DC network.	September 2011 Glyn Peach

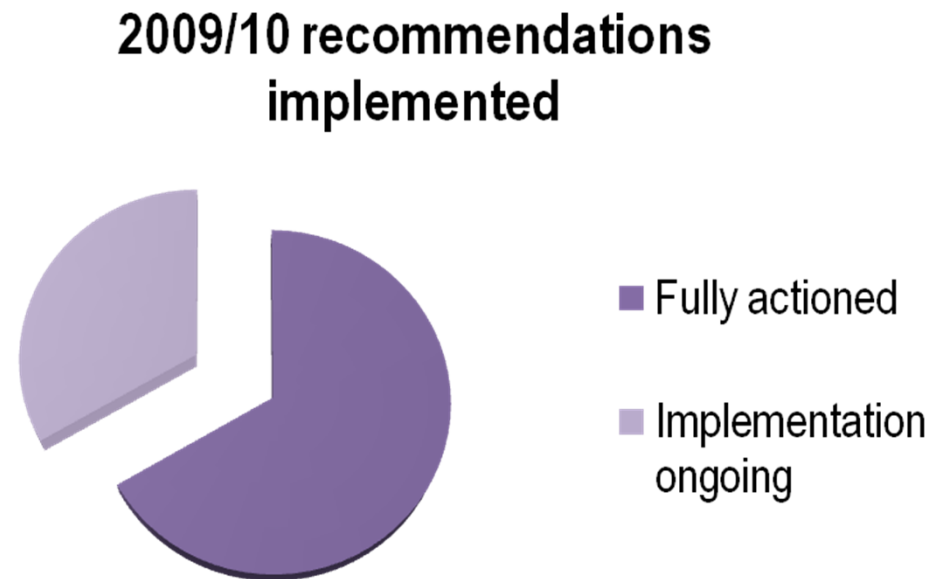
Appendix C. Action plan (continued)

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
4	<p>Accounts Payable Reconciliations</p> <p>The accounts payable reconciliations have not always been consistently reviewed by a senior member of the Resources department. For example, we identified that the April 2010 and August 2010 accounts payable reconciliations had not been reviewed.</p> <p>We recommend that the accounts payable reconciliations are reviewed by a senior member of the Resources department on a monthly basis.</p>	Medium	<p>Accepted.</p> <p>The accounts payable system is reconciled to the General ledger on a monthly basis within the Business Systems team and then reviewed by Corporate Accountancy. During 2010/11 staff shortages within the Corporate Accountancy team meant that on two occasions this review did not occur. Corporate Accountancy will ensure that this reconciliation is reviewed on a monthly basis going forward and completion of this reconciliation will be reported to the Head of Corporate Finance and Director of Finance and Performance as part of the corporate control framework reporting.</p>	<p>31 July 2011</p> <p>Amy Goring</p>
5	<p>'Invoice on Hold' Report</p> <p>At the time of our interim audit, review of the 'Invoice on Hold' report highlighted that there were 1399 invoices totalling £7,099,466.05. Further inspection identified that 709 of the invoices were over 3 months old totalling £2,142,055.57. This suggests that this report is not being reviewed and cleared on a timely basis.</p> <p>We recommend that the 'Invoice on Hold' report is reviewed on a periodic basis and that action is taken to ensure that the older items on the report are addressed more periodically.</p>	Medium	<p>Accepted.</p> <p>Work is currently being done on “Invoices on Hold” to clear the old invoices however the number on hold changes rapidly.</p> <p>This report will be run on a weekly basis to ensure that the invoices are paid in a timely manner.</p> <p>In addition, the invoices on hold report will in future be managed through the corporate control framework</p>	<p>July 2011</p> <p>Alison Fry</p>

Appendix D. Follow up of prior year recommendations

Progress in implementing recommendations

As part of our planned programme of work, we followed up the recommendations made in our reports issued last year. Our work indicates that the Council has made good progress, fully implementing 20 of the 30 recommendations as set out below.



Appendix D. Follow up of prior year recommendations (ctd)

Progress in implementing recommendations (continued)

Ten recommendations were being actioned at the time of our review and are expected to be fully implemented by July 2011 as follows:

- the accounting policies of Derby Homes Ltd and Connexions Derbyshire Ltd have not yet been fully aligned with those of the Council
- the Council has not fully populated a central system to aid with the cash flow management of rental income from investment properties
- the Council has not fully populated a central record of all contractor retentions, both due and to be recovered
- the Council has not assigned a unique identifier to all assets on the fixed assets register
- the Council has not begun undertaking a regular exercise of physically verifying assets on the fixed assets register outside of the rolling programme
- the Council has not fully completed the updating of its Capitalisation Policy, in particular reviewing its policy in relation to non-enhancing capital expenditure
- the Council has not fully completed the updating of its Capitalisation Policy, in particular a formal policy for Revenue Expenditure Funded from Capital under Statute has yet to be fully formulated
- procedures have not been fully adopted by the Council to identify mixed use investment properties
- a central record of leases has not been fully developed by the Council for the purposes of IFRS and embedded derivatives have not been considered as part of this exercise
- the Council is still undertaking measures to ensure that assets reclassified during the year are revalued in 2010/11, based on the valuation basis for their new category of fixed asset.



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