



**Derby City Council
Draft - Audit results
report**

Year ended 31 March 2021

3 November 2021

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y'.

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Private and Confidential

26 October 2021

Derby City Council
Council House
Corporation Street
Derby
DE1 2FS

Dear Audit and Governance Committee Members

2020/21 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit and Governance Committee.

The audit is designed to express an opinion on the 2021 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Derby City Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

This report is intended solely for the use of the Audit and Governance Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 3 November 2021.

Yours faithfully

Hassan Rohimun
Associate Partner
For and on behalf of Ernst & Young LLP
Encl

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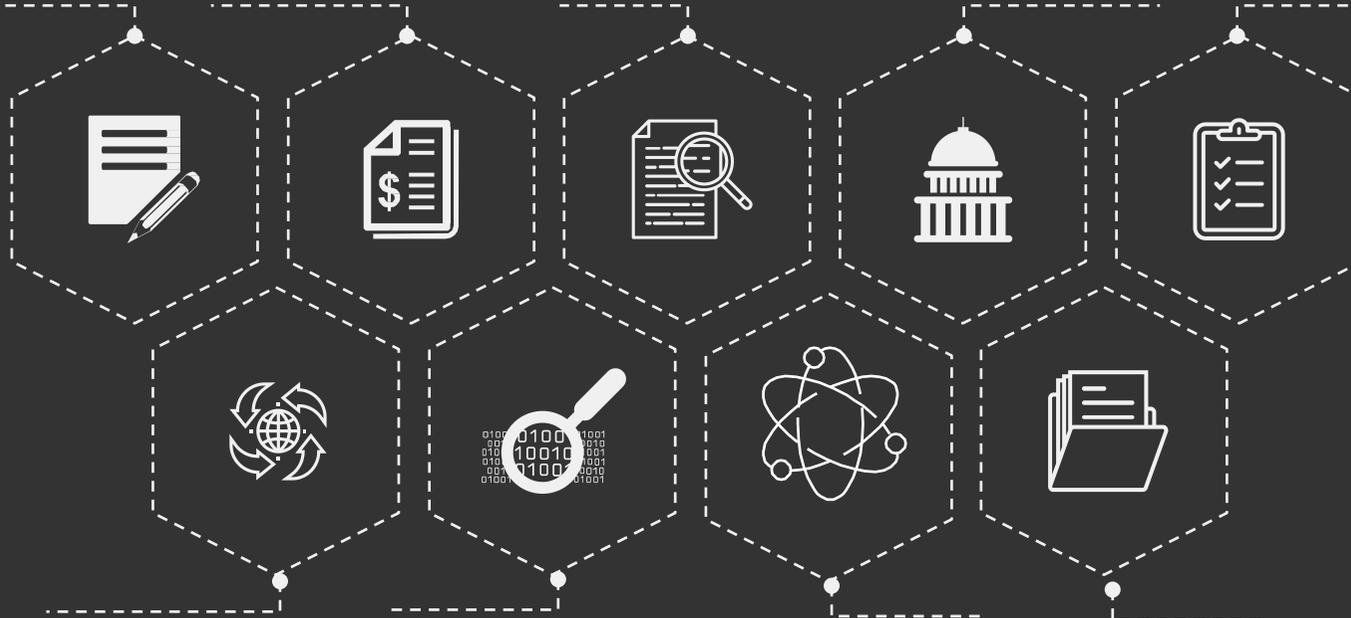
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Appendices

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit and Governance Committee and management of Derby City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee, and management of Derby City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Governance Committee and management of Derby City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 28 July 2021 Audit and Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

- Change in Key Audit Partner -There has been a change in the engagement partner for Derby City Council for the year ending 31 March 2021, Hassan Rohimun has taken over the role of the engagement partner following Helen Henshaw leaving Ernst & Young LLP.

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.

Executive Summary

Status of the audit

We have substantially completed our audit of Derby City Council's financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements:

- ▶ Conclude on the pensions disclosures pending IAS 19 assurances from the pension fund auditor
- ▶ Conclude on valuation of property, plant and equipment
- ▶ Conclude on group accounts procedures
- ▶ Conclude on managements going concern assessment and disclosures
- ▶ Conclude on our review of value for money arrangements
- ▶ Completion of internal quality review processes including final review of the file by Senior Manager, Partner in Charge and Engagement Quality Control Reviewer
- ▶ Final review of the narrative report, annual governance statement and financial statements for disclosure requirements and agreement of amendments
- ▶ Receipt of a signed letter of management representation on conclusion of the audit
- ▶ Completion of subsequent event review procedures including minute review update
- ▶ Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission. It should be noted that we cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's WGA consolidation pack.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion, a current draft of which is included in Section 3.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Derby City Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit focus" section of this report.

Audit findings and status: At the time of writing this report our work has yet to be concluded.

- 1) Risk of fraud in revenue and expenditure recognition for year end accruals, capitalisation of revenue expenditure and the recognition and treatment of the additional grants received in year for Covid-19.

Our testing undertaken to date has identified one audit adjustment:

- ▶ The Council's group accounts, include transactions incurred by Derby Homes Limited (DHL), DHL recorded a prepayment of £2.4m in respect of additional employer contributions paid in advance for the 2021/21 financial year. The auditors of DHL requested an audit adjustment as the employer contribution had already been offset against the overall pension liability and in effect was being double counted. We engaged our internal pension experts and concluded the additional £2.4m employer contribution paid in 2020/21 has now been appropriately accounted for by DHL. The Council's accounts were prepared based on DHL draft accounts and have been updated, to include the audit adjustment of £2.4m.
- 2) Misstatements due to fraud or error. Our testing undertaken to date has not identified any findings to report.
 - 3) Valuation of Land and Buildings. From our testing undertaken to date we have raised a query in respect of a fixed asset which we have yet to conclude on:
 - ▶ Assembly Rooms Car Park - the valuation is based on income generated by the car park, the current income yield is significantly below pre-pandemic levels. The income forecast for 2021/22 is £0.26m, against a valuation yield of £0.49m and we requested information from management to corroborate the use of a higher yield based on recovery to pre-pandemic levels in the medium term.
 - 4) PFI Financing - We engaged our PFI expert to review the application of the PFI accounting model. Our expert did not identify any issues and our testing undertaken to date has not identified any findings to report.
 - 5) Valuation of Local Government Pension Scheme (LGPS) Liability - From the procedures undertaken to date we highlight the following:
 - ▶ The pension fund auditor has communicated that their audit work is expected to be completed in November. As part of their procedures to date, the pension fund auditor has noted a difference between the valuation information supplied to the actuary and the valuations used to prepare the draft pension fund accounts, of £24.6m. The estimated impact of this difference to the Council is a £4.5m reduction to the Council's share of assets, which will result in an estimated increase to the net pension liability by the same value. We have requested the accounts to be updated for this, the Council has concluded no adjustments to the accounts will be made in respect of £4.5m variance noted. The findings will be revisited on conclusion of the pension fund auditor's testing and if no further variances are noted, the variance will be left unadjusted.

Executive Summary

Areas of audit focus (continued)

- 6) Accounting for SinFin Waste Plant - From the procedures undertaken to date management have agreed to make an additional disclosure to highlight the strategic risk to the Council and the associated contingent liability. We have also raised additional queries in respect of the SinFin Waste Plant, including the rights and obligations of the Council to recognise an asset under construction, which have yet to be concluded.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues
- ▶ You agree with the resolution of the issue
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Governance Committee.

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Status of the audit - Value for Money

In the Audit Plan, we reported that we will follow up the risks identified in 2019/20 but that we had not completed our value for money (VFM) risk assessment against the three reporting criteria we are required to consider under the NAO's 2020 Code. We have now completed, our VFM risk assessment and we have not identified a risk of significant weakness. Subject to review process and concluding our work, we anticipate we will have no matters to report by exception in the auditor's report (see Section 03).

We plan to issue the VFM commentary, incorporating the work carried out against the risks identified in our 2020/21 audit plan by the end of December 2021 as part of issuing the Auditor's Annual Report.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

We have set out our observations at section 6 of the report.

Audit differences

We have identified one audit differences arising from our audit to date which will be adjusted for by the Authority. The adjustment relates to :

- ▶ Reduction of DHL pension contribution prepayment and increase to the DHL pensions liability. (£2.4m)

We have identified one audit differences arising from our audit to date which will not be adjusted for by the Authority. The adjustment relates to :

- ▶ Reduction of pension asset and increase to the pensions liability. (£4.5m). The management's assessment is that the impact is not material. We ask that the rationale as to why the misstatement is not corrected be approved by the Audit Committee and included in the letter of representation.

Details of this can be found in section 4. We will update Audit and Governance Committee if there are any further issues arising from our incomplete audit procedures.

Other reporting issues

We received the Annual Governance Statement on 21 September 2021, we have not concluded our work, however from our initial review carried out for consistency with our knowledge of the Authority and have no matters to report.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission as Group Audit Instructions and the timetable for 2020/21 for WGA assurance has yet to be issued. The Group Instructions will be issued after HM Treasury have opened the 2020-21 WGA submission which will occur no earlier than December 2021.

We have no other matters to report.

Independence

Please refer to Section 7 for our update on Independence.



02

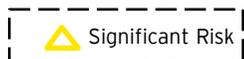
Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition for year end accruals, capitalisation of revenue expenditure and the recognition and treatment of the additional grants received in year for Covid-19.



What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Having considered the factors for income and expenditure recognition, we believe the risk:

- ▶ is focused on year-end balance sheet and in particular the existence of accrued income and existence of expenditure accruals.
- ▶ is linked to the potential to incorrectly capitalise revenue expenditure.
- ▶ is present in the recognition and treatment of the addition grants received in year for Covid-19.

What did we do?

- ▶ Reviewed and tested expenditure recognition policies to ensure that they are in line with accounting guidelines and adhered to correctly.
- ▶ Reviewed and discussed with management any accounting estimates on expenditure recognition for evidence of bias.
- ▶ Developed a testing strategy to test the existence of material accrued income and expenditure accruals.
- ▶ Sample tested additions to property, plant and equipment to test whether the Council has inappropriately capitalised revenue expenditure.
- ▶ Sample tested the revenue and capital Covid-19 grants received by the Council to ensure the accounting treatment and recognition applied to grant income is appropriate.

What are our conclusions?

From the testing undertaken to date one audit adjustment has been identified:

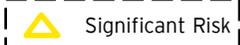
- ▶ The Council's group accounts, include transactions incurred by Derby Homes Limited (DHL), DHL recorded a prepayment of £2.4m in respect of additional employer contributions paid in advance for the 2021/21 financial year. The auditors of DHL requested an audit adjustment as the employer contribution had already been offset against the overall pension liability and in effect was being double counted. We engaged our internal pension experts and concluded the additional £2.4m employer contribution paid in 2020/21 has now been appropriately accounted for by DHL. The Council's account were prepared based on DHL draft accounts and have been updated, to include the audit adjustment of £2.4m.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error



What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What did we do?

- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Reviewed and discussed with management any changes the methodologies of existing and new accounting estimates for evidence of bias;
- ▶ Enquired of management about risks of fraud and the controls put in place to address those risks;
- ▶ Evaluated the business rationale for significant unusual transactions; and
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.

What are our conclusions?

Subject to the conclusion of outstanding procedures:

- ▶ We have not identified any material weaknesses in controls or evidence of material management override.
- ▶ Errors noted have been summarised at section 4, we have no further instances of inappropriate judgements being applied.
- ▶ We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business



Areas of Audit Focus

Area	What is the risk	What did we do	What are our conclusions
Valuation of Land and Buildings	<p>Management are required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. The valuation process incorporates significant judgements, which if inappropriate could result in a material misstatement to the financial statements. We consider there to be a higher inherent risk over the assets valued at fair value tied to market movements (Other land and buildings (£104m), Surplus assets (£15m) and Council Dwellings (£522m)). The remainder of the assets, valued at historic cost and depreciated replacement costs (DRC) are considered to be lower inherent risk because the reason the Council holds these assets is to facilitate service delivery. Valuation of these assets do not impact the Council's reported outturn position or decision making in respect of future income streams. Vehicle plant equipment (£15m), infrastructure assets (£272m), community asset (£2m) and assets under construction (£49m) are valued at historic cost and therefore not subject to revaluation and consequential valuation estimation uncertainty. The Council has rolling annual valuation process valuing 20% of the land and building assets. Valuations are subject to a number of assumptions and judgements which if inappropriate could result in a material financial statement error. There is also a risk that the remaining 80% of unvalued assets may have experienced a material change in value which has not been identified and accounted for correctly.</p>	<ul style="list-style-type: none"> ▶ Documented our understanding of the processes and controls to mitigate the risks identified, and undertook walked through procedures to confirm our understanding; ▶ Evaluated the competence, capabilities and objectivity of management's specialist; ▶ Reviewed instructions issued to the valuer to ensure these are consistent with accounting standards and to assess if there was a specific instruction to undertake an assessment of the unvalued population; ▶ Engaged our valuation specialists to support our testing strategy in evaluating the work of the Council's valuer; ▶ Reviewed the classification of assets and ensure an appropriate valuation methodology has been applied; ▶ Ensured the valuer's conclusions have been appropriately recorded in the accounts; and ▶ Reviewed the assets not formally revalued in the year to ensure Management have appropriately taken into account the potential for material movement in value to have occurred since the last formal valuation date. 	<p>From the testing carried out to date:</p> <ul style="list-style-type: none"> ▶ We have not identified any issues with the instructions and data provided to the Council's valuer (the District Valuation Office). ▶ We have not identified any instances of management intention to misreport the financial position from our review of period end accounting entries and journals made in processing valuation adjustments ▶ We have not identified any issues regarding the competence, capabilities or objectivity of the Council's valuer. ▶ Our valuation specialists have reviewed the valuation methods and we have an outstanding query to resolve before we are able to conclude: <ul style="list-style-type: none"> ▶ Assembly Rooms Car Park - the valuation is based on income generated by the car park, the current income yield is significantly below pre-pandemic levels. The income forecast for 2021/22 is £0.26m, against a valuation yield of £0.49m and requested information from management to corroborate the use of a higher yield based on recovery to pre-pandemic levels in the medium term.



Areas of Audit Focus

Area	What is the risk	What did we do	What are our conclusions
<p>Pension Liability Valuation</p>	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Derbyshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled £442m.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<ul style="list-style-type: none"> ▶ Liaised with the auditors of the Pension Fund to obtain assurances over the information supplied to the actuary in relation to Derby City Council; ▶ Assessed the work of the Pension Fund actuary (Hymans) including the assumptions they have used by considering the work of PWC (Consulting Actuaries commissioned by the NAO) and our EY actuarial team; ▶ Reviewed and tested the IAS19 accounting entries and disclosures made within the Council's financial statements; and ▶ Assessed the appropriateness of estimated information included in the financial statements by reviewing the year-end valuation of pension fund assets. 	<ul style="list-style-type: none"> ▶ The pension fund auditor has communicated that their audit work is expected to be completed in November. As part of their procedures to date, the pension fund auditor has noted a difference between the valuation information supplied to the actuary and the valuations used to prepare the draft pension fund accounts, of £24.6m. The estimated impact of this difference to the Council is a £4.5m reduction to the Council's share of assets, which will result in and estimated increase to the net pension liability by the same value. We have requested the accounts to be updated for this, the Council has concluded no adjustments to the accounts will be made in respect of £4.5m variance noted. The findings will be revisited on conclusion of the pension fund auditor's testing and if no further variances are noted, the variance will be left unadjusted.
<p>Private Finance Initiative (PFI)</p>	<p>The Council has a number of assets held under PFI arrangements. Four of these are recorded on the Council's balance sheet, one is not. Such arrangements are complex and substantial in value.</p>	<ul style="list-style-type: none"> ▶ Obtained and documented an understanding of the schemes and Considered whether the scheme falls within IFRIC 12 and should be accounted for on balance sheet; ▶ Ensured the outputs from the accounting model are correctly reflected in the financial statements, and relevant disclosures have been made; and ▶ Considered the impact of Covid-19 on the financial stability of providers. ▶ Engaged our PFI specialist to review the PFI accounting. 	<p>Subject to the conclusion of outstanding procedures:</p> <ul style="list-style-type: none"> ▶ Our expert did not identify any issues and our testing undertaken to date has not identified any findings to report.



Areas of Audit Focus

Area	What is the risk	What did we do	What are our conclusions
<p>Accounting for SinFin Waste Plant</p>	<p>Derby City Council and Derbyshire County Council contracted with Resource Recovery Solutions Derbyshire (RRS) to manage the Sinfin Waste Plant. The waste treatment centre was due to open in Sinfin in 2017, but RRS has been unable to resolve ongoing issues that would allow the facility to pass the certified performance tests required to bring it into full service.</p> <p>In April 2019, the two councils issued a formal notice to the project's funders to take action under the contract to progress the project. The agreement with RRS to manage the Sinfin Waste Plant was cancelled in August 2019 when the banks funding the project issued a legal notice. There is a risk that any associated transactions are not accurately accounted for in the financial statements.</p>	<ul style="list-style-type: none"> ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to Waste Plant; and ▶ Considered the recoverability of the £5.6m held on the Council's balance sheet (as asset under construction) which relates to the Sinfin Waste Plant. 	<p>We have not concluded our work, following our review of the accounting of the waste plant:</p> <ul style="list-style-type: none"> ▶ In 2020/21 costs of £3.48m have been capitalised, bringing total spent to date of £5.6m, the council only disclosed the expenditure in year and the accounts have been updated to highlight total costs to 31 March 2021 are £5.6m. We have asked for supporting information to confirm, the validity of accounting for these transactions as an asset under construction. ▶ An additional disclosure has been included within the accounts to highlight the significant risk to the Council and contingent liability attached. At the time of our audit there are proposals regarding the facility which are being considered by the Council and we are reviewing these to assess if there are any accounting implications for our 2020/21 audit.
<p>Going Concern</p>	<p>We considered the unpredictability of the current environment gave rise to a risk that the Council may not appropriately assess and disclose the key factors relating to going concern, underpinned by managements assessment, with particular reference to Covid-19 and the Council's actual year end financial position and performance.</p>	<ul style="list-style-type: none"> ▶ We have received and reviewed Management's assessment of Going Concern and challenged the assessment appropriately. 	<p>We have not concluded our review of Management's assessment.</p>



03 Audit Report



Audit Report

Draft audit report

Subject to the conclusion of outstanding procedures our draft audit report is outlined below

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DERBY CITY COUNCIL

Opinion

We have audited the financial statements of Derby City Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- and the related notes 1 to 49;
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 9;
- Collection Fund and the related notes 1 and 2; and
- Group Accounts.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of Derby City Council and Group as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGNO1, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.



Audit Report

Draft audit report - continued

Our opinion on the financial statements

Our responsibilities and the responsibilities of the Chief Financial Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts set out on pages 1 to 20, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Director of Financial Services

As explained more fully in the Statement of Strategic Director of Corporate Resources Responsibilities set out on page 21, the Director is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view.



Audit Report

Draft audit report - continued

Our opinion on the financial statements

In preparing the financial statements, the Director is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the authority and determined that the most significant are:
 - Local Government Act 1972,
 - School Standards and Framework Act 1998,
 - Local Government and Housing Act 1989 (England and Wales),
 - Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
 - Transport Act 2000,
 - Education Act 2002 and school Standards and Framework Act 1998 (England),
 - Local Government Act 2003,
 - The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
 - Waste and Emissions Trading Act 2003,
 - National Health Service Act 2006,
 - Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948),
 - Business Rate Supplements Act 2009,
 - The Local Government Finance Act 2012,
 - The Local Audit and Accountability Act 2014, and
 - The Accounts and Audit Regulations 2015.

- In addition, the authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.



Audit Report

Draft audit report - continued

Our opinion on the financial statements

- We understood how Derby City Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the authority's committee minutes, through enquiry of employees to confirm authority policies, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.
- We assessed the susceptibility of the authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance through improper recognition of revenue and expenditure through year end accruals, inappropriate capitalisation of revenue expenditure, recognition and treatment of the additional grants received in year for Covid-19 and management override of controls to be our fraud risks.
- To address our fraud risk around the manipulation of reported financial performance through improper recognition of revenue and expenditure, we obtained the authority's manual year end income and expenditure accruals, challenging assumptions and corroborating the income and expenditure to appropriate evidence.

- To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.
- To address our fraud risk around recognition and treatment of the additional grants received in year for Covid-19 we tested the revenue and capital Covid-19 grants received by the Authority to ensure the accounting treatment and recognition applied to grant income is appropriate
- To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether the Derby City Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness.

Audit Report

Draft audit report - continued

Our opinion on the financial statements

The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Derby City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Derby City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

In addition, we cannot formally conclude the audit and issue an audit certificate until we have completed our procedures on the Authority's value for money arrangements for the year ended 31 March 2021. We are satisfied that this work does not have a material effect on the financial statements. We will report the outcome of our work on the Authority's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Derby City Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Hassan Rohimun, (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Birmingham
Xx xx 2021



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted and unadjusted differences

We highlight the following misstatement greater than £0.3m which has been corrected by management that was identified during the course of our audit:

- ▶ The Council’s group accounts, include transactions incurred by Derby Homes Limited (DHL), DHL recorded a prepayment of £2.4m in respect of additional employer contributions paid in advance for the 2021/21 financial year. The auditors of DHL, BDO requested an audit adjustment as the employer contribution had already been offset against the overall pension liability and so in effect was being double counted. We engaged our internal pension experts and concluded the additional £2.4m employer contribution paid in 2020/21 has been appropriately accounted for by DHL. The Council’s accounts were prepared based on DHL draft accounts and have been updated, to include the audit adjustment of £2.4m.

We highlight the following misstatement greater than £0.3m which has not been corrected by management:

- ▶ The pension fund auditor has communicated, their audit work is expected to be completed in November. As part of their audit procedures to date, the pension fund auditor has noted a difference between the valuation information supplied to the actuary and the valuations used to prepare the draft pension fund accounts, of £24.6m. The estimated impact to the Council is a reduction to the assets of £4.5m, which will increase the pension liability by the same value. We have requested the accounts to be updated for this, the Council has concluded no adjustments to the accounts will be made in respect of £4.5m variance noted as the impact is not material. The findings will be revisited on conclusion of the pension fund auditor’s testing and if no further variances are noted, the variance will be left unadjusted.

We ask that the rationale as to why the misstatement is not corrected be approved by the Audit Committee and included in the letter of representation.

We will update Audit and Governance Committee if there are any further issues arising from our incomplete audit procedures.

Disclosure amendments

In addition we identified a number of disclosure differences during the course of our audit procedures which were corrected by management in the final statement of accounts, as follows:

- ▶ Note 35c Exit packages - the disclosure note was understated by £0.11m due to not accruing for exit packages agreed in 2020/21 and paid in 2021/22..
- ▶ Note 33 Related Party Disclosures: the note was updated for the following (i) Expenditure amount disclosed in respect of DWP for office space was overstated by £0.187m (£0.857m actual expenditure); (ii) The value of services commissioned from companies in which members had interests was understated by £2.6m (£10.845m revised figure); (iii) the total amount of grants paid to organisations in which members had interests was understated by £0.54m (£0.66m revised figure); (iv) the total amount of Covid grants paid to organisations in which members had interests was understated by £0.37m (£1.385m revised figure)
- ▶ Note 20 Leases: prior year disclosure regarding the minimum lease payments payable understated by £1.38m, the 2019/20 figures disclosed within the audited accounts for 2019/20 are correct, the error is as the 2020/21 disclosures for 2019/20 were not updated.
- ▶ Note 20 Leases: the minimum lease payments receivables by £27.7m was overstated by £0.46m, the note has been updated to £27.2m.
- ▶ Note 49 Trust funds: prior year disclosure restated by £1.04m to include funds held on behalf of vulnerable adults
- ▶ Note 5 - SinFin waste plant, in 2020/21 costs of £3.48m have been capitalised, bringing total spent to date of £5.6m, the council only disclosed the expenditure in year and the accounts have been updated to highlight total costs to 31 March 2021 are £5.6m.
- ▶ Note 1b - Note to the Expenditure and Funding Analysis - segmental analysis of Net Cost of Service reported, we have noted that the Communities and Place recharge income figure is over stated by £3.496m and external income figure under stated by the same amount. There is no financial impact to the total reported net cost of services.

The are other minor disclosure amendments we noted were not corrected in the latest version of the statement of accounts.



05

Value for Money

Value for money

Council responsibilities for value for money

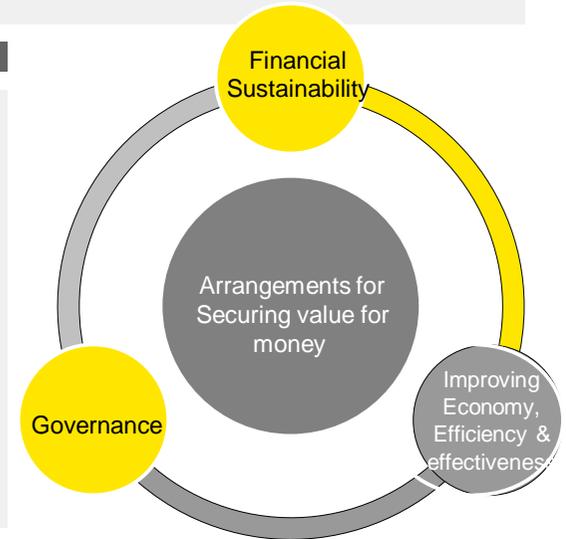
The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal. As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailor's the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- **Financial sustainability:** How the Council plans and manages its resources to ensure it can continue to deliver its services;
- **Governance:** How the Council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness:** How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



Status of our 2020/21 VFM planning

In our Audit Planning Report we identified the following risks which were brought forward from our 2019/20 audit:

- Arrangement, to work effectively with partners to deliver required services and outcomes to the local population specifically over SEND
- Financial sustainability
- The Council's monitoring of the capital programme

We have now completed, our VFM risk assessment and we have not identified a risk of significant weakness. Subject to review process and concluding our work, we anticipate we will have no matters to report by exception.

Under the Code of Audit Practice 2020 we are required to issue our commentary on the Council's VFM arrangements in the Auditor's Annual Report (AAR). The AAR is issued on the conclusion of the audit and we anticipate doing so by the end of December 2021.



06 Other reporting issues

Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements. We have not concluded our work to confirm the financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We received the Annual Governance Statement on 21 September 2021, we have not concluded our work, however from our initial review carried out for consistency with our knowledge of the Authority and have no matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission as Group Audit Instructions and the timetable for 2020/21 for WGA assurance has yet to be issued. The Group Instructions will be issued after HM Treasury have opened the 2020-21 WGA submission which will occur no earlier than December 2021.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). Subject to the conclusion of our work we have not identified any issues which require us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. Subject to the conclusion of our work we have not identified any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Councils financial reporting process.

We do not have any other matters to communicate.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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

As a result of the work undertaken, we have identified some deficiencies in internal control as follows:

1) The audit differences noted at section 4 of our report, highlight improvements which can be made to the closedown process over:

- a) Leases, Trust Funds and Expenditure and Funding Analysis, our audit procedures have identified material adjustments to these areas of the accounts.
- b) Completeness of exit packages and related parties disclosure note

We recommend as part of the closedown process the finance team work with departments, to ensure similar errors are not repeated as follows :

- a) During the closedown process the supporting listings and reports that feed into the disclosures are checked for accuracy and completeness of information. Management have confirmed the recommended has been considered and has been incorporated into the closedown process for 2021/2022.

2) The annual governance statement has not been made available alongside the draft accounts for the inspection period.

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



8

Independence

Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The audit fee table on the next page includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. We confirm that none of the services listed in the audit fee table on the previous page has been provided on a contingent fee basis. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We confirm that we have not yet undertaken non-audit work, our planned work is summarised on the next page. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in May 2020.

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Audit Scale fee	109,766	109,766	109,766
Additional audit fee (scale fee variation to rebase the scale fee to a sustainable level) see Note 1	138,869	138,869	138,869
Additional audit fee (additional costs incurred specific to the current year audit) see Note 2	TBC	TBC	59,253
Statutory Audit Fee	248,635	248,635	307,888
Housing Benefit Subsidy Claim	TBC	20,846	20,846
Teacher's Pension Audit	TBC	6,500	6,500
Pooling of Housing Capital Receipts	TBC	5,000	5,000
Total non-audit services see Note 3	TBC	32,346	32,346

(Note 1) As per the Redmond Report, local government external audit fees have not kept pace with regulatory change. We believe that changes in the work required to address professional and regulatory requirements and scope changes associated with the risk of the organisation mean that the scale fee for the Group should more realistically be set at a level of £248,635. The scale fee and any fee variation is subject to approval by PSAA Limited. The Council does not agree with our assessment.

(Note 2)

2019/20 - We have discussed the scale fee variation with management and the fee has been approved by PSAA Limited.

2020/21 - The results of our planning procedures has identified areas where audit work will be required over and above the level of the fee previously set which also correspond to the risks set out in our audit plan. The identified areas are:

- PPE valuations (use of specialists);
- Group accounts;
- Grant received in regards of Covid 19
- Value for Money - The 2020 Code has changed the scope of the value for money assessment and work required. There will be additional fees as a result of these changes

We will discuss the final fee with management on conclusion of the audit work.

Note 3 - we have not started any non audit services work

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

[EY UK Transparency Report 2020 | EY UK](#)



9

Appendices

Appendix A

Audit approach

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Our approach to the audit of the balance sheet has not changed from the prior year audit.

Appendix B

Summary of communications

Date 	Nature 	Summary 
23 June 2021	Meeting	The partner in charge of the engagement, along with the senior manager, met with the s151 officer to discuss matters affecting the audit this year.
28 July 2021	Report and meeting	The audit planning report, including confirmation of independence, was issued to the Audit and Governance Committee.
8 September 2021	Meeting	The partner in charge of the engagement along with senior members of the audit team met S151 Officer and the Finance team to discuss audit progress and matters identified for 2020/21
29 September 2021	Meeting	The audit results report, including confirmation of independence, to be issued to the Audit and Governance Committee.
3 November 2021	Report	The audit results report, including confirmation of independence, to be issued to the Audit and Governance Committee.

In addition to the above specific meetings and letters the audit team met with the management team weekly throughout the audit to discuss audit findings.

Appendix C

Required communications with the Audit and Governance Committee

There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit and Governances Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report 28 July 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit planning report 28 July 2021
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report 3 November 2021

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
	<ul style="list-style-type: none"> ▶ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the Audit and Governance Committee ▶ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof ▶ The valuation methods used and any changes to these including first year audits ▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▶ The identification of any non-EY component teams used in the group audit ▶ The completeness of documentation and explanations received ▶ Any significant difficulties encountered in the course of the audit ▶ Any significant matters discussed with management ▶ Any other matters considered significant 	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty related to going concern ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The appropriateness of related disclosures in the financial statements 	Audit results report 3 November 2021
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit results report 3 November 2021
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the Audit and Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results report 3 November 2021

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit and Governance Committee responsibility. 	Audit results report 3 November 2021
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit results report 3 November 2021
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit planning report 28 July 2021</p> <p>Audit results report 3 November 2021</p>

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
	<p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The Audit and Governance Committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit results report 3 November 2021
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of 	Audit results report 3 November 2021

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit results report 3 November 2021
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit planning report 28 July 2021 Audit results report 3 November 2021
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit results report 3 November 2021
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report 3 November 2021
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report 3 November 2021

Draft Management representation letter

Management Rep Letter

To be prepared on the entity's letterhead]
[Date]

Ernst & Young LLP
1 Colmore Square
Birmingham B4 6HQ

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of *Derby City Council* ("the Group and Council") for the year ended *31 March 2021*. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Derby City Council as of 31 March 2021 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and for the Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and for the Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and [council] financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and for the Council, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 for the Group Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

Draft Management representation letter

Management Rep Letter

5. We believe that the effects of the unadjusted audit differences in relation to the pension assets of £4.5m accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor as the variance is not material.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;

- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit & Accounts Committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 06 October 2021.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.

Draft Management representation letter

Management Rep Letter

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with applicable financial reporting framework.

6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed to you all guarantees that we have given to third parties.

4. No claims in connection with litigation have been or are expected to be received.

E. Going Concern

1. Narrative Statement accompanying the consolidated and parent entity financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

G. Group Audits

1. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council and subsidiary undertakings.

H. Other information

We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement and Narrative Statement.

We confirm that the content contained within the other information is consistent with the financial statements.

Draft Management representation letter

Management Rep Letter

Ownership of Assets

1. Except for assets recognised as right-of-use assets in accordance with IFRS 16 Leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).

Reserves

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Estimates

Valuation of Pension Asset/Liabilities and Property, Plant and Equipment

1. We confirm that the significant judgments made in making the valuation of pension assets/liabilities and property, plant and equipment have taken into account all relevant information and the effects of the COVID-19 pandemic on 31 March 2021 of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of pension assets/liabilities and property, plant and equipment.

3. We confirm that the significant assumptions used in making the estimated valuations of Pension Asset/Liabilities and Property, Plant and Equipment appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council.

4. We confirm that the disclosures made in the consolidated and parent entity financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic on 31 March 2021, are complete and are reasonable in the context of the applicable financial reporting framework.

5. We confirm that appropriate specialized skills or expertise has been applied in making the valuation of pension assets/liabilities and property, plant and equipment.

6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent entity financial statements, including due to the COVID-19 pandemic.

Retirement benefits

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for



Appendix D

Draft Management representation letter

Management Rep Letter

Sinfin - new waste plant facility

Since contract termination in August 2019, the council has undertaken research and advice to understand the financial implications of bringing the site into use. The Council has appropriately considered and accounted for the financial implications relating to the contractual arrangements in respect of the new waste plant facility and has also considered the financial reporting implications of the site not coming into use.

Yours faithfully,

Simon Riley
s151 Officer

Cllr West
Chair of the Audit and Governance Committee

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