Appendix 3

# Derby City Council

# Annual report to those charged with governance 2007/08

September 2008

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# 1 Introduction

## Background and purpose of the report

1.1 Derby City Council ('the Council') is responsible for the preparation of accounts which record its financial position as at 31 March 2008 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 accounts 'present fairly' the financial position of the Council. Our detailed findings are set out in section two.

1.2 Under the Audit Commission's Code of Audit Practice we are also required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). The pieces of work that have informed our VFM conclusion, and our detailed findings, are set out in section three.

1.3 The Audit Commission's Statement of Responsibilities, which sets out the respective responsibilities of the Council and the auditor in relation to the accounts and arrangements for securing economy, efficiency and effectiveness in the use of resources, have been re-produced in full at Appendices A and B and reflects the scope of our audit.

1.4 This report summarises the principal matters arising from our audit. The issues raised have been discussed with the Corporate Director of Resources and his team and other officers as appropriate. Auditing standards require us, as the Council's external auditors, to report to those charged with governance certain matters before giving an opinion on the accounts and the Code of Audit Practice requires us to report key matters relating to our VFM conclusion. For the Council, this function will be carried out by the Audit Committee at its meeting on 25 September 2008.

## The accounts opinion

1.5 We have performed our audit of the 2007/08 accounts in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards. Our approach follows that set out in the Audit and Inspection Plan 2007/08, agreed with the Council.

1.6 At the time of reporting to the Audit Committee, the audit is substantially complete and we expect to issue an **unqualified opinion on the Council's accounts** by the 30 September deadline.

1.7 We draw the following issues to your attention:

- the accounts were submitted for audit within the statutory deadline;
- due to the absence of a key member of the finance team, with serious illness, the Council was not as prepared for the audit as it has been in previous years. A complete set of working papers was not made available for audit to support the statement of accounts, which resulted in an inefficient audit process and made the task of completing this year's audit more difficult for the Council's accountants and our audit team;
- a number of relatively minor adjustments to disclosures have been agreed, to improve the quality, clarity and SoRP compliance of the statement of accounts;
- a number of audit adjustments have been agreed with officers and reflected in the accounts. This included three significant adjustments, one of which related to 2006/07; and
- we are pleased to report that there are no unadjusted errors to be considered. [to be confirmed in the restated accounts]

1.8 Further details of our accounts audit are given in section two.

## The VFM conclusion

1.9 We have substantially completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources and we expect to issue an **unqualified VFM conclusion** by the 30 September deadline.

1.10 The majority of the findings that have contributed to the VFM conclusion have been reported to the Council by PWC in its Annual Audit and Inspection Letter of February 2008.

1.11 In giving our VFM conclusion, we have also considered the Audit Commission's recently completed Corporate Assessment, the emerging findings from our 2008 use of resources key lines of enquiry (KLoE) assessment and our current work regarding the Council's arrangements for securing data quality in its performance management information. Following national submission of our KLoE scores and Audit Commission quality assurance, we will write to the Council confirming 2008 KLoE scores, in December 2008.

1.12 Key messages from this year's use of resources work are summarised in section three.

## Use of this report

1.13 This report has been prepared solely for use by the Council to discharge our responsibilities under the Audit Commission Code of Audit Practice and relevant auditing standards and should not be used for any other purpose. No responsibility is assumed by us to any other person. This report should be read in conjunction with the Council's draft letter of representation.

1.14 This report includes only those matters that have come to our attention as a result of performance of the audit. An audit of the accounts and use of resources is not designed to identify all matters that may be relevant to those charged with governance. Accordingly the audit does not ordinarily identify all such matters

1.15 We would like to take this opportunity to remind the Audit Committee of the need to monitor implementation of the recommendations arising out of this report (see Appendix C) and other reports issued during the year (see Appendix E).

## Independence

1.16 We are able to confirm our independence and objectivity as auditors and note the following:

- we are independently appointed by the Audit Commission;
- the firm has been assessed by the Audit Commission as complying with its required quality standards;
- the engagement lead and client service manager are subject to rotation periodically; and
- we comply with the Auditing Practices Board's Ethical Standards. We have not undertaken any non-audit work for the Council (Appendix F).

## Acknowledgements

1.17 We would like to record our appreciation for the co-operation and assistance provided to us by the Council's officers and members during the course of our audit.

**Grant Thornton UK LLP**
**22 September 2008**

# 2 The accounts opinion

## Introduction

2.1 We summarise in this section matters arising from our audit of the Council's 2007/08 accounts which we are required, under auditing standards, to report to those charged with governance.

## Approach to the audit

2.2 We carry out work to enable us to report to the Council our opinion as to whether the financial statements 'present fairly' the financial position of the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 ('the SoRP').

2.3 Our approach to the audit was set out in our 2007/08 audit plan. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice.

2.4 Other key factors to highlight include:

- we consider the materiality of items in the accounts both in determining the audit approach and in determining the impact of any errors;
- we have been able to place appropriate reliance on the key accounting systems operating at the Council for final accounts audit purposes; and
- we have been able to place reliance on the work of internal audit in respect of the key accounting systems.

## Key audit findings

2.5 We summarise our key audit findings below:

| Area | Key messages |
|---|---|
| Accounting policies and practices | The Council has adopted appropriate accounting policies, in accordance with the 2007 SoRP. We have however recommended, at Appendix C, that the Council undertakes a full review of the narrative descriptions of these policies, as disclosed in the statement of accounts, with a view to improving the clarity of the treatments adopted for users of the accounts.<br><br>The Council amended its accounting treatment for non-enhancing capital expenditure from 1 April 2007, to correctly charge such costs to the Income and Expenditure account. This requirement was introduced by the 2006 SoRP and, following discussion, the Council has agreed to restate the comparative figures, as noted in the audit adjustments section below.<br><br>We also identified a number of relatively minor disclosures within the statement of accounts that required amendment to improve the quality, clarity and SoRP compliance of the accounts. As a result, we have recommended that the Council undertakes a more thorough review of disclosures requirements in future years. |
| Material risks and exposures | No undisclosed material risks or exposures have been identified by our audit procedures. The Council has however agreed to disclose:<br><br>1. a contingent liability of £1million relating to potential asbestos claims; and<br><br>2. a £2.1m notional cash balance that appears to represent a historic difference on balances transferred from Derbyshire County Council when the Council was established as a Unitary Authority. The Council has agreed to investigate the exact nature of this balance during 2008/09 and consider whether the current accounting treatment is the most appropriate.<br><br>Our audit procedures will be updated on the date the Council signs the final letter of representation and we sign our audit opinion. |

| Area | Key messages |
|---|---|
| Audit adjustments | The Council has agreed to process all of the audit adjustments identified during the course of our work. These are summarised at Appendix D and include the following which we consider to be of particular significance:<br><br>1. As noted above, in 2006-07 the Council did not account for impairments through the Income and Expenditure Account, resulting in the comparatives figures in the 2007/08 accounts being misstated by £18.4m.<br><br>2. The Council had reported an £8m gain on disposal of Council dwellings in the Housing Revenue Account (HRA) as a result of transferring the net book value of these assets directly to reserves and failing to recognise an impairment loss of £2m. This error has been corrected, increasing the HRA deficit on services for the year from £0.8m to £10.8m. However, there is no impact on HRA reserves as these entries are reversed in the Statement of Movement on the HRA.<br><br>3. The Rosehill Market Renewal Scheme has been accounted for as a fixed asset addition when it is actually a deferred charge. The £3.3m deferred charge expenditure and £3.1m associated grant funding should be recognised through the Income and Expenditure Account, giving a net increase in the deficit of £0.2m. |
| Unadjusted errors | Officers agreed to process all our significant proposed adjustments, detailed at Appendix D. There are therefore no unadjusted errors to report to the Audit Committee. |
| Audit efficiency | The accounts process this year has proved particularly challenging, as a key member of the finance team was not available during the latter stages of closing and the whole of the final audit visit, due to her serious illness. A key consequence of the loss of this experience was that the Council did not provide us with the requested working papers, to support the majority of figures in the statement of accounts, at the start of our scheduled audit visit. This significantly hampered the efficiency of our final accounts audit. From the Council's perspective, this resulted in too many auditors chasing the information from the same officers, which, in turn, was inefficient for your staff and proved a frustrating process.<br><br>We have already started discussions with the Council as to how we improve the process for 2008/09 and have been pleased by the constructive way the Council is responding to this issue. |
| Other matters | We have not identified any matters, that we have not already reported, that require the attention of the Audit Committee.<br><br>We have discussed these and other matters arising with the Corporate Director of Resources and his team and have reflected their responses to the matters raised in the Action Plan attached at Appendix C. |

## Next steps

2.7 We will continue to work with the Council to ensure that outstanding finalisation issues are completed in time for the accounts opinion to be formally signed in accordance with the statutory deadline of 30 September 2008.

2.8 Subject to satisfactory resolution of the above issues, we expect to issue an **unqualified opinion on the Council's accounts**.

2.9 We are required to provide an audit opinion on the consolidation pack that is to be completed as part of Whole of Government Accounts. This work is not covered by our opinion on the Council's accounts. We will complete this work once the accounts audit has been finalised and in time for the 3 October deadline.

2.10 The Audit Committee should monitor implementation of the recommendations arising from this report.

# 3 The VFM conclusion

## Introduction

3.1 Under the Audit Commission's Code of Audit Practice we are required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). In meeting this responsibility we review evidence that is relevant to the Council's corporate performance management and financial management arrangements, which are assessed against twelve criteria specified in the Code of Audit Practice.

## Approach to the audit

3.2 The following pieces of work have informed our assessment against the Code criteria:

- a review of relevant findings from the Council's Comprehensive Performance Assessment (CPA) corporate assessment;
- an assessment of the Council's data quality management arrangements, using criteria prescribed by the Audit Commission;
- an assessment of the Council's arrangements for financial reporting, financial management, financial standing, internal control and value for money, using the Commission's key lines of enquiry (KLoE); and
- our local risk based use of resources work, reviewing the Council's arrangements for tackling health inequalities, as set out in our 2007/08 audit plan.

3.3 The key findings from each of these pieces of work are summarised in this section of the report.

## VFM conclusion

3.4 We have substantially completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources and we expect to issue an **unqualified VFM conclusion** by the 30 September deadline.

3.5 Our conclusions for each of the 12 Code criteria are set out in the table below:

| Code area | Source of evidence | Arrangements adequate? |
|---|---|---|
| Setting, reviewing and implementing strategic and operational objectives | Corporate assessment / Direction of travel statement | Yes |
| Communication with service users and other stakeholders and partners | Corporate assessment / Direction of travel statement | Yes |
| Management of performance against strategic objectives | Corporate assessment / Direction of travel statement | Yes |
| Monitoring the quality of published performance information | Data quality audit 2007 | Yes |
| Maintaining a sound system of internal control | KLoE 2007 | Yes |
| Managing significant business risks objectives | KLoE 2007 | Yes |
| Managing and improving value for money | KLoE 2007 | Yes |
| Maintaining a medium-term financial strategy | KLoE 2007 | Yes |
| Ensuring that spending matches available resources | KLoE 2007 | Yes |
| Managing performance against budgets | KLoE 2007 | Yes |
| Managing the asset base | KLoE 2007 | Yes |
| Promoting and ensuring probity and propriety in the conduct of business | KLoE 2007 | Yes |

## Corporate assessment

3.6 We are required to review the Council's latest corporate assessment or direction of travel statement in order to satisfactorily conclude on three of the Code criteria (see table above). In completing this work we are not required to re-perform the work of the corporate assessment team and the comprehensive area assessment lead, rather we are looking to place reliance on this work.

3.7 Our assessment is based on the latest corporate assessment completed in 2008. Based on this work, we assess the Council as having adequate arrangements for objective setting, consultation and performance management.

## Data quality audit 2007

3.8 The audit work that we have used to reach our conclusion in respect of Code criterion on published performance information is PWC's most recent audit of the Council's corporate management arrangements for data quality, completed in the autumn of 2007 and updated for the situation at March 2008.

3.9 The audit concluded that the Council's management arrangements for data quality are adequate. However, a number of improvement opportunities were identified for the Council to address as set out in PWC's report of December 2007.

3.10 We have recently commenced our 2008 review of data quality management arrangements, which the Council's arrangements has already indicated that there are no matters impacting on our 2007-08 VFM opinion, regarding for monitoring the quality of published performance information.

## Use of resources KLoE 2007 and local risk based work

3.12 We draw upon and update the findings from the Audit Commission's final key lines of enquiry (KLoE) audit work in order to satisfactorily conclude on a number of the VFM Code criteria. The results of this work, and associated recommendations, were included in the Commission's report of June 2008. The Council's arrangements were assessed as at least adequate in all areas. The 2007 KLoE scores are included at Appendix H.

3.13 We included in our 2007/08 audit plan, a detailed audit of the Council's arrangements for tackling health inequalities, which has been used to update and supplement the results of the 2007 KLoE assessment in key areas. We have reported the results of this work to the Council earlier this year. The key messages from this review are set out in the table below.

| KLoE / Local risk based work | Key messages |
|---|---|
| Health Inequalities | Health Inequalities (HI) was identified as a key priority for audit attention for the Council and PCT. Our work examined the effectiveness of the partnership working and concluded that there were many useful initiatives running in the City. Key improvement areas included:<br>▪ improving how ethnicity data is recorded, as well improving the recording of obesity data in primary care;<br>▪ finding out more about the health needs and problems of Derby's new economic migrants;<br>▪ considering how to improve access to health inequalities data for Public Health managers;<br>▪ developing promotional capacity to meet the increasingly tougher targets as more and more people stop smoking;<br>▪ finding better ways to engage with GPs to action plans to reduce health inequalities; and<br>▪ routinely producing reports on Health Inequalities performance. |

3.14 The results of this work confirm that, for 2007/08, the Council had at least adequate arrangements in place in the areas covered by the KLoE 2007 assessment.

## KLoE 2008

3.15 Our 2008 KLoE assessment has recently commenced. We are not able to formally report scores to the Council until after the Audit Commission's national quality assurance processes are complete. We can, however, confirm that no issues have arisen to date that impact on the VFM conclusion for 2007-08. We will report the results of our work and confirm scores with the Council in December 2008.

## KLoE 2009

3.16 There have been significant changes to the use of resources assessment criteria for 2009, as part of the new Comprehensive Area Assessment. The Council's management arrangements for the 2008/09 financial year will be assessed against the new criteria that represent a 'harder test.'

3.17 Whilst we will not formally assess the Council against the new criteria until Summer 2009, as part of next year's plan, we will continue to carry out our use of resources work with reference to revised requirements to help the Council prepare for future assessments.

## Next steps

3.18 We will carry out our final review against any emerging findings and will then issue our VFM conclusion by the 30 September deadline.

3.19 The Audit Committee should monitor implementation of the recommendations referred to in this report.

# Appendix A Statement of responsibilities - accounts

The accounts, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources.

It is the responsibility of the audited body to:

- put in place systems of internal control to ensure the regularity and lawfulness of transactions
- maintain proper accounting records
- prepare accounts that present fairly the financial position of the body and its expenditure and income.

The audited body is also responsible for preparing and publishing with its accounts a statement on internal control.

Auditors audit the accounts and give their opinion, including:

- whether they present fairly the financial position of the audited body and its expenditure and income for the year in question
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

Subject to the concept of materiality, auditors provide reasonable assurance that the accounts:

- are free from material misstatement, whether caused by fraud or other irregularity or error
- comply with statutory and other applicable requirements
- comply with all relevant requirements for accounting presentation and disclosure.

Auditors examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.

Auditors evaluate significant financial systems, and the associated internal controls, for the purpose of giving their opinion on the accounts. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.

Auditors review whether the Annual Governance Statement has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. In doing so auditors take into account the knowledge of the audited body gained through their work in relation to the audit of the accounts and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. Auditors are not required to consider whether the statement on internal control covers all risks and controls, nor are auditors required to form an opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

# Appendix B Statement of responsibilities - VFM

It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives
- determining policy and making decisions
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community
- ensuring compliance with established policies, procedures, laws and regulations
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working
- ensuring compliance with the general duty of best value, where applicable
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body
- monitoring and reviewing performance, including arrangements to ensure data quality
- ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption.

The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control.

Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements, as summarised above, and report on these arrangements.

Auditors are responsible for reporting annually their conclusion, having regard to relevant criteria specified by the Audit Commission, as to whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors report if significant matters have come to their attention that prevent them from concluding that the audited body has put in place proper arrangements. However, auditors are not required to consider whether aspects of the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources are effective.

In planning their audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, auditors consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code, and the arrangements it has put in place to manage these risks. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of risk with the audited body.

When assessing risk auditors consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type
- other risks that apply specifically to individual audited bodies
- the audited body's own assessment of the risks it faces
- the arrangements put in place by the body to manage and address its risks.

In assessing risks auditors have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work
- the results of assessments of performance carried out by the Commission
- the work of other statutory inspectorates
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.

In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors should avoid any perception that they have any role in the decision making arrangements of the audited body.

While auditors may review audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, they cannot be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.

Auditors are not required to report to audited bodies on the accuracy of performance information that the audited bodies publish. Auditors' work is limited to a review of the systems put in place by the audited body to collect, record and publish the information, in accordance with guidance issued by the Commission.

Audit work in relation to the audited body's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and will act promptly if grounds for suspicion come to their notice

# Appendix C Action plan

| Finding | Actions required | Management response | Implementation details |
|---|---|---|---|
| **Capital cut-off**<br>Our procedures identified three separate capital transactions, totalling £4.4m, which had been accounted for in the wrong financial year.<br>These have been corrected in the 2007/08 statement of accounts. | Officers should ensure that the timing of all significant capital transactions is reviewed to determine the appropriate treatment in the statement of accounts. Evidence to support this treatment should form part of the Council's working papers. | Agreed.<br>Included in the revised statement of accounts. In future years the Corporate Property Section needs to ensure that resources are set aside to cope with the extra number of invoices generated to improve the accounting treatment. | Complete by 31 March 2008<br>(Corporate Property Section) |
| **Pooled Budget**<br>The pooled budget agreement requires an annual budget to be agreed, and formally signed off, by the PCT and Council. This had not occurred for 2007/08 by the time of our final audit visit in July/August 2008. | The Council should ensure that the pooled budget is formally agreed with the PCT on an annual basis. | Agreed. | Complete by 1st April 2009<br>Head of Accountancy / Group Accountant to liaise with relevant departmental Heads of Finance (CYP and Adult Services) and Assistant Directors/Heads of Service |

| Finding | Actions required | Management response | Implementation details |
|---|---|---|---|
| **Accounting Policies**<br>The Council does not have formal written polices in place in relation to reserves or revenue recognition. | The Council should consider formally documenting policies in these areas. | Agreed to review and formalise in the 2008/09 accounts. | Complete within 6 months<br>(Acting Head of Accountancy/Group Accountant) |
| **Statement of Accounting Policies**<br>In our opinion, the Council's Statement of Accounting Policies is somewhat descriptive, explaining the terms used within the accounts, rather than necessarily providing the user with an understanding of the accounting treatment adopted, with reference being made to treatments being in accordance with the relevant accounting standard. | The Council should review its Statement of Accounting Policies to consider whether they provide the user of the accounts with sufficient information on the accounting polices adopted by the Council. | Agreed and propose to establish working group to improve presentation. | Complete by 31st March 2009<br>(Acting Head of Accountancy / Group Accountant) |
| **Fixed Asset Register**<br>The Council does not identify grant-funded assets within its fixed asset register. There is therefore an increased risk that assets may be disposed of without a corresponding write off of the associated grant. | The Council should review the controls in place to identify grant funded assets to ensure that the appropriate accounting entries are made on disposal. | We will amend the fixed asset register with an extra column, which will highlight government grant funded items. This will flag up which items need to be written out of deferred government grant. | Actioned with immediate effect |

| Finding | Actions required | Management response | Implementation details |
|---|---|---|---|
| **Impairment**<br>The 2007 SoRP introduced a revaluation reserve against which increased asset values are taken until realised. In future years, in certain circumstances, the Council will be able to charge impairments on revalued assets (where the increase was taken to the revaluation reserve) against this reserve rather than taking the charge to the Income and Expenditure account.<br><br>We noted that the Council has yet to introduce processes to ensure that the revaluation reserve is reviewed prior to any impairment charge being made. | The Council should introduce processes and controls to ensure that proper consideration is given to the reversal of impairments recognised in prior years. | We intend to prepare a separate revaluation reserve to ensure all opening impairment values will be recorded. This will create rolling balances for assets, which could then be identified easily in case reversal is required. | Produce within the next 6 months, by 31st March 2009.<br>(Acting Head of Accountancy/Group Accountant) |

| Finding | Actions required | Management response | Implementation details |
|---|---|---|---|
| **Review of aged debtors** | | | |
| Our review of a sample of aged debtors identified two larger balances for which adequate explanations were not readily available:<br><br>1. debt of £0.3m that had remained unpaid for over a year, with no recent recovery action; and | The Council should undertake a detailed review of all large overdue debts to ensure that appropriate recover action is being taken and that an adequate audit trail exists. | Agreed | Complete over the next 6 months<br><br>(Accounts Receivable Manager) |
| 2. debt of £0.9m for which we were informed an off-setting credit balance exists, but could not be located by finance staff in the accounts. | Officers should establish whether the credit balance exists and, if not, take appropriate recovery action with this debt. | The Council has subsequently investigated this balance and has confirmed the actual balance to be £0.131m which related to VAT. This balance is correctly stated and no recovery action is required. | |
| **Unpresented cheques** | | | |
| Our testing identified a significant number of cheques included in the bank reconciliation which were technically unpresentable as they were over six months old, in some instances these were well in excess of a year old. | The Council's bank reconciliation process should include actioning out of date cheques, with amounts being written back to the ledger as liabilities due to third parties. | Agreed to action monthly reconciliations | Actioned with immediate effect |

| Finding | Actions required | Management response | Implementation details |
|---|---|---|---|
| **Actuarial valuation**<br><br>Whilst, in practice the Council relies on an actuarial firm, appointed by the Derbyshire Pension Fund, Mercer Human Resource Consultants, to produce the FRS17 valuation for inclusion in the financial statements, it is still responsible for the figures reported. As such, we would expect the Council to consider (in broad terms) the reasonableness of the key assumptions used in preparing the FRS 17 calculations and their appropriateness in the context of the Council activities and members.<br><br>We noted that a formal review of the assumptions applied at 31 March 2008 was not undertaken. | The Council should undertake procedures to satisfy itself that the underlying information and assumptions are appropriate. | Agreed and will action for 2008/09 final accounts. | Action June 2008<br><br>(Acting Head of Accountancy/Group Accountant) |

# Appendix D Accounts adjustments agreed

| Accounting adjustments affecting the (surplus) / deficit on the I&E account | |
|---|---|
| **Finding** | **Impact £m** |
| Rosehill Market Renewal has been accounted for as a capital addition rather than a deferred charge. | 0.2 |
| Grant released in relation to assets which are not yet operational/depreciated, resulting in the grant release occurring before depreciation is charged. | 0.5 |
| Assets that have had capital expenditure written-off as non-enhancing and are subsequently revalued upwards should only recognise the impairment loss to the extent that it is in excess of the revaluation gain. | (0.5) |
| An element of depreciation relating to HRA assets has been charged through the Income and Expenditure Account. | (0.3) |
| **Net impact of adjustments on the 2007-08 I&E account £(0.1)m** | |
| Capital expenditure not adding value was not accounted for through the Income and Expenditure Account in 2006-07. Therefore the prior year comparatives should be restated to show the £18.4m of impairments. | 18.4 |
| **Net impact of adjustments on the 2006-07 I&E account £18.4m** | |

| Accounting adjustments that do not affect the reported surplus / deficit on the I&E account | |
|---|---|
| **Finding** | **Impact £m** |
| Capital invoice not accrued | 0.8 |
| Ownership of Raynesway land not transferred in 2007-08 but accounted for as disposal. | 2.4 |
| Purchase of Castleward land and buildings accounted for as an addition although transfer of ownership was not completed in 2007-08. | 1.3 |
| Notional balance held as cash should be accounted for as an intangible asset. | 2.0 |

| Accounting adjustments that do not affect the reported surplus / deficit on the I&E account | |
|---|---|
| **Finding** | **Impact £m** |
| Bad debt provision has been accounted for as a creditor instead of as an off-setting entry in debtors. | 2.2 |
| A prior year adjustment has been accounted for to show a reclassification of reserve balances previous shown as creditors. Since the amount is not significant this should be shown as a movement in year rather than a prior year adjustment. | 0.2 |
| A journal, proposed to reclassify school balances within the balance sheet, was posted with the opposite debit and credit entries than intended. This means that cash balances are overstated by £1.8m, creditors are understated by £2.6m and debtor balances are overstated by £0.8m. | 2.6 |
| Invoice raised in error has been cancelled by raising a creditor instead of reversing the debtor balance. | 0.2 |
| Accrued interest has been included in debtors rather than shown in the carrying balance of investments. | 2.7 |

**Disclosure adjustments**

There were 3 reportable areas in which disclosures in the notes to the draft accounts did not, in our view, comply with the 2007 SoRP, relating to:

- provisions - the provisions note should include expected timings;
- primary financial statements - the primary financial statements should be presented together at the start, with all the notes following;
- internal recharges - internal recharges had been double counted within the accounts resulting in both income and expenditure being overstated. These figures netted off, with no impact on reported reserves.

We also consider that the Council should provide and increased level of explanation for assumptions, risks and gains/losses on the pension fund and deficits experienced on the Building Control Account and Trading accounts.

The Council has agreed to amend these disclosures in the revised accounts.

# Appendix E Reports issued

External audit reports issued during the year are listed in the table below.

| Report title | Date issued |
|---|---|
| Health Inequalities | April 2008 |
| Interim Audit | July 2008 |

# Appendix F Audit fees update

| Audit area | Planned fee 2007/08 | Actual fee 2007/08 |
|---|---|---|
| Accounts | 192,650 | 192,650* |
| Use of Resources | 70,150 | 70,150 |

*fee invoiced to date

## Code of Practice audit

As shown in the table above, the 2007/08 actual fee invoiced to date is consistent with the planned fee for the year. However, additional costs have been incurred in the delivery of the final accounts audit. These costs will be discussed with the Corporate Director of Resources following the completion of our opinion work.

## Grant claims audit

Grant claim certification work will be completed between August and December 2008.

Our work is charged to the Council based on the cost of auditing each claim and the overall fee normally varies from estimate, depending on the number and complexity of claims to be audited, as well as the quality of claim compilation and supporting documentation.

We will update the Council on the final fee charged for 2007/08, in the grant claims report that we will produce in December 2008.

## Non Code work

We have not carried out audit work outside of the Code of Audit Practice audit.

# Appendix G 2007 KLoE scores

| Theme and KLoE | Score (out of 4) |
|---|---|
| Financial reporting<br>• Annual accounts<br>• External accountability | 3 |
| Financial management<br>• Medium term financial planning and budget setting<br>• Managing performance against budgets<br>• Managing assets | 3 |
| Financial standing | 4 |
| Internal control<br>• Managing significant business risks<br>• Maintaining a sound system of internal control<br>• Ensuring probity | 3 |
| VFM<br>• Current achievement of VFM<br>• Managing and improving VFM | 3 |