Derby City Council

Annual Audit Letter for the year ended 31 March 2018

September 2018

Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment (updated 23 February 2017)’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to **Derby City Council** following completion of our audit procedures for the year ended 31 March 2018.
Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We have concluded that a qualified 'adverse' VFM conclusion continues to be appropriate for the 2017/18 financial year.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report. However In June 2017, we used our statutory powers under Section 24 of the Local Audit and Accountability Act 2014 and issued written recommendations to the Council. This followed significant delays in the finalisation of the Council's 2015/16 Statement of Account and an unacceptable length of time being taken to respond to and correct control weaknesses identified in our audit procedures, and was first communicated to the Audit and Accounts Committee in September 2016.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	Following the completion on our review of the Council's WGA return, we had no matters to report. .

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 8 August 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 6 September 2018.

In December 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have completed.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Steve Clark

Partner

For and on behalf of Ernst & Young LLP

02 Purpose

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the Audit & Accounts Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

03 Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 20 March 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2017/18 financial statements, and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

04 Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 8th August 2018.

Our detailed findings were reported to the **July 2018** Audit & Accounts Committee .

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Risk of fraud in revenue and expenditure recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We considered the specific revenue and expenditure accounts which are impacted by this risk and considered the risk to be focused on fees, charges and other service income, and other service expenditure. Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular the completeness and valuation of creditors and the existence and valuation of debtors. We also believe the risk is linked to the existence of capital expenditure arising from the potential to incorrectly capitalise revenue expenditure. There is also the risk of incorrect cut-off in relation to revenue and/or expenditure leading to transactions being reported in the wrong period.	We: ▸ Documented our understanding of the processes and controls in place to mitigate the risks identified, and walked through the processes and controls to confirm our understanding ▸ Review and tested expenditure recognition policies. ▸ Review and discussed with management any accounting estimates on expenditure recognition for evidence of bias. ▸ Sample tested material revenue streams and operating expenditure ▸ Sample tested additions to property, plant and equipment to test whether the Council has inappropriately capitalised revenue expenditure. ▸ Tested the cut-off of income and expenditure to ensure transactions are recorded within the correct period to which they relate ▸ Developed a testing strategy to test material receivables and payables; and ▸ Performed a search for unrecorded trade payables at period year. ▸ Our testing has revealed several cut-off errors (totalling £810k) where the Council had under-accrued for various items of capital expenditure that were invoiced post year-end. Our testing identified a grant accrued for in error as the agreement was not signed and the conditions of the grant un-met as at the balance sheet date. This grant totaled 300k. Management have adjusted the final statement of accounts to correct this. As part of management's own quality control procedures, an amount £852k revenue related to a waste contract that is under dispute with Derbyshire County Council was identified as unrecorded. Management have adjusted the final statement of accounts to correct this. We are satisfied that the level of undetected misstatements is sufficiently low to enable us to conclude that no material misstatement has arisen as a result of fraud in revenue and expenditure recognition.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. In our Audit Planning Report we communicated that we consider that management are in a position to manipulate the financial position via entries within the Movement in Reserves Statement.	We: ▸ Documented our understanding of the processes and controls in place to mitigate the risks identified, and walked through those processes and controls to confirm our understanding. ▸ Inquired of management about risks of fraud and the controls put in place to address those risks. ▸ Understood the oversight given by those charged with governance of management's processes over fraud. ▸ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▸ Reviewed the calculation of management's material accruals, estimates and provisions for evidence of management bias; ▸ Evaluated the business rationale for any significant unusual transactions; ▸ Understood the oversight given by those charged with governance of management process over fraud; ▸ Reviewed the accounting adjustments processed in the movement in reserves statement to ensure consistency with other supporting disclosure notes. We have not identified any evidence of material management override. Other than the adjustment made to the accounts for an overstated insurance provision (£369k) where the recognition criteria had not been met as their was no obligation arising as a result of a past event, we have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.
Valuation of land and buildings The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We focused on the following: ▸ The adequacy of the scope of the work performed by the value including their professional capabilities ▸ The reasonableness of the underlying assumptions used by the Authority's valuer ▸ Reviewed each class of asset and the valuation approach adopted to assess where the risk of material misstatement is higher in order to target our testing. ▸ Evaluated the competence, capabilities and objectivity of management's specialist. ▸ Reviewed any terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards. ▸ Engaged our valuation specialists to support our testing strategy and evaluate the work of the Council's valuer. ▸ Perform appropriate tests over the completeness and appropriateness of information provided to the valuer. ▸ Reviewed the classification of assets and ensure the correct valuation methodology has been applied. ▸ Ensured the valuer's conclusions have been appropriately recorded in the accounts. The Council's PPE has been valued for the first time in 2017/18 by the District Valuation Office (DVO), and we reviewed the instructions and data provided to the valuer by the Council. No issues were identified. We have obtained input from EY's own valuation experts on the work of the DVO and their qualifications. Our valuation specialist reviewed the valuation methods used by management's specialist and has raised no material concerns. Our valuation specialist reviewed in detail the valuations for a sample of individual assets of high value. This has raised no material concerns. For the sample of assets examined, we are able to conclude that the assets have been classified correctly in the financial statements.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Move to Open Housing Rent System The Council has implemented a new Housing Rents system in year (Open Housing). Any significant system change creates risks associated with data migration and integrity which could result in a material misstatement	▸ We were unable to review the work of internal audit as this work has not been carried out at the date of writing. ▸ The Council reconciled the closing receivables listing in the old system with the opening receivables in the new Open Housing system and we have substantively tested this reconciliation, finding no issues. ▸ No reconciliation was performed by the Council with respect to the income recorded in the general ledger to confirm that income had not been omitted or double counted on transition to the new system. We have performed a predictive analytical review of housing rental income for the entire 12 month period and as a result are satisfied that the rental income for the year is free from material misstatement. ▸ The client has prepared weekly postings from the rental income system (both old and new) to the general ledger. We have reviewed these for the week either side of system transition date. We noted that in the week following transition, approximately ¾ of the income was incorrectly posted (£863k). This error was repeated and not corrected until several months after the system transition date (total correction of £17.3m). This highlights the importance of reconciling income on a timely basis. ▸ We have performed completeness testing on rental income, selecting a sample of council dwellings included in property, plant and equipment and ensuring that rental income for those properties is being included in the financial statements. No issues were noted as a result of this work.

Other Key Findings	Conclusion
Pension Liability Valuation	▸ We identified one unadjusted audit difference which related to the Council's share of the outturn value of pension fund assets compared to the actuaries estimate. ▸ The Pension Scheme Actuary calculates the value of the Council's share of the total scheme to be included in the financial statements. In performing our audit procedures on the notified balances we observed that there was a large difference between the asset value of the total fund which the Actuary had used in their calculations, and the asset value of the fund as disclosed in the Derbyshire County Council Pension Scheme draft financial statements as at 31 March 2018. We performed a calculation of the estimated impact that this would have on the accounts of Derby City Council as follows:

Estimated total fund value	**4,606,000,000**
Actual fund value:	4,619,376,000
Variance:	(13,376,000)
Derby City share of the variance	2,370,000

▸ This variance has no impact on reported surplus for the year, and would only increase the pension assets and pension reserve. Management have decided not to adjust the statement of accounts in respect of this item on the grounds of materiality and we concur with their decision.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

<table>
<tr><th>Other Key Findings</th><th>Conclusion</th></tr>
<tr><td>PFI Financing</td><td>Our approach has focussed on:
Obtaining and documenting an understanding of the schemes
Considering whether the scheme falls within IFRIC 12 and should be accounted for on balance sheet
Ensuring the outputs from the accounting model are correctly reflected in the financial statements, and relevant disclosures have been made
Discussed with Management progress of contract audit activity
We have confirmed that there have been no significant new PFI contracts or contract variations in the year and there were no material misstatements identified as a result of our procedures.</td></tr>
<tr><td>Minimum Revenue Provision</td><td>Our approach has focussed on:
Reviewing the Council's model for MRP calculation to confirm that it is consistent with the Regulations.
We have confirmed that Management have applied the MRP policy consistently in 17/18 as expected.</td></tr>
<tr><td>Earlier deadline for production of the financial statements</td><td>The Council met the 31 May deadline for publication of it's draft statement of accounts in accordance with the regulations on authorisation of accounts, defining and advertising the inspection period.

Regulation 15 (2a) ii) requires that the Annual governance statement (AGS) be published alongside the draft statement of accounts. This regulation was not complied with, but we note that the AGS was published in the audit and accounts committee papers for the 19 June 2018 meeting.

We worked with the Council to engage early to facilitate early substantive testing where appropriate. We worked with the Council to implement EY Canvas Portal which streamlined the audit requests and supply of support.

The Council have channelled significant resource into the external audit process, with two individuals primarily focused on managing and responding to external audit queries and information requests.

The Council's own quality review processes identified several misstatements in the draft financial statements prior to the external audit commencing. The early deadline for production of the financial statements was likely a contributory factor in these misstatements arising.</td></tr>
<tr><td>Follow up of statutory written recommendations issued June 2017</td><td>Significant improvement in the year end accounts close down and accounts production process has taken place. Our observation is that this has been as a result of significant dedicated resource being applied by the Council to the external audit process, as opposed to an embedded improvement in monthly financial reporting processes as business as usual.

It is now over 12 months since we presented our statutory recommendations to the Council. Whilst we understand from discussions with internal audit that their follow-up work on the Council's response to the recommendations is now complete, there has been no formal reporting to the Audit and Accounts Committee giving independent assurance on the extent of progress made. In our view, this should be done as a matter of priority.</td></tr>
</table>

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £6.6m (2016/17– £7.16m). which is 1% of gross expenditure reported in the accounts of £661.7 million. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit & Accounts Committee that we would report to the Committee all audit differences in excess of £0.329m (2016/17 – £0.36m).

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits:
- Related party transactions.
- We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

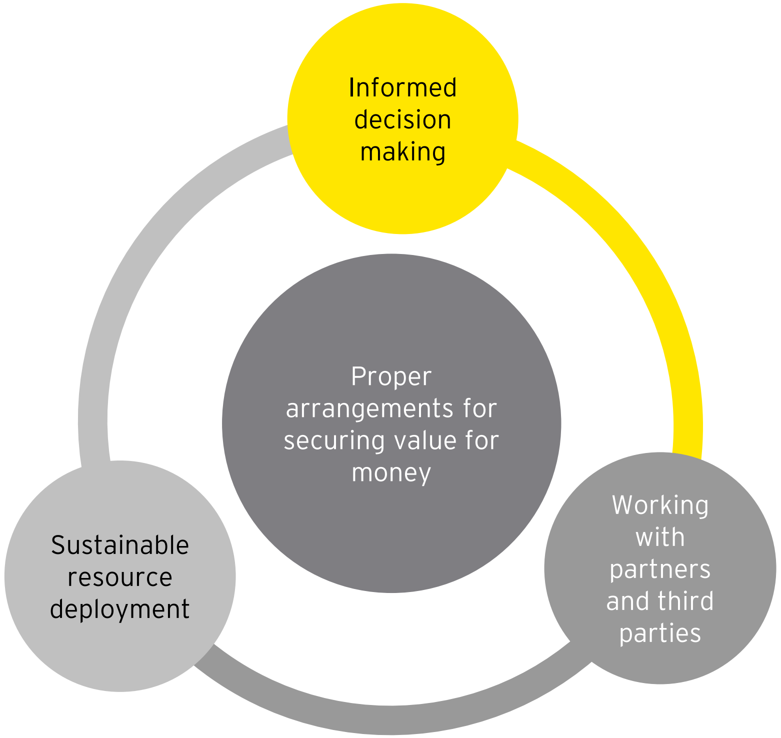
05 Value for Money

Value for Money

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



In our Audit Planning report we identified six significant risks to our value for money conclusion. Since the publication of our Audit Planning Report, we had identified a further significant risk to our value for money conclusion, being the overspend on the A52 capital project affecting the criterion, ‘informed decision making’ – specifically:

- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management; and
- Managing risks effectively

The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan. We identified the following significant weaknesses in the Council’s arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Value for Money (cont'd)

We issued a qualified value for money conclusion in relation sustainable resource deployment and informed decision making, on 8th August 2018.

Significant Risk	Conclusion
June 2016 Public Interest Report Grant Thornton issued a Report in the Public Interest in June 2016 which highlighted governance issues which remained present in the 2016/17 year of account. This report, and the Council's response to it therefore presents a significant risk to our VFM conclusion.	We have performed the work as set out in our Audit Plan. Our approach has focussed on: ▪ Reviewing details of Public interest report and consider points within that relate to the 2017/18 year of account. ▪ Reviewing the Council's progress towards addressing the points raised in the public interest report. The only remaining matter documented in the PIR which has an ongoing implication for DCC is the quality of member/officer relations. This matter was raised again in the Local Government Association report of July 2017. We therefore conclude that this is evidence of weakness in arrangements for Informed Decision Making – specifically, acting in the public interest, through demonstrating and applying the principles and values of sound governance.
Provision of internal audit services EY have attended all audit committee meetings held throughout the 2016-17 reporting period. In our view, the reporting to the Committee by internal audit is superficial, and the challenge provided by the audit committee to the matters raised by internal audit is often weak. We have not seen evidence of Officers being held to account for issues highlighted in internal audit reports but not addressed in a timely manner, nor evidence of challenge where risks are considered 'acceptable' by Officers. In early 2017 the Council have initiated a review of the internal audit service offering, and a number of weaknesses have been identified which have led to a transformation programme being initiated.	We have performed the work as set out in our Audit Plan. Our approach has focussed on: ▪ Reviewing the findings of the independent review of the internal audit service provision; and ▪ Monitoring the implementation of the transformation programme. Throughout 17-18 there has been a significant amount of pressure on the internal audit provision and the degree of respect it has been afforded within the organisation. Under the direction of the Strategic Director of Corporate Resources and S151 officer, we have observed the situation improving. Internal audit now have unfettered access to the audit committee, and are present to present the details of their work to committee. Whilst this issue is therefore being actively addressed, we cannot conclude that the arrangements have been in place throughout the year. We therefore note this as contributing to our Adverse VFM conclusion.

Value for Money (cont'd)

Significant Risk	Conclusion
July 2017 written recommendations under s.24 of the Local Audit and Accountability Act 2014 In June 2017 EY exercised its powers under the Local Audit and Accountability Act 2014 and issued written recommendations to the Council. Although some progress had been made, it was our view that given the significance of the control weaknesses, insufficient progress has been made in the period following our report of 23 September 2016 to appropriately address the issues and strengthen the Council's control environment. The control issues identified across a significant number of areas of the Finance and associated supporting functions, most noticeably in respect of the Estates function, are pervasive and led to a significant number of errors identified in the 15/16 published draft Financial Statements relating to both the current and prior year accounting periods. This could undermine the Council's ability to effectively demonstrate it has proper arrangements to safeguard and make informed decisions in respect of public funds and assets.	We have performed the work as set out in our Audit Plan. Our approach has focussed on: ▪ Reviewing the action plan created by the Council to address the issues raised in the written recommendations; and ▪ Monitoring progress against that action plan. Whilst the Council has clearly made progress against addressing many of the control issues communicated in our written recommendations, there has been a continual journey throughout 17-18 such that we are unable to conclude that these controls are now embedded into 'business as usual'. On that basis, whilst noting the improvements made in our ISA260 reporting, we will continue to highlight the robustness of internal controls in our VFM conclusion which remains adverse for 17-18. We also note that at the time of writing, the internal audit work in respect to the follow-up of s24 recommendations has still not concluded and reported to the Audit and Accounts Committee. Given that 12 months have now past since our statutory recommendations were made, it is our view that the internal audit report should be prioritised and any recommendations arising from it should be actively monitored by the Audit and Accounts Committee to ensure a more timely resolution.
Robustness of medium term financial planning The Council's Medium Term Financial Plan and planning process is not sufficiently robust. Savings targets are not accompanied by detailed plans on how the savings are to be achieved. There is no provision for scenario planning to identify financial sensitivities within the Medium Term Financial Plan. This therefore presents a significant risk to our Value For Money conclusion.	We have performed the work as set out in our Audit Plan. Our approach has focussed on: ▪ Reviewing the arrangements that the Council has put in place for identifying medium term savings requirement; ▪ Understanding the operation of Medium Term Financial Plan and Planning activities with the s151 Officer to confirm nature and extent of any improvements made from prior years. ▪ Evaluate the impact of any audit findings on the reported financial position. We understand from our discussions with the client that every saving identified as part of the MTFP process now requires a TMS form to be completed which indicates a plan as to how the saving will be achieved, who is responsible for this and it must be signed by the relevant budget holder. This was implemented in-year (Sept 17). This is an indication that the council is seeking to improve the accountability of officers and increasing the planning behind MTFP savings. Sensitivity analysis will also be included within the MTFP - enabling the council to make plans for various scenarios. We have obtained a copy of a TMS form (18 DCC TM Saving Pro-forma signed off by Director of Finance). This details a 4.194m saving in Treasury Management, which has been signed off by the DoF. We have also performed a review of the MTFS. From this it can be noted that the council has not identified savings of £7,225k and £11,233k in 20/21 and 21/22 respectively. Whilst the Council has clearly made progress to improve the robustness of medium term financial planning during 17-18 , this is an ongoing journey which has been impacted by the presence of 2 s151 officers throughout the year. The present incumbent has been made permanent until at least 31 July 2019 which should provide some stability. On that basis, whilst noting the improvements made in our ISA260 reporting, we will continue to highlight the robustness of the MTFP in our VFM conclusion which remains adverse for 17-18.

Value for Money (cont'd)

Significant Risk	Conclusion
Results of regulatory review and commentary The Council has received various commentary throughout the year from regulatory bodies, the tone of which has been mixed. Recent findings in respect of education provision across the City from Ofsted and more broadly across the Council's activities from the Local Government Association (LGA) Peer Review indicate a significant risk to our VFM conclusion.	We have performed the work as set out in our Audit Plan. Our approach has focussed on: ▪ Discussions with Council Officers on actions taken to address the issues raised by Ofsted and the LGA peer review. We have met with the Strategic Director of People Services to understand the Council's response to the Ofsted commentary and concluded that the Council have arrangements in place to ensure its statutory duties are delivered. The LGA peer review report was, in the main, not a positive document. Issues were raised around the Council's lack of planning and project management in many areas; weaknesses in decision making; poor internal control environment; Member/Officer relationships; and poor reputation with respect to the finance function and accounts delivery. All of these areas were already covered in our existing Value For Money significant risk work with the exception of the 'lack of planning and project management' but this has been picked up by the additional VFM risk added at the execution stage with respect to the overspend on the A52 capital project (see below). We have therefore concluded that this particular significant risk does not contribute further to our adverse value for money conclusion.
Absence of corporate risk strategy and risk register There was no corporate risk strategy in place that covered 2016/17. The draft strategic risk register went to Chief Officer Group in November 2015, as a working copy for them to comment on. It was agreed that a clearer definition of the risk appetite and what would and would not be tolerated was needed. At September 2017, the new strategy document was still in the process of being redrafted.	We have performed the work as set out in our Audit Plan. Our approach has focussed on: ▪ Understanding the progress made by the Council to prepare and embed a corporate risk strategy and risk management process. We reviewed the risk management activities which have taken place throughout the year in response to this issues raised in our previous year Value For Money conclusions and note that improvements are being implemented but these have not been embedded throughout the 17-18 year under audit and therefore we continue to issue an adverse conclusion including risk management arrangements.
Additional Significant Risk: Overspend of A52 capital project	Our approach has focussed on: ▪ Discussions with Council Officers on actions taken to understand and address the issues which have led to the overspend ▪ Discussions with internal audit on the scope of their involvement in investigating the overspend The overspend on the A52 project was unexpected and reported to Council/Leadership very late. This shows a lack of control around the ability to take informed decisions. We held a discussion with the Acting Chief Executive and the s151 officer as soon as the overspend became known and reviewed a paper prepared by the Acting Chief Executive setting out the issue and the Council's proposed response to it. We have held a meeting with internal audit to discuss their role in the task to understand what had gone wrong in the process and the timelines for reporting findings, which appear appropriate. We have challenged whether there could be other substantial capital projects where an unknown overspend was 'hidden' – however, there are currently no other significant capital projects ongoing at present which reduces the risk.

06 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no matters to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We have performed the work as set out in our Audit Plan.

The only remaining matter documented in the PIR which has an ongoing implication for DCC is the quality of member/officer relations. This matter was raised again in the Local Government Association report of July 2017.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response. - In June 2017 EY exercised its powers under the Local Audit and Accountability Act 2014 and issued written recommendations to the Council. We will continue to highlight the robustness of internal controls in our VFM conclusion which remains adverse for 17-18. We also note that at the time of writing, the internal audit work in respect to the follow-up of s24 recommendations has still not concluded and reported to the Audit and Accounts Committee.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit & Accounts Committee in August 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement

Control Themes and Observations

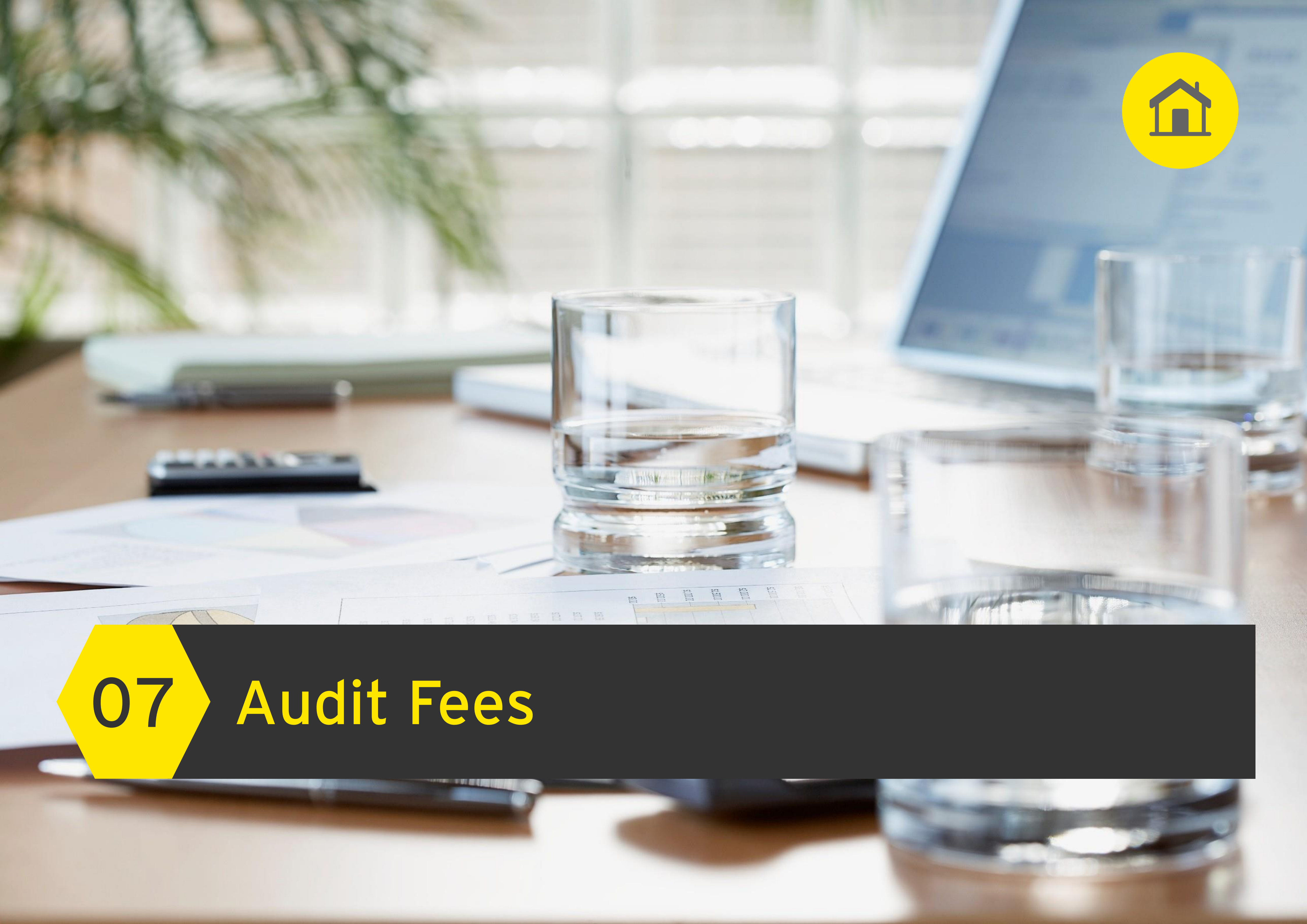
It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements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

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

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

- Debtors listings provided for audit contained several very old balances dating as far back as 2006. For the most part these were fully provided against, but after over 10 years on the ledger, should be written off.
- We identified a risk of leavers being paid after they have left the Authority's employment. This arose because individuals do not get removed from the payroll system until after the e-form has been reviewed, and there is often a significant delay in review of these forms.
- We noted a lack of timely reconciliations between the housing benefits system and the general ledger. At February 2018 reconciliations had only been performed up to the end of quarter 2.
- We noted misstatements in the related party transactions disclosures resulting from incomplete declarations of interest being submitted by Councillors.
- During our interim procedures, we noted that monthly reconciliations between the payroll system and the general ledger were not being performed on a timely basis. The year end reconciliation was performed for external audit purposes.
- As noted on page 13, when transitioning the rental income system from Academy to Open Housing, there was a lack of documented testing, control and reconciliation of income transactions to evidence proper due-diligence around the data migration.

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



07 Audit Fees

Audit Fees

Our audit fee for 2017/18 is £182,553, £40k higher than the scale fee set by the PSAA and reported in our Audit Plan. The increased fee relates to additional work undertaken in respect of transition to open housing system, follow up of PIR and statutory recommendations and working paper availability, and has been agreed with management.

	Final Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
			£
Total Fee – Code work	182,553	142,553	208,390
Total audit	182,553	142,553	208,390

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

08 Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below

Standard	Issue	Impact
IFRS 9 Financial Instruments	Applicable for local authority accounts from the 2018/19 financial year and will change: ▸ How financial assets are classified and measured; ▸ How the impairment of financial assets are calculated; and ▸ The disclosure requirements for financial assets. There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.	Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to: ▸ Reclassify existing financial instrument assets ▸ Re-measure and recalculate potential impairments of those assets; and ▸ Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except: ▸ Leases; ▸ Financial instruments; ▸ Insurance contracts; and ▸ For local authorities; Council Tax and NDR income. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.	As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited. The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.

Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

EY-000070729-01 (UK) 07/18. CSG London.

In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

ey.com