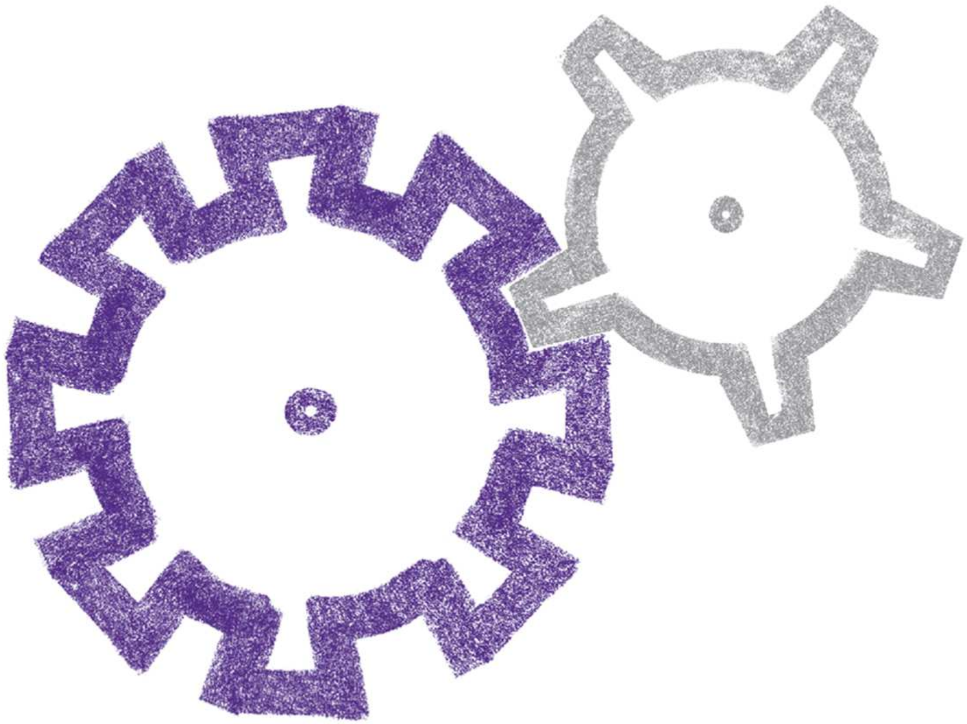
Grant Thornton

Derby City Council

Annual report to those charged with governance 2010/11

29 September 2011



Grant Thornton

29 September 2011

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To the Audit and Accounts Committee of Derby City Council

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Audit and Accounts Committee of Derby City Council (the Council). The purpose of this report is to highlight the key issues arising from the audit of the Council's financial statements and value for money opinion work for the year ending 31 March 2011.

This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit and Accounts Committee. The requirements of ISA260, and how we have discharged them, are set out in more detail at Appendix D.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff. The finance team has been particularly helpful through the course of our work.

Yours sincerely

Jon Roberts
Engagement Lead
Partner for Grant Thornton UK LLP

AccountancyAge AWARDS 2010 WINNER

National Not for Profit Team - Accountancy Age 'Audit Team of the Year' 2010 winners

Contents

1. Executive summary

We have completed our accounts audit in accordance with our audit strategy as set out in our Audit Approach Memorandum presented to the Audit and Accounts Committee in March 2011.

The Council is responsible for the preparation of financial statements which record its financial position as at 31 March 2011, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements present a true and fair view of the financial position. Under the Audit Commission's Code of Audit Practice, we are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The table below provides a summary of the work performed during the year and our key findings. For further detail refer to the relevant section within the report.

Risk assessment

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Our audit risks were outlined in our Audit Approach Memorandum 2010/11 and refreshed in our Interim Audit Report, presented to the Audit and Accounts Committee in June 2011. We have not needed to change our audit approach from these initial plans and no new matters arose during our work on the final accounts.

Financial statements

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Our audit identified a number of amendments, as set out at Appendix B, which have all been processed by the Council.

These adjustments have resulted in the reported Comprehensive Income and Expenditure Statement surplus of £61.8m changing to a deficit of £46.7m, but had no overall impact on the General Fund deficit which remained unaltered at £12.3m.

We anticipate providing an unqualified opinion on the Council's financial statements, following approval of the accounts by the Audit and Accounts Committee on 29 September 2011, subject to completion of a small number of outstanding procedures.

Other key matters

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We have not identified any matters that indicate a material weakness in the Council's financial controls.

Our work has not identified any significant weaknesses in the Council's management of the risk of fraud.

We have read the Annual Governance Statement and are satisfied it is a fair reflection of our understanding of the Council's affairs.

Whilst a number of taxpayers exercised their rights to publically inspect the financial statements, we were not asked any direct questions. We do not, therefore, expect there to be a delay in issuing our audit certificate.

Value for money conclusion

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We have addressed the risks identified from our planning and detailed risk assessment through the course of our audit and there are no significant matters to bring to your attention.

We have made some recommendations for improvement.

We are pleased to report that we propose to issue an unqualified value for money conclusion.

2. Audit risk conclusions

We have concluded, in the table below, against the audit risks identified in our Audit Approach Memorandum 2010/11, which were updated in our Interim Audit Report. We can confirm our audit strategy and audit approach has not changed from that previously reported to you. Details of the specific risks facing the financial statements, as reported in our Interim Audit Report, are recorded at Appendix A.

Issue	Work completed	Conclusion
Accounting under IFRS for the first time	• We have reviewed the processes put in place by the Council for completing the transition to IFRS, and reviewed in detail those material adjustments that have been applied to the opening balances.	• Some enhancements to disclosures have been recommended and made, which are summarised at Appendix B. • We commend officers on the clear presentation of the first set of financial statements prepared under IFRS and the successful delivery of the Council's IFRS transition project.
Economic Climate/Financial performance pressures	• 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.	• We have noted that, whilst the recent economic downturn has continued to have an impact on some services provided by the Council in 2010/11, the Council's general fund and HRA balances both remain above minimum acceptable levels.
Revaluation of non-current assets	• We have discussed with Council officers the approach taken by the Council for revaluation of its assets. • We have reviewed the valuations undertaken and considered compliance with the requirements of IFRS.	• Our audit procedures identified a £9.8m impairment issue in relation to Council Dwellings. This is discussed in more detail at Section 3 and has been amended as noted at Appendix B.
Income Recognition - Housing and Council Tax Benefit	• We are in the process of completing our initial sample of cases from the 2010/11 benefits claim. This will provide a basis for assessing the adequacy of the Council's provision for potential clawback.	• Based on our initial testing of the 2010/11 claim and our cumulative knowledge, we have concluded that the provision in the accounts is not materially misstated.

2. Audit risk conclusions (continued)

Issue	Work completed	Conclusion
Follow up of 2009/10 findings	• We have followed up all of our recommendations from 2009/10 to ensure that they have been fully implemented by the Council.	• The Council has made good progress in implementing the recommendations made in our 2009/10 reports, with only one remaining outstanding, as detailed at Appendix C.
Accounting for Schools	• We have discussed and considered the Council's accounting judgements in relation to its accounting for schools under IFRS.	• Following discussions with officers, the Council has added an appropriate accounting policy note and note to the core financial statements in the 2010/11 financial statements in respect of its accounting treatment for schools, as detailed at Appendix B.
Sinfin Waste Recycling Facility	• We have continued to monitor the Council's progress in implementing the joint waste project, including associated planning consent issues.	• This project has yet to reach financial close. • We have noted that the decision by the Secretary of State refusing to grant permission for the development was challenged by the applicants and overturned by the High Court, and that the consequence of that decision is that a planning appeal will be re-determined by the Planning Inspectorate following an exchange of written representations.

2. Audit risk conclusions (continued)

Issue	Work completed	Conclusion
Redundancy Programme	• We have discussed with Council officers the redundancy programme and have considered the requirements of IAS37 *Provisions, Contingent Liabilities and Contingent Assets*.	• We note that within the budget requirement for 2011/12, significant savings will come from redundancies. • We are satisfied that all provisions in the 2010/11 financial statements meet the requirements of IAS37.
Group Accounting Policies	• We have reviewed the accounting policies of the Council's subsidiary/associate companies, Derby Homes Ltd and Connexions Derbyshire Ltd, to ascertain whether they have been aligned with the policies of the Council, for the purposes of Group Accounts.	• Whilst the accounting policies of the Council's subsidiary/associate companies have not been fully aligned with the policies of the Council, no consolidation adjustments were deemed necessary in 2010/11, on the basis that any adjustment would not be material.

3. Financial statements audit

Introduction

We were presented with the draft financial statements on 30 June 2011, in accordance with the statutory deadline of 30 June 2011. The supporting working papers were also provided in accordance with the agreed timetable for audit.

Regular liaison meetings were held between the audit team and key finance officers prior to the preparation of the draft accounts, and throughout the audit fieldwork. This enabled early resolution of emerging issues. We would like to place on record our appreciation to those officers involved in this process, which we consider to have worked particularly well. We are also pleased to recognise that whilst there are still some ongoing issues to be addressed on fixed assets, the 2010/11 audit has continued the improvements achieved in previous years.

Accounts & Audit Regulations (England) 2011

Last year, the Council was required to present draft accounts to those charged with governance prior to 30 June 2010. The new regulations allow the Council's section 151 officer to certify the accounts prior to 30 June 2011 and only present audited accounts to the Audit and Accounts Committee before 30 September 2011.

The Council has met the requirements of these new regulations this year.

It was pleasing to note that the Council presented the draft accounts to the Audit and Accounts Committee in June 2011 for information. This early presentation, together with training for committee members, is an example of best practice as it has provided significant opportunity for those charged with governance to become familiar with the first set of IFRS accounts ahead of formal approval.

Status of the audit

We carried out our audit in accordance with the proposed timetable and deadlines communicated to you in our Audit Approach Memorandum. Our audit is substantially complete, subject to satisfactory completion of our concluding procedures, review of the amended accounts and reaching a conclusion in respect of the adequacy of the provision for clawback against the Housing and Council Tax Benefit subsidy claim.

Management representations

At the conclusion of our audit, we request that your Chief Executive and Strategic Director of Resources sign a management representation letter that confirms, amongst other matters, management's responsibilities to prepare financial statements that present a true and fair view and to provide with all information necessary to complete our audit.

> The Audit and Accounts Committee should review the management representation letter and confirm it is content that the declarations may be signed in good faith.

3. Financial statements audit

Matters arising during the course of our audit

Matters arising from the financial statements audit are set out below. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix C.

Impairment of Council Dwellings

Following discussions with officers, the Council engaged its in-house valuer to assess whether the value of Council Dwellings was impaired at 31 March 2011.

The valuer concluded that values had fallen by 3% at 31 March 2011. This reduction was not reflected in the accounts presented for audit and has resulted in an adjustment to the 2010/11 financial statements of £9.8m, as detailed at Appendix B.

As part of our testing, we have confirmed that the approach taken by the Council and the experience of the valuer is compliant with the Code of Practice. We have also assessed the general movement in asset values against expectations formed from our experience at other councils and national valuation information, provided by the Audit Commission. We have concluded that the valuation movement at Derby City Council is within reasonable expectations.

Accounting for Schools

Our audit procedures identified that West Park Foundation School, which transferred to Academy status on 1 April 2011, had been included in the accounts at a value of £27.6m.

An audit adjustment has been proposed and made to impair this asset to nil value at 31 March 2011. This is due to the asset being carried at more than the amount recoverable through its use or sale, as it was effectively disposed of for nil consideration on 1 April 2011.

Whilst the asset will continue to have a value, the focus in the Council's financial statements has to be the value to the Council, irrespective of whether there will be a longer term value to another body.

The adjustment is detailed at Appendix B.

In addition, our audit procedures required us to confirm that the Council has disclosed an appropriate accounting policy note and note to the core financial statements in the 2010/11 financial statements in respect of its accounting treatment for schools. We are pleased to confirm that the Council has complied with this requirement.

3. Financial statements audit

Adjusted misstatements

Our audit identified a number of adjustments which have been processed by officers.

The adjusted misstatements are included at Appendix B. These adjustments resulted in the reported Comprehensive Income & Expenditure Statement surplus of £61.8m changing to a deficit of £46.7m, but had no overall impact on the General Fund deficit which remained unaltered at £12.3m after audit adjustments.

Members are required to formally consider officers' treatment of the accounting adjustments referred to in this report and minute their decision accordingly.

Unadjusted misstatements

We are pleased to report that all the amendments identified during the course of our audit have been processed by the Council.

Other accounts issues arising

In addition to the matters raised above, there were a number of presentational changes that we have requested during the course of our audit. These have been reflected in the accounts and are summarised at Appendix B.

Financial statements opinion

We anticipate providing an unqualified opinion on the Council's financial statements, following approval of the accounts by the Audit and Accounts Committee on 29 September 2011.

Next steps

The Audit and Accounts Committee is required to approve the financial statements for the year ended 2010/11. In forming its conclusions the Committee's attention is drawn to the adjustments to the accounts and the content of the Letter of Representation.

4. Other matters for those charged with governance

Evaluation of key controls

We reported the results of our interim report to Audit and Accounts Committee on 30 June 2011, including improvement opportunities identified from our review of the elements of the Council's control environment relevant to our work.

A number of additional recommendations have been identified during the course of our final audit visit which are detailed at Appendix C.

Management of the risk of fraud

We have discussed the processes in place to identify and respond to the risk of fraud at the Council with members of your finance team and with Internal Audit.

In the course of our accounts audit work, we did not uncover any evidence of fraud or previously undisclosed control weaknesses that might undermine the Council's process for mitigating the risk of fraud.

Journals

We used our audit software to carry out intelligent testing of journal entries because journals are a key area where the statement of accounts may be inappropriately manipulated.

Our testing identified no significant issues with the Council's journal entries.

Annual Governance Statement (AGS)

We have examined the Council's arrangements and processes for compiling the AGS. In addition, we read the AGS and considered whether the statement is in accordance with our knowledge of the Council.

We have concluded that the Council has good arrangements in place to compile the AGS and provide a strong audit trail for the Chief Executive and Leader to sign the Statement.

Public inspection of the accounts

We did not receive any questions from the public in respect of the statement of accounts for the year ended 31 March 2011.

Audit certificate

The audit certificate confirms we have completed the audit of accounts of Derby City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

We plan to issue our audit certificate on the same date that we issue our value for money conclusion and opinion on the financial statements. We are able to do so because:

- there are no material matters outstanding relating to our audit of your financial statements nor the value for money conclusion
- no questions have been raised by a member of the public and therefore remain unanswered.

5. Value for Money

Value for Money conclusion

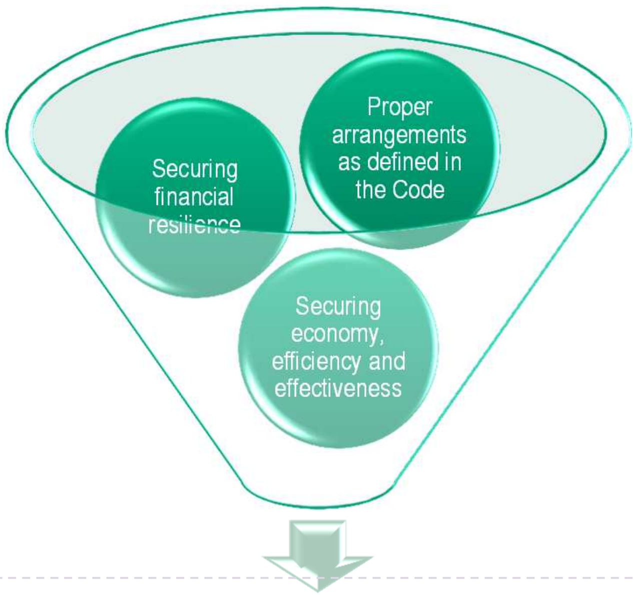
The Audit Commission's Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

For 2010/11 the required elements, as defined in the Code, were considered alongside the following two criteria specified by the Audit Commission:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Our approach was set out in our Audit Approach Memorandum and this section of our report summarises the work performed and our overall conclusions on the criteria supporting the value for money conclusion.



We are pleased to report that, based on our review of the Council's arrangements, we propose to give an unqualified conclusion

5. Value for Money

Programme of work: review of proper arrangements

Our work has encompassed a review against proper corporate performance and financial management arrangements as defined by the Code. The findings from our review against these arrangements are summarised in the table below:

Code criteria	Work completed	Significant matters arising	Conclusion
Planning finances effectively to deliver strategic priorities and secure sound financial health	Considered through our work on the going concern assertion and also through our work on financial resilience	None	Proper arrangements considered to be in place
Having a sound understanding of costs and performance and achieving efficiencies in activities	Considered as part of our review of financial resilience	The Council announced a further round of redundancies of up to 500 full time staff as a response to deepening financial pressures	Proper arrangements considered to be in place
Reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people	Reviewed as part of financial resilience work, our audit of the financial statements (pages 7 to 9)	None	Proper arrangements considered to be in place
Commissioning and procuring services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity	None	Proper arrangements considered to be in place

5. Value for Money

Programme of work: review of proper arrangements

Code criteria	Work completed	Significant matters arising	Conclusion
Producing relevant and reliable data and information to support decision making and manage performance	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity	None	Proper arrangements considered to be in place
Promoting and demonstrating the principles and values of good governance	Considered through our work on the Annual Governance Statement (page 10)	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.	Proper arrangements considered to be in place
Managing risks and maintaining a sound system of internal control	Considered through our interim accounts audit and our review of your Annual Governance Statement (page 10)	See above comment regarding Audit Committee effectiveness	Proper arrangements considered to be in place
Making effective use of natural resources	We have updated our 2009/10 assessment through discussions with officers and considering any changes to our initial risk assessment	None	Proper arrangements considered to be in place

5. Value for Money

Programme of work: review of proper arrangements

Code criteria	Work completed	Significant matters arising	Conclusion
Managing assets effectively to help deliver strategic priorities and service needs	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity	The Council's new Corporate Asset Management Plan (CAMP) should provide it with the basis for developing its approach to asset management. However, we found that there were certain areas which required further development. We will continue to liaise with the Council in order to ensure that the actions in response to our recommendations are implemented.	Proper arrangements considered to be in place
Planning, organising and developing the workforce effectively to support the achievement of strategic priorities	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity. We also considered your arrangements for monitoring sickness absence levels as a measure of productivity	In addition to the internal redundancies that the Council is facing, the local economy could also potentially see a significant number of redundancies (e.g. potentially 1,400 job losses at Bombardier). Consequently the Council faces the challenge of maintaining its level of service provision with less resources whilst demands for services increases.	Proper arrangements considered to be in place

5. Value for Money

Financial resilience

We assessed whether the Council has robust systems and processes in place to effectively manage its financial risks and opportunities, and to secure a stable financial position. We undertook an initial risk assessment of the Council's arrangements for: financial planning; financial governance; and financial control. The main factors to support a positive value for money conclusion in this area are set out in the table below:

Financial resilience		
Financial planning	**Financial governance**	**Financial control**
• 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. • The Council has an MTFS which is updated to reflect changes to the changing economic landscape. There are regular updates to reflect changes and these are reported to Cabinet. The MTFS is closely linked to the corporate objectives. • The MTFP has strong links with the overarching planning process and reflects current economic conditions. • The Council works to ensure its plans are deliverable. Review processes include development and sign off of savings plan and their deliverability. All plans (efficiency savings etc) go to SMT meetings and cabinet.	• 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. • The Council's Risk Management Strategy is well developed and embedded throughout the organisation. • As the profile of Audit Committees within Local Government becomes more prominent and the demands increase on Members (e.g. understanding IFRS), there will be an additional requirements to seek opportunities to strengthen the Council's requirements in this area. Officers have plans in place to address this including a refreshed Member training programme within the context of continuous improvement. • The Council prepares detailed monthly budget monitoring reports for Chief Officers. Quarterly reports, provided to Members, provide an in-depth analysis of performance against budgets.	• The Council's financial control has improved in 2010/11 largely as a result of the corporate efficiency programme, combined with other factors, such as usage of internal and external assurance mechanisms. The Council has a strong understanding of its costs and performance, assisted by a robust finance system. • There will be a reduction in the Finance Team/Resources Department as a result of the redundancy programme. However, the risk that this may impact upon the ability of the Finance department to discharge its duties effectively is, in our opinion, very low, due to very little change at the more senior levels within this team who can assure continuity. • The financial statements and the Council's internal management accounts reconcile, which ensures both internal and external information is reported consistently. • The Council has an effective internal audit function which complies with CIPFA standards.

5. Value for Money

Securing economy, efficiency and effectiveness

As with our work on financial resilience, we undertook an initial risk assessment of the Council's arrangements for: prioritising resources; and improving efficiency and productivity. The main factors that support a positive value for money conclusion in this area are set out in the table below:

Securing economy, efficiency and effectiveness	
Prioritising resources • Economic and demographic changes and trends, emerging pressures and stakeholder views are all are incorporated into resource modelling in order to achieve the most efficient prioritisation of resources. • The allocation of resources is completed through the budget setting process with heads of service taking responsibility for their own areas, with scrutiny and challenge by Members and Executive. This demonstrates that leadership takes responsibility for prioritising resources. • The Council is proactive in consulting with stakeholders (e.g. Chief Executive road shows). • In addition, local residents have been consulted via surveys and events to rank services, with a strong response received. • The Council continues to have a close working relationship with the third sector. When assessing alternative service delivery models as part of the commissioning cycle, use of the third sector is always considered.	**Improving efficiency and productivity** • The Council has a good understanding of its costs. The DECATS project identified 14 areas across the Council where significant cost savings can be achieved through re-engineering processes and realigning services, particularly support functions. • The Council regularly benchmarks its performance and costs against regional and family comparator groups using tools such as PwC toolkit and CIPFA data. This data is used to inform in-year performance and budget monitoring in addition to the annual Budget Star Chambers. • In 2009/10, NI 179 Value for Money releasing gains were on target at £4.6m.following the successful implementation of major performance plans at the Council. • The Council Plan is monitored on a quarterly basis, which includes specific targets for budgets, priority objectives and Value for Money. The Council publishes regular information in the 'Your Derby' residents' magazine, in particular an Annual Report summary of its achievements for each financial year.

5. Value for Money

Results of targeted work

As part of our 2010/11 audit plan, we agreed to carry the second phase of our review of the Council's asset management arrangements.

This review was completed in March 2011 and we are satisfied there is no impact to our value for money conclusion; although we have identified areas for improvement.

Our detailed results were reported separately to the Council. In summary, whilst the Corporate Asset Management Plan (CAMP) should provide the Council with the basis for developing its approach to asset management, we found that there were certain areas which required further development. We will continue to liaise with the Council in order to ensure that the actions in response to our recommendations are implemented.

Appendices

Appendix A. Accounts risks

An audit accounts risk is an area of the accounts where we believe there is a higher risk of a material misstatement occurring in the accounts. The table below sets out the assurances we gained over those risks.

Property, Plant and Equipment

Audit Risks	Response	Conclusion
Property, plant and equipment might include erroneous entries	• Significant additions and disposals during the year have been reviewed for appropriate treatment and classification • Revaluation and depreciation entries have been reviewed where significant • Items of a capital nature that have been expensed during the year have been reviewed to assess if the treatment is correct.	The following issues were identified from our procedures: • two assets categorised as 'held for sale' at the year end had been disposed of during the year • one vehicle addition had not been included on the fixed asset register and in the accounts, however this was not significant in value. These adjustments are detailed at Appendix B.
Revaluations and/or impairments of property may not be done correctly	• Approach used by the Council to determine whether revaluations and/or impairments are required has been reviewed • We have evaluated the work undertaken by the Council's experts.	Our audit procedures identified an impairment adjustment of £9.8m to Council Dwellings that had not been booked. This adjustment is detailed in section 3 and at Appendix A.

Appendix A. Accounts risks (continued)

Property, Plant and Equipment

Audit Risks	Response	Conclusion
Allowance for depreciation may not be adequate	• We have performed analytical procedures to ascertain whether the depreciation charge is in line with expectations.	Our audit procedures have provided us with assurance that the total depreciation charge in the financial statements is not materially misstated.
Recognition of schools	• We have reviewed the Council's treatment against International Financial Reporting Standards and the 2010 Code.	As detailed at section 3 and at Appendix B, an amendment has been made to remove West Park Foundation school from the fixed assets register as at 31 March, following transfer to Academy status on 1 April 2011. The Council has disclosed an appropriate accounting policy note and note to the core financial statements in the 2010/11 financial statements in respect of its accounting treatment for schools.

Appendix A. Accounts risks (continued)

Other balances

Audit Risks	Response	Assurances gained
Grant Revenues Grant debtors may be erroneous	• We have performed analytical procedures to ascertain whether the value of grant debtors is in line with expectations • We have undertaken after-date testing to confirm the validity and accuracy of grant debtors, as at the balance sheet date.	Our 2010/11 audit procedures did not identify any errors that indicated that grant debtors are materially misstated. As detailed at section 2, we are in the process of completing our initial sample of cases from the 2010/11 benefits claim. This will provide a basis for assessing the adequacy of the Council's provision for potential clawback.
Financial Instruments Fair value measurements not correct	• We have reviewed all fair value calculations for financial assets and financial liabilities to ensure they have been accurately computed and appropriately disclosed.	We are satisfied that all fair value calculations for financial assets and financial liabilities have been accurately computed and appropriately disclosed.
Operating Expenses Cut-off of expenditure has not been observed appropriately	• Year end creditors and accruals have been tested for completeness.	Our 2010/11 audit procedures did not identify any cut off issues in respect of expenditure.

B. Adjustments to the financial statements

Adjusted misstatements

The table below lists all significant audit adjustments which have been processed and agreed with the Strategic Director of Resources. These adjustments resulted in the reported Comprehensive Income and Expenditure surplus of £61.8m changing to a deficit of £46.7m, but had no overall impact on the General Fund deficit which remained unaltered at £12.3m, after audit adjustments.

Adjustment in £'000s	Long Term Assets	Current Assets	Current Liabilities	Long Term Liabilities	Net Assets
Draft Statement of Accounts	**1,165,416**	**125,327**	**(87,641)**	**(586,680)**	**616,422**
Overall impact, including prior period adjustments, of ensuring foundation schools have been appropriately accounted for under IFRS in 2010/11, and in prior years	(17,319)				(17,319)
Removal of two assets included in assets held for sale at year end that had been disposed of in year		(937)			(937)
Amendment for finance lease liabilities classified as long term, when in fact they are short term			(502)	502	0
Amendments for various issues relating to the housing benefit creditors figure, including: • the year end accrual omitting a 2010/11 payment run, as well as CTB and HRA payments • housing benefit payments being processed in May/June 2011, which related to 2010/11			(693)		(693)
Adjustment to the housing benefit debtors figure to reflect the amendments to the equivalent creditors figure (see above)		656			656

B. Adjustments to the financial statements (continued)

Adjustment in £'000s	Long Term Assets	Current Assets	Current Liabilities	Long Term Liabilities	Net Assets
Amendment for a property, plant and equipment addition incorrectly classified as revenue expenditure funded from capital under statute	141				141
Impairment of Council Dwellings, to reflect the valuer concluding that values had fallen by 3% at 31 March 2011, as detailed at section 3	(9,759)				(9,759)
Amendment for debtors classified as short term, when in fact they are long term	110	(110)			0
Amendment to ensure an invoice raised to the wrong debtor is correctly addressed		(30)			(30)
Amendment for the understatement of capital grants receipts in advance, in particular section 106 contributions				(270)	(270)
Amendment for depreciation of property, plant and equipment where useful economic lives and residual values on revalued assets had not been updated on the fixed asset register	(2,682)				(2,682)
Removal of West Park Foundation School, which achieved Academy status on 1 April 2011, but still held on the fixed asset register	(27,625)				(27,625)
Final Statement of Accounts	**1,108,282**	**124,906**	**(88,835)**	**(586,449)**	**557,904**

B. Adjustments to the financial statements (continued)

The following reclassification adjustments have been made to correct the presentation of amounts within the accounts:

- On the face of the Comprehensive Income and Expenditure Statement, the following changes have been made to ensure the disclosure is consistent with BVACOP requirements:
  - central services to the public income has been decreased by £1,513,000, with a corresponding increase to other housing services income.
  - central service to the public expenditure has been decreased by £3,608,000, with a corresponding increase to other housing services expenditure.
- Central government bodies creditors of £1,843,000 have been reclassified as sundry creditors. Likewise, the comparative figure has also been reclassified between the same categories by £1,544,000.

The following adjustments have also been made which are not evident from the list above:

- Comprehensive Income and Expenditure Statement
  - non distributed costs gross expenditure has been decreased by £7,390,000 to correct the double counting of distribution of non distributed costs.
  - non distributed costs gross expenditure and gross income have both been decreased by £8,815,000 each respectively to ensure that recharge transactions have been correctly matched off.
  - corporate and democratic core gross expenditure and gross income have both been increased by £4,100,000 each respectively to ensure that both figures are not understated.
  - the 2009/10 comparative figures for cultural, environmental, regulatory and planning services for both gross expenditure and gross income have been decreased by £22,369,000 each respectively to ensure that trading services income and expenditure is not double counted.
- Group Accounts
  - the figure for share of liabilities from Connexions Derbyshire Ltd has been decreased by £130,000 from £2,508,000 to £2,378,000 on the face of the Group Balance Sheet, as a result of ensuring Connexions Derbyshire Ltd's pension deficit as at 31 March 2011 has been correctly accounted for in the computation of the figure. Similarly, the figure for interest in Connexions Derbyshire Ltd has also been decreased by the same amount on the face of the Group Balance Sheet.
- Note 20, Capital Expenditure and Capital Financing - property, plant and equipment capital investment has been increased by £2,520,000 from £65,861,000 to £68,381,000 to ensure that the figure within Note 20 is based on the cash basis.
- Note 21, Leases - where the Council acts as a lessee, the total future minimum operating lease payments due under non-cancellable leases, for the period later than one year but not later than five years, have decreased by £199,000 from £2,121,000 to £1,922,000, to correctly analyse the Cardinal Square LLP operating lease between years.

B. Adjustments to the financial statements

Disclosure omissions

Our review identified a number of additional disclosure and amendments to existing disclosures before we could conclude that the Statement of Accounts were materially compliant with CIPFA's Code of Practice. The following table sets out the key disclosure amendments identified through our audit.

	Issue identified and amendments made
1	**Property, Plant and Equipment Accounting Policy** Additional narrative has been added to the Property, Plant and Equipment accounting policy note to detail the Council's policy in respect of componentisation, in particular highlighting the following points: • componentisation of non-current assets has been applied prospectively on all assets enhanced, purchased or revalued from 1 April 2010 onwards • the Council has set a threshold of £3m for the identification of significant assets for componentisation • major components are considered significant if they account for 25% or more of the cost of the whole asset.
2	**Assumptions made about the future and other major sources of estimation uncertainty** Additional narrative has been added to Note 5, Assumptions made about the future and other major sources of estimation uncertainty, to consider valuation estimation as part of property, plant and equipment and to consider provisions.
3	**Notes to the HRA Statements** An explanatory note has been added to the notes to the HRA statements, to provide an explanation of the HRA share of contributions to or from the Pensions Reserve, as required by the Code of Practice.
4	**Nature and Extent of Risks arising from Financial Instruments** We noted that the disclosure requirements of the CIPFA Code of Practice had not been fully complied with in that an analysis summarising the Council's potential maximum exposure to credit risk in relation to its investments in banks and building societies, or, in relation to its other financial assets, had not been disclosed. Additional disclosure has been added to Note 24, Nature and Extent of Risks arising from Financial Instruments, to ensure compliance with the Code of Practice requirements.

B. Adjustments to the financial statements

	Issue identified and amendments made
5	**Accounting Standards that have been issued but have not yet been adopted** The recent announcement that the International Accounting Standards Board is introducing an Exposure Draft which proposes to delay the effective day of IFRS 9 Financial Instruments until periods commencing on or after 1 January 2015, has resulted in additional narrative being inserted into Note 3, Accounting Standards that have been issued but have not yet been adopted.
6	**Contingent Liabilities** Note 41, Contingent Liabilities has been expanded to include commentary on a dispute between the Council and one of its contractors, Kier Support Services Ltd Furthermore, we noted that the disclosure requirements of international accounting standard 37 relating to contingent liabilities had not been fully complied with in respect of all of the Council's contingent liabilities. Additional narrative has been added to Note 41, Contingent Liabilities, providing detail of each contingent liabilities estimated financial effect, an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.
7	**Deferred Liabilities** A note has been added to the notes to the core financial statements to provide detail on the movement in the deferred liabilities balance during the year.
8	**Critical Judgements in Applying Accounting Policies** We noted that Note 4, Critical Judgements in Applying Accounting Policies, did not consider estimates made in the adoption of the beacon methodology for the valuation of Council Dwellings, nor estimates around residual value assessments in respect of all categories of property, plant and equipment. Additional narrative has been added to ensure that both of these estimates have been suitably considered.

B. Adjustments to the financial statements

	Issue identified and amendments made
9	**Accounting for Schools** An accounting policy note has been added to the 2010/11 financial statements to provide detail on the Council's accounting treatment for schools. A note to the core financial statements has been added to the 2010/11 financial statements providing an analysis of the Council's maintained schools.
10	**Narrative disclosures** Other disclosures were identified in the financial statements. The more significant revisions were as follows: • disclosure of summarised financial information of Connexions Derbyshire Ltd, including the aggregated amounts of assets, liabilities, revenues and profit or loss, as required by the Code of Practice • Note 37, Officers Remuneration being amended to decrease the number of employees in the remuneration band £50,000 to £54,999, from 87 to 86 • additional narrative being added to Note 13, Grant Income, to highlight that all area based grant is now non-ringfenced general grant and that as a result, supporting people programme grant income has also been included within the area based grant line in the note • the infrastructure depreciation accounting policy wording being amended to clarify that the policy is straight line allocation over 40 years rather than straight line allocation over 25 years • the depreciation accounting policy being updated to clarify that depreciation is not charged in the year of addition, but is in the year of disposal • the benefit subsidy claims narrative being updated within Note 41, Contingent Liabilities, to more accurately clarify the position in respect of the 2010/11 benefit subsidy claim, notably that £502,000 has been provided for in the 2010/11 financial statements, to reflect the total anticipated Local Authority error within the 2010/11 benefit subsidy claim • a minor number of presentational issues and typographical errors have been corrected • a small number of casting errors have been addressed.

Appendix C. Action plan

	Issue and Risk	Recommendation	Priority H/M/L	Council response
1	**Treasury Management** Locally-set prudential indicators required for treasury management relate to the split of borrowing and investments between fixed and variable rates, and the maturity profile of long term loans and long-term investments. The Council acknowledges that the split in respect of net borrowing (borrowing less investments) as at 31 March 2011 is not within its set upper and lower limits, in respect of both fixed and variable interest rate exposure. The Council has also set its own prudential indicators in respect of long-term borrowing and investments. The Council also acknowledges that the split as at 31 March 2011, in respect of both fixed and variable rate investments, is not within the Council's set upper and lower limits.	We recommend that the limits in respect of the Council's locally-set prudential indicators, as set by Council, are re-examined as soon as possible, and once re-set are strictly adhered to by the Council going forward.	Medium	The prudential indicators relating to fixed and variable interest rate exposure will be reviewed in the Treasury Management Progress Report to Cabinet in November 2011. If they are retained as meaningful indicators then the limits applicable to them will also be reviewed and revised if appropriate. Responsible Officer: Ciaran Guilfoyle Deadline: November 2011

Appendix C. Action plan

	Issue and Risk	Recommendation	Priority H/M/L	Council response
2	**Financial Procedure Rules** The Council's Financial Procedures Rules have not been fully reviewed and updated since June 2006, although we do note that a high level update occurred in 2009.	We recommend that the Council's Financial Procedure Rules are reviewed and updated, with the revised version approved by the Audit & Accounts Committee, before being made available to all Council employees on the Council's intranet site.	Low	The Finance team are in the process of reviewing and updating the Council's Financial Procedure Rules. These will be presented to Audit & Accounts Committee for authorisation before publication. Responsible Officer: Chloe Kenny Deadline: November 2011
3	**Delegation of Authority - Resources Department** The Resources directorates Delegation of Authority scheme rules have not been reviewed and updated since January 2007.	The Resources directorate Delegation of Authority scheme rules should be reviewed and updated, and then the revised version approved by the Audit & Accounts Committee, before being made available to all Council employees on the Council's intranet site.	Low	The Resources Directorate is in the process of updating the Directorate Scheme of Delegation. This will include the review and update of Delegation of Authority scheme rules. Responsible Officer: Jon Redfern Deadline: November 2011

Appendix C. Action plan (continued)

	Issue and Risk	Recommendation	Priority H/M/L	Council response
4	**Heritage Assets** Note 3, Accounting Standards that have been issued but have not yet been adopted, states that it is estimated that the total value of heritage assets to be recognised in the Balance Sheet will be £48.9m. However, £47.969m of this £48.9m valuation is based on insurance valuations in 2008/09, rather than reflecting values at 31 March 2011.	The Council should ensure valuations are undertaken in line with Code of Practice requirements (and guidance within LAAP Bulletin 88) in the 2011/12 financial statements.	Medium	A valuation has already taken place on the Council's Joseph Wright collection by Sotherbys. Further valuations will be carried out in accordance with the LAAP Bulletin 88 for the 2011/12 accounts. Responsible Officer: Tao Vickery / Head of Museums Deadline: March 2012
5	**Contractor Retentions** Whilst efforts have been made by the Council to start maintaining a central record of contractor retentions, it still largely remains the responsibility of the individual departments to maintain records for their respective departments. This recommendation was also reported in 2009/2010.	The Council should maintain a central record of all contractor retentions, both due and to be recovered. This will help the Council to identify any overdue or unpaid retentions to be recovered or written off.	Medium	A central register will be updated by the capital team on a quarterly basis. This will include property services, highways and housing data and therefore cover all of the Council's major capital contracts. Responsible Officer: Nicola Goodacre Deadline: March 2012

Appendix C. Action plan (continued)

	Issue and Risk	Recommendation	Priority H/M/L	Council response
6	**Fixed Asset Register/Fleet Inventory** Internal audit's procedures on fixed assets in 2010/11 identified that one of the sample of fleet vehicles chosen could not be agreed to the fixed asset register. Our audit procedures confirmed that the fixed asset register had not been updated for this vehicle omission prior to the production of the 2010/11 financial statements.	A full reconciliatory check should be undertaken between the fleet inventory, as maintained by the Fleet and Depot Manager, and the fixed asset register, to provide assurance that all Council owned vehicles are included in the fixed asset register. A review of processes and controls should also be undertaken, to ensure that omissions do not occur again.	High	A full reconciliation is currently in progress with the fleet management system and the Fixed Asset Register. A new procedure has been agreed to include monthly updates from the fleet management system. Once the Council's planned new asset software has been implemented (Dec 11) there will be an automatic feed from the fleet management system removing the risk of further omissions in the future. Responsible Officer: Tao Vickery / Richard Kniveton Deadline: March 2012

Appendix C. Action plan (continued)

	Issue and Risk	Recommendation	Priority H/M/L	Council response
7	**Self-Employed Workers** The Council has in place guidance and rules with regard to the engagement of self-employed workers. We understand that certain departments are working outside of these systems and this means that not only could there be potential exposure from a PAYE/NIC perspective on payments made, but also where employees are made redundant and then brought back as a self-employed consultant, exposure may arise on the actual redundancy payments.	We recommend that all Council departments strictly adhere to the Council's guidance and rules with regard to the engagement of self-employed workers.	Low	A reminder of the Council's guidance and rules with regard to the engagement of self-employed workers will be issued to all managers with emphasis placed on the importance of complying with these policies for the reasons stated in this recommendation. Responsible Officer: Keith Dalton Deadline: October 2011

Appendix D. The reporting requirements of ISA 260

Purpose of report
The purpose of this report is to highlight the key issues affecting the results of the Council and the preparation of the Council's financial statements for the year ended 31 March 2011.

The document is also used to report to those charged with governance to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

We would like to point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the statement of accounts of the Council.

This report is strictly confidential, and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Council arising under the terms of our audit engagement.

The contents of this report should not be disclosed to third parties without our prior written consent.

Responsibilities of the Council and auditors
The Council is responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that officers and members confirm that our understanding of all the matters in this report is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of the roles and responsibilities with respect to internal controls
The Council's officers are responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Audit and Accounts Committee that they have done so.

The Audit and Accounts Committee is required to review the Council's internal financial controls. In addition, the Audit and Accounts Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Audit and Accounts Committee should receive reports from officers as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of testing, we identify control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the Audit and Accounts Committee.

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit

Independence and robustness

Ethical standards require us to give you full and fair disclosure of the matters relating to our independence. In this context we ensure that:

- the appointed audit partner and audit manager are subject to rotation every seven years
- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Council
- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner
- at all times during the audit, we will maintain a robustly independent position in respect of key judgement areas.

Audit and non-audit services

Services supplied to the Council for the year ended 31 March 2011 are as follows:

	£
Audit services	
Financial statements, including WGA	250,000
VFM conclusion	90,000
Total audit fee	**340,000**
Other services	
IFRS Conversion - PFI *	10,000
Audit Commission rebate	(20,428)

** One off review of the accounting treatment of the Council's specific PFI/PPP schemes on transfer to IFRS*

Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit (AIU), an arm of the Financial Reporting Council, which has responsibility for monitoring the firm's public interest audit engagements.

The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW, as well as the quality reviews conducted by Grant Thornton internally.

The AIU also undertakes quality reviews of our audits on behalf of the Audit Commission as part of its quality arrangements.

We would be happy to discuss further the firm's approach to quality assurance.

About us

Grant Thornton UK LLP is a leading financial and business adviser to the public and private sectors. The firm has over 215 partners and more than 4,000 staff operating from 28 offices throughout the UK.

Grant Thornton is dedicated to providing value-added assurance and advisory services to local authorities.

Our high-quality audit and assurance service is tailored to identify where improvements can be made to governance processes, the assurance framework and performance management, to help deliver value for money and move organisations towards best practice.

Our Government Audit practice is the fastest growing amongst the major firms; we have doubled our market share in recent years as a result of our quality of service for over 80 Local Authorities, Social Housing, Charity and Healthcare organisations.

Your team are all local government specialists, led by a partner with over 20 years' experience working with local authorities.

National Not for Profit Team - Accountancy Age 'Audit Team of the Year' 2010 winners

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