



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS COMMITTEE
25 JUNE 2009**

ITEM XX

Report of the Corporate Director –
Resources

External Audit

RECOMMENDATION

- 1.1 To note the external audit strategy for the year ending 31 March 2009.
- 1.2 To note the recommendations and action plan from the interim audit for the year ending 31 March 2009

SUPPORTING INFORMATION

- 2.1 The Council's external auditors, Grant Thornton, have published their audit strategy document for the year ending 31 March 2009. The purpose of this is to meet an Audit Commission requirement, to give local authorities some warning of the issues likely to be reviewed in 2009/10 and to allow better coordination with internal audit activity. The external auditors will attend the Committee meeting to present their plans.
- 2.2 The document includes at Appendix B the observations/recommendations from their interim audit carried out in March 2009. Management action and timescales agreed with Grant Thornton are also included in Appendix B.
- 2.3 The outcome of this work will be reported through to the Committee.

For more information contact: Carolyn Wright, Head of Accountancy, 255360,
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Background papers: None
List of appendices: Appendix 1 – Implications
Appendix 2 – Audit Strategy document for the year ending 31 March 2009

IMPLICATIONS

Financial

1. The proposed audit fee for the audit of the 2008/09 financial statements is £203,500. This is the same fee as charged for the previous year. There is budget provision to cover this.

Legal

2. None directly arising.

Personnel

3. None directly arising.

Equalities impact

4. None directly arising.

Corporate objectives and priorities for change

5. The areas that are to be subject to external audit or inspection are generally relevant to delivery of corporate objectives and priorities.



Derby City Council

Audit Strategy Document

For the year ending 31 March 2009

Last updated 18 June 2009



Our Ref JR/KB/D09085227
Your Ref

The Audit and Accounts Committee
Derby City Council
P O Box 6291
Council House
Derby
DE1 2YL

18 June 2009

Dear Sirs

DERBY CITY COUNCIL (THE COUNCIL) AUDIT STRATEGY DOCUMENT FOR THE YEAR ENDING 31 MARCH 2009

This Audit Strategy Document (ASD) has been prepared in order to highlight the key elements in the proposed strategy for the audit of Derby City Council for the year ending 31 March 2009. The purpose of the document is further detailed in Section 1.

We look forward to the forthcoming audit and working with the Finance Team and the Audit and Accounts Committee.

Yours faithfully

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Appendices

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B Interim findings

1 Engagement terms and objectives

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected

1.1 Engagement terms

Our 2008/09 Audit Plan, presented to Audit and Accounts Committee in June 2008, sets out the scope of our audit.

The purpose of this memorandum is to highlight the key elements in the proposed strategy for the audit of the Council for the year ending 31 March 2009. This incorporates:

- the audit of the Council's financial statements;
- Use of Resources; and
- the value for money conclusion.

The document is also used to report to management in order to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) (ISAUK) 260.

1.2 Engagement objectives

Our engagement objectives are as follows:

- to audit the financial statements of Derby City Council
- to produce a concise and constructive report of key issues to the Council
- to draw to your attention any material weaknesses in internal control that come to our attention during our audit work.

1.3 Ethical standards

We have implemented policies and procedures to meet the requirements of the Auditing Practices Board's (APB) Ethical Standards.

We have considered our independence and objectivity in respect of the audit for the year ending 31 March 2009 and do not believe there are any matters which should be brought to the attention of the Audit and Accounts Committee. Further details on our independence and robustness are set out at **Appendix A**.

1.4 Communication of adverse or unexpected findings

We will communicate any adverse or unexpected findings affecting the audit on a timely basis with the appropriate person within the business. Such communication will be made either informally or via an audit progress memorandum.

The actual or potential resolution of significant audit and accounting issues will be discussed and agreed with the division, Council and group management and documented for the Audit and Accounts Committee's consideration.

1.5 Other matters

We set out further information at [Appendix A](#) covering:

- roles and responsibilities of officers and Audit and Accounts Committee.
- audit quality assurance.
- communication with the Audit and Accounts Committee.

1.6 Confidentiality

This document has been produced under s49 of the 1998 Audit Commission Act. As such the information contained within it should not be disclosed other than for the purposes permitted by the Act.

In addition, the contents of this Audit Strategy Document should not be relied upon by third parties

2 Audit priorities

2.1 Audit priorities

As part of the refresh of our 2008/09 statement of accounts audit plan, we revisit our knowledge of local and national issues and consider these in the context of whether they may present a risk to the Council's timely and accurate preparation of its accounts. Local issues are drawn from regular update meetings with Council officers, our planning visit and from our experience of prior year audits. From this review we identify priority areas for our audit which will be reflected in our approach at final audit.

Our identified audit priorities for 2008/09 are set out below and will be subject to further review when the statement of accounts is presented for audit.

Risk	Response
<p>Asset valuations</p> <p>The current economic climate is having a potentially material impact on asset values. We will review the Council's processes to ensure the valuer has correctly considered impairment and that asset values are appropriately recorded in the Statement of Accounts.</p>	<p>Estates are reviewing land and buildings asset valuations for assets revalued 2006 and 2007 to form a view on impairment values as part of the final accounts work.</p> <p>Estates are reviewing the future scheduling of asset value reviews to ensure the scheduled annual sample of valuations reflects the whole asset base and the length of time between revaluations takes into account changes and risks which could impact on values. This is part of the plan for IFRS implementation.</p>
<p>Single status agreement</p> <p>Many authorities are experiencing large numbers of claims for back pay from appeals about unequal pay arising from the implementation of the single status agreement. In some cases these claims can take several years to settle. We will review the Council's assessment of the likelihood of any such claims resulting in financial settlement and associated treatment in the Statement of Accounts.</p>	<p>Reserves in place based on estimated exposure Assessment on-going.</p>

Risk	Response
<p>Capital cut off</p> <p>A number of errors in capital cut off were identified during our 2007/08 audit. Testing will be undertaken to ensure that a similar misstatement has not occurred in 2008/09.</p>	<p>We have put in place further checks and tightened procedures to ensure non reoccurrence.</p>
<p>Housing and Council Tax Benefit Scheme - 2007/08 qualification</p> <p>Our certification of Housing and Council Tax Benefit Scheme claim for 2007/08 was qualified in a number of areas. Given the nature of the matters raised, the Council confirmed to us that additional work would be undertaken to quantify the extent of the errors noted and provide assurance over their claim.</p> <p>Given the qualification, the DWP will usually instruct the Council to obtain additional audit work to quantify the extent of errors. Such a request has yet to be made but in any event, we will need to satisfy ourselves that the subsidy claimed in 2007/08 was not materially misstated by reviewing the work undertaken by the Council, in response to our findings, to assess the potential errors.</p>	<p>DWP have indicated they will be in contact about the 2007/08 claim in the next few weeks. The results of any additional work undertaken by the Council or external audit on the Council's behalf to be agreed with relevant officers of the Council before submission to DWP.</p>
<p>Disclosure</p> <p>A number of additional disclosures and amendments to existing disclosures were required to the Statement of Accounts presented for audit in 2007/08 before we could concluded that they were materially compliant with SORP 2007.</p> <p>As part of our audit for 2008/09 we will undertake a review against SORP 2008 and also consider the process the Council has in place to ensure compliance.</p>	<p>Already actioned.</p>

Risk	Response
<p>Classification</p> <p>Our 2007/08 audit identified a number of instances where transactions had been inappropriately classified in the Statement of Accounts, such as:</p> <ul style="list-style-type: none"> • the bad debt provision treated as a creditor rather than a reduction in debtors; • a cancelled invoice being adjusted against creditors rather than debtors; • notified interest balances being included in debtors rather than added to the investment value; and • an element of depreciation on HRA assets being taken to the Income and Expenditure account, rather than the HRA Income and Expenditure account. <p>We will review the classification of material amounts as part of our procedures.</p>	<p>A thorough review and correction of the Oracle reporting structure used to derive the consolidated accounts has taken place. Further checks will take place as always on completion of the draft accounts and as part of the accountants sign-off process.</p>
<p>Changes in central finance team</p> <p>A number of changes have occurred in the core Resources Department team responsible for compiling the Statement of Accounts since last years audit. As this is a relatively small team, the loss of key individuals is likely have caused a cumulative loss of knowledge while new members settle into post. This increases the risk of misstatements not being identified within the information provided by other teams. It is also likely to result in additional time being required for financial close and the preparation of the Statement of Accounts as new team members are unfamiliar with systems or methods of operation during their first accounts close cycle.</p>	<p>Head of Accountancy is supporting the new members of staff working on the accounts production.</p> <p>A minor restructure of the corporate team has been approved to strengthen the principal accountant resource and input into ensuring financial control together with regular reconciliation and correct accounting during the year to aid earlier closure.</p>

2.2 Update on previous period's recommendations

In addition to considering priority areas for our audit we also consider the progress made by the Council to address recommendations arising from our final accounts work in prior years. Where these matters are considered to increase the audit risk of the statement of accounts being misstated then these will form part of our audit priorities for 2008/09, set out at paragraph 2.1.

2007/08 Action plan recommendation	Response
<p>Capital cut-off</p> <p>In 2007/08 we identified three separate capital transactions which had been accounted for in the wrong financial year. 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.</p>	<p>We have put in place further checks and tightened procedures to ensure non reoccurrence.</p>
<p>Pooled Budget</p> <p>The pooled budget agreement had not been formally signed off by the PCT and Council by the time of our audit visit in 2008. The Council should ensure that the pooled budget is formally agreed with the PCT on an annual basis.</p>	<p>The pooled budget agreement had been signed off when the agreement was set up, This is a 60 page document and would not be expected to be signed on an annual basis. What we have introduced from 08/09 is that the outturn is signed off between the PCT and the City Council as an agreement between the two parties of what has been funded from the pooled budget and an agreement of the balances.</p>
<p>Accounting Policies</p> <p>We noted that the Council did not have formal written polices in place in relation to reserves or revenue recognition. The Council should consider formally documenting policies in these areas.</p>	<p>Will consolidate policies approved at various stages of the year by Cabinet during 2009/10.</p>
<p>Statement of Accounting Policies</p> <p>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.</p>	<p>Actioned.</p>

2007/08 Action plan recommendation	Response
<p>Fixed Asset Register</p> <p>We noted that the Council did not identify grant-funded assets within its fixed asset register.</p> <p>The Council should review the controls in place to identify grant funded assets to ensure that the appropriate accounting entries are made on disposal.</p>	<p>Fixed assets grant funded expenditure. A column has been added to the asset register to show which assets have grant funding attached currently being amortised annually. This will then prompt us to ensure we write out the relevant grant if an asset is disposed of.</p>
<p>Impairment</p> <p>The Council should introduce processes and controls to ensure that proper consideration is given to the reversal of impairments recognised in prior years before making charges to the Income and Expenditure account.</p>	<p>Estates are reviewing land and buildings asset valuations for assets revalued 2006 and 2007 to form a view on impairment values as part of the final accounts work.</p> <p>Estates are reviewing the future scheduling of asset value reviews to ensure the scheduled annual sample of valuations reflects the whole asset base and the length of time between revaluations takes into account changes and risks which could impact on values. This is part of the plan for IFRS implementation.</p>
<p>Review of aged debtors</p> <p>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.</p>	<p>Targeted recovery exercise in progress.</p> <p>All reviewed for bad debt provision.</p> <p>Will action outstanding system write-offs early in 2009/10 and report to July Cabinet for approval where required under Financial Procedure Rules.</p>
<p>Un-presented cheques</p> <p>The Council's bank reconciliation process should include addressing out of date cheques, with amounts being written back to the ledger as liabilities due to third parties.</p>	<p>Actioned in 2008/9 ledger for all out of date cheques.</p> <p>Housing Benefit out of date cheques will be written out of the Housing Benefits system in 2009/10.</p>
<p>Actuarial valuation</p> <p>The Council should undertake procedures to satisfy itself that the underlying information and assumptions used in preparing the FRS 17 calculations are appropriate.</p>	<p>Process in place and in progress for 2008/9.</p>

3 Our audit approach

ISAUK 260 requires communication of:

- our concept of materiality and its application to the audit approach
- the way we propose to address the risk of material misstatements
- our assessment of and reliance on internal controls.

3.1 Audit strategy

We will be working closely with the Finance Team to ensure that we meet audit deadlines and conduct the audit efficiently, with the minimum of disruption to the Council's staff. Our audit will be planned on an individual task basis at the start of the audit, and timetables agreed with all staff involved.

In summary our audit strategy comprises:

- updating our understanding of the business through discussions with management and a review of the management accounts
- reviewing the design and implementation of the internal financial control systems to the extent that they have a bearing on the financial statements
- assessing the audit risk and, based on that assessment and the assessment of the design of the internal control system, developing and implementing an appropriate audit strategy
- reviewing material disclosure issues in the financial statements
- verifying all material balance sheet accounts and performing a substantial analytical review of income and expenditure streams.

3.2 Our audit approach

Our audit approach is based on an assessment of the audit risk relevant to the individual financial statement assertions. Areas where the risk of material misstatement is more likely to occur are categorised as **critical**. It is in these areas that we focus much of

our audit effort. Our work in other areas will typically be proportionately lower than for critical areas.

3.3 Critical areas

The critical assertions for the Council are deemed to be

	Existence/ Occurrence	Valuation	Completeness	Cut-off
Expenditure			✓	
Grant Revenue	✓			
Fixed Assets		✓		✓

We summarise our audit approach to the above areas below. Due to the early production of this document, however, we will revisit whether this approach remains appropriate once we have received the Council's draft financial statements.

Expenditure

We currently plan to:

- pay particular attention to the completeness of expenditure to ensure all year end liabilities have been properly recognised within the Council's financial statements; and
- perform substantive testing of expenditure at and around the year end to ensure expenditure has been recognised in the correct period.

Grant Revenue

Our work will focus on agreeing grant revenue to grant claims and allocation/notices. In particular:

- we are required to undertake main sample testing of the Housing and Council Tax Benefits claim for 2008/09 this year prior to reaching an opinion on the Statement of Accounts in September 2009. This work will run parallel to the final accounts visit in July and August 2009 rather than in October and November as has occurred historically; and
- we will follow up the work the Council has undertaken in response to our qualified certification of the Housing and Council Tax Benefits claim for 2007/08.

Fixed Assets

Our work will include an examination of:

- any acquisition or disposal activity around the year end to ensure that transactions have been accounted for in the correct accounting period; and
- whether the Council has fully complied with *FRS 11 Impairment of Assets and Goodwill* and any impairment calculations are reasonable and consistent with accounting standards.

We will adapt our approach, if necessary, as the audit develops. We will notify the Corporate Director of Resources and Audit and Accounts Committee of any significant changes that will impact on service delivery.

3.4 Reliance on internal audit

We liaise with internal audit throughout the year to assist in our understanding of the Council's assurance framework and potential audit risks.

We review the Council's Internal Audit function against CIPFA's Standards for Internal Audit on a triennial cycle to assess whether arrangements are sufficient for us to place reliance on relevant systems documentation and testing. This work is undertaken as part of our Interim Audit, the results of which are set out in Section 4.

3.5 Audit of IT and outsourced systems

Our audit approach requires a review of the Council's internal controls in the IT environment.

Due to the complexity of the information technology used in the significant transaction cycles of the Council, we have chosen to involve our Technology Risk Services team during the audit.

3.6 Internal controls

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

To comply with Auditing Standards we will:

- spend time understanding and documenting your business and audit risks, and assessing the design of your internal control systems related to financial reporting;
- spend time with the senior management of Derby City Council, to gather the additional information to document your systems, in particular in the area of governance; and

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.
ISA 320 Audit Materiality

- perform work before the year end, ie make an interim audit visit in advance of when we normally carry out our audit fieldwork. The results of our interim visit are set out in Section 4.

Our work cannot be relied upon necessarily to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might develop.

3.7 Materiality

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

Materiality is set at the planning stage to ensure that an appropriate level of audit work is conducted. It is also considered at the reporting stage in order to assess the impact of an item on the financial statements. Any identified errors greater than 2% of materiality will be recorded on a schedule of potential misstatements, assessed individually and in aggregate, discussed with you and, if not adjusted, signed off by you as immaterial as part of your letter of representation to us.

An item of low value may be judged material by its nature (eg members' allowances), and an item of higher value may be judged not material, if it does not distort the truth and fairness of the financial statements.

4 Interim Audit

4.1 Introduction

As described in Section 3, we are required to evaluate the design of an entity's controls, including relevant control activities, over risks that could lead to material misstatement in the financial statements, and determine whether they have been implemented.

We undertake this work during our interim audit visit, which primarily focuses on our accounts audit responsibilities, under the Code of Audit Practice, but, where relevant, informs our Use of Resources responsibilities.

Our interim audit, completed in March and April 2009, considered:

- the extent to which we can place reliance on the work of Internal Audit;
- the adequacy of controls over financial reporting systems;
- the adequacy of controls over information technology supporting financial reporting systems; and
- the adequacy of arrangements for year-end closedown and the preparation of the annual accounts.

4.2 Review of Internal Audit Function

The Council's Internal Audit function was reviewed against CIPFA's Standards for Internal Audit as part of our 2007/08 audit. Our review concluded that Internal Audit provides an independent and effective service to the Council and substantially complies with the CIPFA Code of Practice for Internal Audit

Having established in 2007/08 that Internal Audit arrangements were sufficient for us to place reliance on relevant systems work, we have used Internal Audit's system documentation as a basis to assist in our evaluation of the design effectiveness of the Council's controls. We will also aim to place reliance on its systems work where this will reduce the level of our detailed final accounts testing.

4.3 Review of financial reporting controls

Our work in this area evaluated the design of controls, linked to risk of material misstatement in the financial statements, of the following systems:

- Cashiers;
- Creditors;
- Council tax;
- Debtors and income;
- Capital;
- Housing benefits
- Main accounting system;
- NNDR;
- Payroll; and
- Treasury management.

We found that the Council's processes and controls in these areas were generally sound with no material weaknesses. We have

however made a number of improvement recommendations which are set out at **Appendix B**.

One issue was identified in relation to the reliability of Estates documentation used to update the Fixed Asset register and we recommend that the potential impact of the error noted is assessed by the Council prior to our audit visit in July 2009. Further information in relation to this is provided at recommendation 17, Appendix B.

4.4 Review of information technology controls

Our information systems specialist assessed the adequacy of controls over information technology. We concluded that controls over information technology are generally sufficient, with no significant deficiencies or material weaknesses.

4.5 Review of closedown procedures

Following our audit in 2008, we have been working with the Council to improve the quality and timeliness of working papers produced to support the financial statements. This has included a number of meetings to discuss improvement opportunities with appropriate members of the Council's Resources Department and two presentations to finance staff from across the Council. In addition, we are aware that the Council has undertake a full review of the closedown timetable.

We have been pleased by the constructive way the Council has responded to this issue and anticipate a smoother process for the current year.

4.6 Improvement opportunities

A number of improvement opportunities were identified during the course of our work. We have discussed our findings with the Corporate Director of Resources and agreed actions as set out at **Appendix B**.

It should be noted that our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and work practices.

4.7 Follow-up of prior year recommendations

During the course of our visit we have followed up recommendations made in 2007/08. It is extremely pleasing to note that these matters have been addressed and no recommendations have been repeated in this report.

4.8 Acknowledgements

We would like to take this opportunity to thank the officers who have been involved in our interim audit for their assistance and co-operation.

5 Use of Resources

5.1 Use of Resource (UOR)

The use of resources assessment is undertaken by auditors as part of their responsibilities under the Code of Audit Practice. The assessment considers how well organisations are managing and using their resources to deliver value for money in delivering better and sustainable outcomes for local people.

It is structured into three themes that focus on the importance of sound and strategic financial management, strategic commissioning and good governance, and the effective management of natural resources, assets and people.

For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly.

Risk assessment

Our UOR work in 2009 is the first year of the new use of resources assessment that forms an element of the Comprehensive Area Assessment (CAA) framework. This change will provide more challenge to organisations as it:

- has an emphasis on a rounded professional judgement by the auditor against the headline KLOE.
- moves away from a 'checklist' of criteria to illustrative characteristics of performance.
- has greater focus on outcomes for local people – what difference have the arrangements made?

- has less focus on prescriptive arrangements and processes.
- reserves scores of level 4 for excellence and genuine leading edge performance

We have regularly met with key officers to ensure that the requirements of the new assessment have been acknowledged and our evidence requirements are met.

5.2 Value for money conclusion

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, having regard to a standard set of relevant criteria, issued by the Audit Commission. In meeting this responsibility we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements, and follow up work in these areas from previous years to assess progress in implementing agreed recommendations.

This work will be carried out to inform the 2008/09 use of resources conclusion to be given in September 2009.

6 Logistics

6.1 Timetables and milestones

The following proposed timetable and deadlines have been set for the financial statements audit:

Event	Date
Interim review	March - April 2009
Catch up meeting with Corporate Director of Resources and Assistant Director of Corporate Finance & Performance	20 May 2009
Financial statements submitted for audit	25 June 2009
Appointed auditor start date	12 August 2009
Catch up meeting with Head of Accountancy and Group Accountant to confirm preparations	w/c 6 July 2009
Commence final fieldwork	13 July 2009
Manager liaison meetings with Head of Accountancy	Weekly during final audit
Conclusion of fieldwork	14 Aug 2009
Clearance meeting to discuss our findings	TBC
ISA260 report to Audit and Accounts Committee	By 30 Sept 2009
Audit report and value for money opinion	By 30 Sept 2009

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

6.2 Lead engagement team

Our engagement team for the audit will include:

Name	Role	Contact details
Jon Roberts	Engagement partner	T: 0121 232 5410 E: jon.roberts@gtuk.com
Ian Barber	Performance specialist	T: 0121 232 5357 E: ian.m.barber@gtuk.com
Kyla Bellingall	Audit manager	T: 0121 232 5359 E: kyla.bellingall@gtuk.com
Richard Moist	Audit in-charge	T: 0121 212 4000 E: richard.moist@gtuk.com

6.3 Fees

Our fee estimate (excluding VAT) for the audit of the 2008/09 financial statements of £203,500 has not changed from the estimate proposed in the 2008/09 Annual Audit Plan.

The proposed fee is on the basis that:

- statutory accounts are presented to us by 30 June 2009 for audit;
- supporting schedules for all figures in the accounts are supplied by the agreed dates in line with our list of information required;
- all books and records are made available to us;
- a trial balance together with reconciled control accounts are presented to us by the agreed date;
- your staff are available to help us locate information and to provide explanations; and
- all deadlines agreed with us are met.

Our ability to deliver the services outlined to the agreed timetable and fee will depend upon these schedules being available/tasks being completed by the due dates in the agreed form and content. If there are any variances to the above plan, we will discuss them with you and agree any additional fees before costs are incurred, wherever possible.

6.4 Information required

Lists of information to be prepared have been supplied to Officers.

A Quality assurance, independence, communication with Audit and Accounts Committee and roles and responsibilities

(i) Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements. The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW.

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

(ii) Independence and robustness

We fully comply with the Audit Commission's requirements in respect of independence and objectivity as set out in the Code of Audit Practice. These requirements were set out in our Annual Audit Plan and are also available to view at www.audit-commission.gov.uk.

In addition, we comply with Grant Thornton's practice requirements where to maintain our independence as auditors we ensure that:

- audit partners are rotated off the audit every five years and audit managers every seven years

- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Council
- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner.

At all times during the audit, we will maintain a robustly independent position in respect of key judgement areas.

(iii) Audit and non-audit services

We have not supplied any non-audit services to the Council during the year.

(iv) Communication with the Audit and Accounts Committee

We welcome communication with the Audit and Accounts Committee and as part of the audit process we propose discussing with them the scope of the audit in advance of the commencement of our work. In addition we also propose to meet with the Committee following the conclusion of our procedures in order to communicate the matters arising.

We would also welcome the Audit and Accounts Committee's, and indeed any member's input in relation to any areas of known concern within the Council.

We would also be interested to hear if there are other matters that the Audit and Accounts Committee would like us to address and to understand more fully the Committee's expectations and requirements from the audit process.

(v) Roles and responsibilities

The members and officers are responsible for the preparation of the financial statements which show a true and fair view of the Council's affairs and for making available to us all the information and explanations we consider necessary.

Legislation also requires that the Council maintains such books and records as will be sufficient to show the nature of all transactions and disclose, at any time, the financial position of the Council.

The Council's Officers are responsible for:

- the identification, assessment, management and monitoring of risk
- developing, operating and monitoring the system of internal control
- providing assurance to the Members that this has been done.

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

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

B Interim findings

Observation/Recommendation	Priority	Management Response	Responsibility / Timescale
<p>1 Cashiers - receipt books Testing identified:</p> <ul style="list-style-type: none"> • instances whereby employees requesting receipt books had also signed to authorise the issue; and • that guidance is not in place for the process of issuing receipt books. <p>As restricted stationary, we recommend that the Council introduces procedures which control the issue of receipt books.</p>	Low	<p>Currently the role of Transitional Services following the restructure of the Financial Services division, but will be transferring to Customer Services. Sue O'Reilly and Dawn Hallsworth will look at receipt books and guidance.</p>	Dawn Hallsworth 30 Sept 2009
<p>2 Cashiers - backup testing It was noted that periodic testing of backup data and recovery procedures is not performed.</p> <p>We recommend that this be undertaken on a regular basis to ensure that services can be quick reinstated.</p>	Medium	<p>The cash receipting application is able to work locally when the server is offline. If the server is unavailable, the system starts to save transactions locally and these are automatically transferred to the server as soon as it is back online. This means that even if the server goes down, transactional processing is not affected, we can continue to take payments off customers seamlessly, meaning no loss of service. Technically the server may go down and be rebooted but this is infrequent and might take around 5 minutes.</p> <p>A test will be undertaken to confirm the procedures will work in practice.</p>	Lynda Innocent 31 March 2010

Observation/Recommendation	Priority	Management Response	Responsibility / Timescale
<p>3 Creditors - Oracle guidance A walkthrough of systems identified that the guidance entitled 'How to use Oracle', which is available to employees on DerbyNet, is out of date. We understand that this document is part of a suite of documents being compiled into a collective Creditors and Payments manual.</p> <p>We recommend that 'How to use Oracle' is updated to reflect current processes and that any amendments are reflected in the Creditors and Payments manual.</p>	Medium	<p>Accepted with regard to team procedure notes.</p> <p>The Accounts Payable manual on Derbynet shows the current procedures to apply. We will be updating the manuals utilising an interactive training system (UPK) in the near future. This will take into account the changes to the Accounts Payable System that we will be implementing over the next few months.</p>	<p>Dawn Hallsworth 31 March 2010</p> <p>31 July 09</p>
<p>4 Creditors - one-off payments Checks should be introduced to ensure that one-off payments are not being made on a regularly basis to particular suppliers.</p> <p>In addition, our review identified that procedure documentation could set out more clearly:</p> <ul style="list-style-type: none"> • when it is appropriate to make a one off payment; • how these payments should be processed; • the checks that should undertake before officers process a one-off payment. 	Low	<p>Accepted. A manual has been written and circulated with form – form includes extra checks. Neil Day/ Rob Williams will be reporting each month to departments on any issues – to begin end of May 2009.</p>	<p>Dawn Hallsworth (John Massey upon his appointment of Head of Exchequer Services) 31 May 2009</p>

Observation/Recommendation	Priority	Management Response	Responsibility / Timescale
<p>5 Creditors - one-off payment authorisation Testing identified that:</p> <ul style="list-style-type: none"> • two out of three one off payment requests sampled had not been signed by an authorised signatory; and • a consolidated list of authorised signatories is not in place. Authorisation is instead recorded on a large number of individually signed pages in paper file. <p>We recommend that a single record of authorised signatories be created and periodically reviewed. We also recommend that controls are enhanced to ensure that one-off payments are not made without appropriate authority.</p>	High	<p>Accepted.</p> <p>We will engage with departments to assist them with developing their own internal checks, plus working to improve our own checks.</p>	<p>Neil Day/Rob Williams 31 Dec 2009</p>
<p>6 Creditors - review of one-off payments We would expect a report of one off payments to suppliers to be reviewed on a regular basis by the Accounts Payable Manager. This control is not currently in place and we recommend that it be introduced.</p>	Low	In place.	Actioned
<p>7 Council Tax - procedures documentation We noted from discussions that the procedures manual in this area does not reflect current working practice as it is out of date. We recommend that this be updated to reflect current procedures and that an annual review is introduced to ensure this is maintained.</p>	Medium	<p>Accepted with regard to team procedure notes.</p> <p>The procedures manual will be completed and maintained.</p>	<p>Dean Horton 31 Dec 2009</p>

Observation/Recommendation	Priority	Management Response	Responsibility / Timescale
<p>8 Council Tax - segregation of duties Council Tax officers assist Derby Direct during busy periods. We noted from discussion that this could result in Council Tax officers who action discounts and exemptions on Academy also taking payments on the Derby Direct system.</p> <p>We recommend that formal procedures are introduced to ensure segregation of duties is maintained between establishing the charge and collection/recovery.</p>	High	<p>Partially accepted.</p> <p>Staff need to retain the permissions to be able to process discounts, exemptions and take payments so that we can ensure agility within the service to manage our peaks in demand.</p> <p>We will be undertaking sample checking of payments taken to check on the integrity of transactions received onto customers' accounts.</p>	Dean Horton 30 June 2009
<p>9 Council Tax - suspense account We would expect the Council Tax suspense account and to be reviewed regularly by a senior member of staff who does not have direct responsibility for clearing the account. This control is not currently in place and we recommend that it be introduced to prevent the account from building up without adequate investigation.</p>	Medium	<p>Accepted.</p> <p>Sample checking of transactions in the suspense account will be done.</p>	Rob Strang 31 July 2009
<p>10 Council Tax - access levels User access levels have not been reviewed on Academy since the former Revenues Manager left post in August 2008.</p> <p>We recommend that reviews of user access be undertaken on a regular basis, such as quarterly, to minimise the risk of unauthorised amendments to data.</p>	Low	<p>Accepted.</p> <p>This activity will be resumed.</p>	Dawn Hallsworth 30 June 2009

Observation/Recommendation	Priority	Management Response	Responsibility / Timescale
<p>11 Sundry debtors and income - procedures documentation We noted that the debtors procedures manual has not been updated for sometime. We recommend that this be brought up to date and that a schedule be established for subsequent period reviews/updates.</p>	Medium	<p>Accepted with regard to team procedure notes.</p> <p>We will compile a procedure manual for the section, including a procedure for write-off reconciliation.</p> <p>The Accounts Receivable manual on Derbynet shows the current procedures to apply. We will be updating the manuals utilising an interactive training system (UPK) in the near future.</p>	<p>Julie Sadler 30 Sept 2009</p> <p>31 Oct 2009</p>
<p>12 Sundry debtors and income - authorisation From discussion, we noted that the Head of External Payments does not maintain a list of authorised users and their approved access levels. We would recommend that this be introduced and that a regular review is undertaken to ensure it remains current.</p>	Low	<p>Accepted.</p> <p>We will compile, maintain and review the list of authorised users.</p>	<p>Rob Williams 31 August 2009</p>
<p>13 Sundry debtors and income - suspense account A review of the suspense account identified amounts from 2007/08 which have yet to be cleared. From discussion, we understand that suspense items that remain unidentified following investigation are transferred to a miscellaneous account, suggesting that these amounts have yet to be investigated.</p> <p>We recommend that these old balances are reviewed and action taken to allocated them. We also recommend that a monthly review of the suspense account by a senior member of staff is introduced to ensure that amounts are investigated on a timely basis.</p>	Medium	<p>Accepted.</p> <p>We will review and re-allocate these old payments.</p>	<p>Julie Sadler 30 Sept 2009</p>

Observation/Recommendation	Priority	Management Response	Responsibility / Timescale
<p>14 Sundry debtors and income - debt recovery procedure The Council has a generic debt recovery procedure in place which specifies the type of action required with timescales. From discussion, we noted that for some sections, such as nurseries and markets, this procedure does not reflect current working practices leading to a lack of consistency.</p> <p>We recommend that the Council reviews the appropriateness of these procedures and, where necessary, introduces additional procedures to cover specific areas of debt recovery.</p>	Medium	<p>Accepted.</p> <p>We will be developing action plans for the debt management of each individual department.</p> <p>Debt recovery write-offs and bad debt provision is also on the Accountants Process Improvement group (APIG) agenda for review and implementation of best practice.</p>	<p>Rob Williams 31 March 2010</p> <p>30 Sept 2009</p>
<p>15 Sundry debtors and income - debt collection targets We noted that formal debt collection targets are not currently in place. We recommend that these be introduced to encourage improvement in recovery rates.</p>	Medium	<p>Accepted. This has now been addressed for the current financial year.</p>	Completed
<p>16 Fixed assets register - accuracy of schedules Estates document revaluations on an asset spreadsheet which is used to update the Fixed Asset Register. Walkthrough testing of the asset spreadsheet to supporting documents identified one asset value that had been overstated by £70,000 and another that had an inconsistent narrative description.</p> <p>We recommend that the Council reviews procedures in this area and considers introducing additional checks to the integrity of the data captured.</p>	Medium	<p>Estates and Accountancy have worked together and now use a joint spreadsheet to ensure correct valuations and no duplicate entries or missing entries. A member of the team has been checking the accuracy.</p> <p>We are working on the specification and project plan for a new integrated asset management system to be used by Estates Accountancy and Property maintenance.</p>	<p>Completed</p> <p>Transforming Derby project – lead tbd 30 September 2009</p>

Observation/Recommendation	Priority	Management Response	Responsibility / Timescale
<p>17 Fixed assets - authorisation We would expect that access to the asset register be restricted to a limited number of specified employees, according to seniority, to prevent unauthorised amendments. We recommend that such restrictions be introduced to allow only allow senior members of the finance function and capital accountants access.</p>	Low	Lead accountant to maintain the asset register and a back-up copy to be taken at the sign-off of each monthly reconciliation	Nicola Goodacre 31 July 2009
<p>18 Housing benefits - procedures manual The benefits office procedures manual has not been updated since July 2004. We recommend that this be updated and that a regular scheduled review be undertaken to keep it current.</p>	Medium	Partly accepted. The Benefits Team has procured an on-line training product which covers legislation, procedural guidance and advice. Once the procedure is in place we will ensure local procedures are documented and circulated.	Mark Holmes 31 July 2009
<p>19 Housing benefits - overpayments The overpayments recovery strategy has not been updated since 2004 and, from discussion with staff, no longer reflects current working practices. We recommend that this be updated and that a regular scheduled review be undertaken to keep it current.</p>	Medium	Accepted. The overpayments recovery strategy has now been signed off by the Benefits Manager. A handover meeting between the Benefits Manager and the Revenues Manager to discuss new working practices is in place. Revenues will then manage all elements of debt recovery. A review of the strategy will take place annually.	Mark Holmes 31 August 2009

Observation/Recommendation	Priority	Management Response	Responsibility / Timescale
<p>20 Main Accounting Systems - Oracle procedures Following Oracle implementation, the Council has been updating procedures to reflect the change in processes. The main area that has yet to be completed is in relation to Control Accounts. We recommend that procedures be introduced in relation to control accounts and that a schedule be established for procedures to be regularly reviewed.</p>	Medium	<p>A key objective in our 2009/10 business plan is the review of control accounts and reconciliation procedures. Through APIG we will be developing a best practice guide and deliver training. Oracle procedures will then be updated.</p>	<p>Chloe Bowes 31 Oct 2009</p>
<p>21 Main Accounting Systems - bank reconciliation Reconciliations are performed to feeder systems on regular basis but are not subject to manager review. We recommend that these reconciliations are subject to review as this represents a key control and will ensure timely performance and that any reconciling items are being investigated.</p>	Low	<p>Now that we are back to full staffing on the corporate team, the regular review and sign-off of reconciliations by a senior officer together with the prompt correction of reconciling items will be undertaken .</p> <p>The Corporate Group Accountant did review the 2007/08 bank reconciliation at close-down in May 2008 but omitted to sign the summary working paper as evidence of the review.</p>	<p>Chloe Bowes 31 August 2009</p>
<p>22 Main Accounting Systems - suspense accounts Suspense accounts should be cleared on a regular basis to ensure that at year end there is not a backlog of reconciling items to clear.</p> <p>At the time of our interim audit in March 2009 the income suspense account showed a balance of £3.5million and was last cleared in Period 10. The expenditure suspense account had not been cleared since Period 3.</p>	Medium	<p>Accepted. It will be a monthly task to clear the suspense accounts during 2009/10.</p> <p>Key absences and change in responsibilities during 2008/9 led to an unusually high level of income suspense postings. As at the year-end the suspense account stands at £0.2m. APIG is to review the procedures to reduce the number of postings to the suspense account in the first place.</p>	<p>Alex Carnell 31 July 2009</p>

Observation/Recommendation	Priority	Management Response	Responsibility / Timescale
<p>23 Main Accounting Systems - bank reconciliations We recommend that bank account reconciliations are reviewed by a senior member of the finance function as currently they have not been subject to independent review since the new system went live in April 2007.</p>	Medium	<p>Now that we are back to full staffing on the corporate team, the regular review and sign-off of reconciliations by a senior officer together with the prompt correction of reconciling items will be undertaken.</p> <p>The Corporate Group Accountant did review the 2007/08 bank reconciliation at close-down in May 2008 but omitted to sign the summary working paper as evidence of the review. The bank reconciliation has been reviewed as part of the 2008/09 closure.</p>	Actioned



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