

Derby City Council

Annual Audit Letter for the year
ended 31 March 2019

August 2019

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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).

This 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 April 2018)' issued by PSAA set 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 and Terms of Appointment. 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 (the Council) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ 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 noted weakness in arrangements over the management of the A52 Junction improvement scheme and concluded a qualified 'except for' VFM conclusion to be appropriate for the 2018/19 financial year. Details of our findings can be found in section 4 of this letter.

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.
▶ 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).	We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission



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 23 July 2019.
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.	We have not as yet issued our audit completion certificate. We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

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

Stephen Clark

Partner

For and on behalf of Ernst & Young LLP



02

Purpose and Responsibilities

Purpose and Responsibilities

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 2018/19 Audit Results Report to the 30 July 2019 Audit and 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.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 27 March 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2018/19 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 the 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 your 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 (AGS). 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.



03

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 other guidance issued by the National Audit Office and issued an unqualified audit report on 31 July 2019. Our detailed findings were reported to the July 2019 Audit and Accounts Committee.

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

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) 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.	We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. Reviewed the calculation of management's material accruals, estimates and provisions for evidence of management bias; We evaluated the business rationale for any significant unusual transactions We have not identified any material weaknesses in controls or evidence of material management override. 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

Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
<p>Risk of fraud in revenue and expenditure recognition for year end accruals and capitalisation of revenue expenditure.</p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p> <p>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.</p>	<p>We:</p> <p>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</p> <p>Reviewed and tested expenditure recognition policies.</p> <p>Reviewed and discussed with management any accounting estimates on expenditure recognition for evidence of bias.</p> <p>Sample tested material revenue streams and operating expenditure</p> <p>Sample tested additions to property, plant and equipment to test whether the Council has inappropriately capitalised revenue expenditure.</p> <p>Tested the cut-off of income and expenditure to ensure transactions are recorded within the correct period to which they relate</p> <p>Developed a testing strategy to test material receivables and payables; and</p> <p>Performed a search for unrecorded trade payables at period year.</p> <p>Our testing has revealed one cut-off error (totalling £499k) where the Council had under-accrued for revenue expenditure that was invoiced post year-end.</p> <p>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.</p>

Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
Valuation of land and buildings <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>The fair value of other land and buildings represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>The Council has rolling valuation process , which annually values 20% of the land and building assets, is subject to a number of assumptions and judgements, which if inappropriate could result in a material impact on the financial statements. There is also a potential risk of material misstatement that the remaining 80% of unvalued assets may have experienced a material change in value which has not been identified and accounted for correctly.</p>	<p>We focused on the following:</p> <p>The adequacy of the scope of the work performed by the value including their professional capabilities</p> <p>The reasonableness of the underlying assumptions used by the Authority's valuer</p> <p>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.</p> <p>Evaluated the competence, capabilities and objectivity of management's specialist.</p> <p>Reviewed any terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards.</p> <p>Engaged our valuation specialists to support our testing strategy and evaluate the work of the Council's valuer.</p> <p>Performed appropriate tests over the completeness and appropriateness of information provided to the valuer.</p> <p>Reviewed the classification of assets and ensure the correct valuation methodology has been applied.</p> <p>Ensured the valuer's conclusions have been appropriately recorded in the accounts.</p> <p>The Council's PPE has been valued by the District Valuation Office (DVO), and we reviewed the instructions and data provided to the valuer by the Council. No issues were identified.</p> <p>We 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.</p> <p>Our valuation specialist reviewed in detail the valuations for a sample of individual assets of high value. This has raised no material concerns.</p> <p>For the sample of assets examined, we are able to conclude that the assets have been classified correctly in the financial statements.</p>

Financial Statement Audit (cont'd)

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

Other Key Findings	Conclusion
Pension Liability Valuation	<p>We focused on the following:</p> <ul style="list-style-type: none">The reasonableness of the underlying assumptions used by Hymans RobertsonEnsuring the information supplied to the actuary in relation to Derby City Council was complete and accurate.Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Hymans Robertson.Our work has not identified any material misstatements of the Authority's liability or related disclosures in this regard.We assessed and were satisfied with the competency and objectivity of the Authority's actuaries: Hymans Robertson LLP.EY pensions team and PwC (Consulting Actuary to the NAO) reviewed the work of the actuaries, challenging the actuarial valuation and found no indication of management bias in this estimate.Our review of accounting entries at period end and those journals made in processing estimate did not reveal any instances of management intention to misreport the financial position.There was an ongoing national issue requiring late amendments to the pension liability disclosure, relating to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements - commonly described as the McCloud ruling.The Authority's initial disclosure for the pension scheme liability was based on the actuarial report dated 13 May 2019.An additional report was requested dated 4 July 2019. In the latter report the actuary reported that the liability had increased by £5.05m (past service costs £4.170m and £0.880m for the GMP equalisation). The Authority made the required adjustments to the financial statements in respect of this matter.The adjusted misstatement mis-statement did not impact cash nor the outturn for the year.
PFI Financing	<p>Our approach has focussed on:</p> <ul style="list-style-type: none">Obtaining and documenting an understanding of the schemesConsidering whether the scheme falls within IFRIC 12 and should be accounted for on balance sheetEnsuring the outputs from the accounting model are correctly reflected in the financial statements, and relevant disclosures have been madeDiscussed with Management progress of contract audit activity <p>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.</p>

Financial Statement Audit (cont'd)

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

Other Key Findings	Conclusion
Follow up of statutory written recommendations issued June 2017	<p>EY issued written recommendations to the Authority under s24 of the Local Audit and Accountability Act in June 2017. The report presented to the audit committee in February 2019 by internal audit 18 months after we presented our statutory recommendations to the Authority shows majority of the recommendations have been addressed.</p> <p>Our approach has focussed on following up progress during our interim and final audit visits to assess whether the recommendations have been satisfactory concluded.</p> <p>We have confirmed that the Authority have satisfactory implemented the s24 recommendations.</p>
IFRS 9 - financial instruments	<p>Our approach has focussed on:</p> <p>Assessing the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;</p> <p>Considering the classification and valuation of financial instrument assets;</p> <p>Reviewing expected credit loss model impairment calculations for assets; and</p> <p>Checking additional disclosure requirements.</p> <p>We have confirmed the disclosure within the accounts for financial instruments were updated in line with the disclosure requirements for IFRS 9.</p>
IFRS 15 - Revenue contracts with customers	<p>Our approach has focussed on:</p> <p>Assessing the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. This will include where relevant, any Local Authority Trading Companies consolidated into the Authority's Group Accounts.</p> <p>Considering application to the Authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and</p> <p>Checking additional disclosure requirements are correctly included.</p> <p>Our review of the Authority's assessment concluded it does not have any material revenue streams that come under the scope of IFRS 15.</p>

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 £6.55m (2017/18 – £6.6m), which is 1% of gross expenditure reported in the accounts of £655 million. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.
Reporting threshold	We agreed with the Audit & Accounts Committee that we would report to the Committee all audit differences in excess of £0.33m (2017/18 – £0.329m).

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

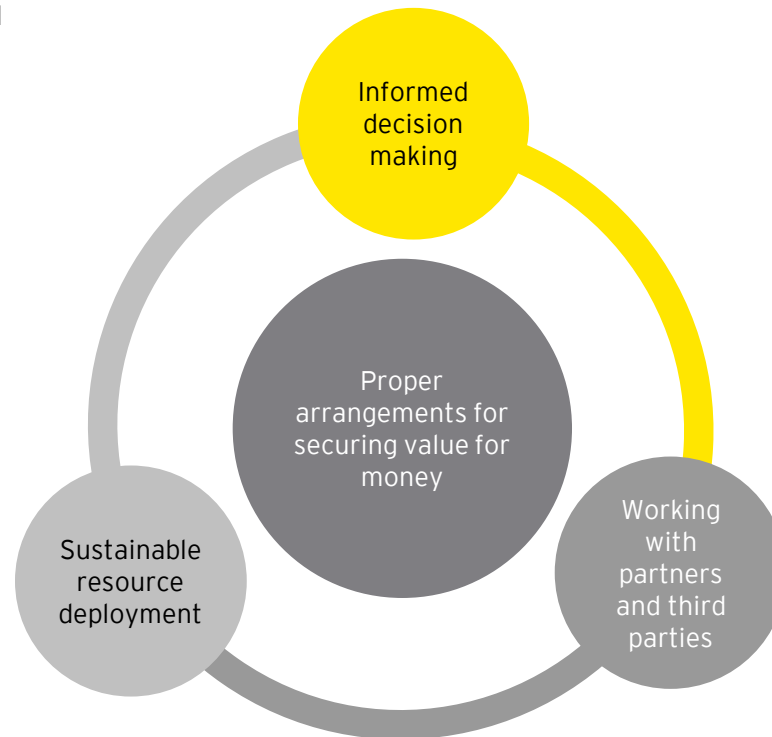


04 Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in 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.



We identified 6 significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention. As a result of our procedures, we conclude that a qualified 'except-for' conclusion with respect to your arrangements to secure economy, efficiency and effectiveness in your use of resources is appropriate in relation to the management of the A52 Junction improvement scheme.

Value for Money (cont'd)

Significant Risk	Conclusion
<p>Results of regulatory reviews and commentary</p> <p>The Council received various commentary throughout the prior year period from regulatory bodies, the tone of which was mixed.</p> <p>The 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 indicated a significant risk to our VFM conclusion. As a result of the findings and the recommendations made we will monitor the Council's progress in these areas.</p>	<p>We considered the findings from regulatory bodies received during the year, in particularly the follow up to the LGA peer review and Ofsted report on children's services:</p> <p>The 2017 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.</p> <p>The follow up visit, fed back that most of the areas have shown significant improvement, some improvement to Member/Officer relations was recommended. We have discussed the Member/Officer relations with the Officers and conclude the relationships have improved to an acceptable level and is no longer a significant risk.</p> <p>Ofsted report - Inspection into children's services in June 2017, gave a rating of Good, with children who need help and protection impacting the overall rating, as it required improvements.</p> <p>A follow up inspection during 18-22 March 2019 was reported on 8 May 2019, being a joint inspection of the multi-agency response to abuse and neglect in Derby City. The inspection included a 'deep dive' focus on the response to child sexual abuse in the family environment.</p> <p>The report shows improvements have been made, however there still remains areas for improvement and a written response by the council is to be made before 15 August 2019. Taking into consideration the draft written response and that children's services are good overall, we are able to conclude the Authority has appropriate arrangements in place.</p> <p>We conclude there is no risk to our VFM conclusion from the regularity reviews and that it is no longer considered as a significant risk</p>
<p>Significant overspend on capital projects</p> <p>The A52 improvement project is a significant capital project, which is still ongoing. The project has been subject to substantial overspend, which highlighted reporting and control issues. At the time of writing, it is reported there is £40m of committed expenditure against a budget of £15m.</p>	<p>The original estimated total scheme cost within the Authority's capital programme was £14.906m. In March 2018, Cabinet approved £2.157m, within the Highways and Transport programme, to fund the delivery of ancillary works to the main A52 junction improvement scheme - taking the total planned spend to £17.063m.</p> <p>In late March 2018 it became apparent that there were significant previously undisclosed overspends on the project. Internal audit were commissioned to carry out an investigation into the project, and highlighted significant issues with the processes around project management, monitoring, procurement and decision making by key senior Members at the Council. The scheme design was revisited and the project costs are now estimated to be £43.2m, an additional £28.3m over its original budget. This provides evidence of weaknesses in proper arrangements for informed decision making, sustainable resource deployment and working with partners and other third Parties</p>



Value for Money (cont'd)

Significant Risk	Conclusion
<p>June 2016 Public Interest Report</p> <p>Grant Thornton issued a Report in the Public Interest in June 2016 which highlighted governance issues which remained present in the 2017/18 year of account. This report, and the Council's response to it therefore presents a significant risk to our VFM conclusion. Our work in 2017/18 confirmed the only remaining matter documented in the PIR which has an ongoing implication for Derby City Council is the quality of member/officer relations. This matter was raised again in the Local Government Association report of July 2017.</p>	<p>The only remaining matter documented in the PIR which has an ongoing implication for the Authority is the quality of Member/Officer relations. This matter was raised again in the LGA report of July 2017.</p> <p>We have discussed the Member Officer relations with the officers and conclude the relationships have improved to an acceptable level and is no longer a significant risk.</p>
<p>July 2017 written recommendations under s24 of Local Audit and Accountability Act</p> <p>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.</p> <p>The work of the internal audit work in respect to the follow-up of s24 recommendations was reported to the audit committee in February 2019, which shows the Council has clearly made progress against addressing many of the control issues communicated in our written recommendations, there are still recommendations to be concluded on, 18 months from when we presented our recommendations the council.</p>	<p>The 2017-18 audit evidenced improvements and supported the findings of the internal audit report detailing follow up work carried out on EY S24 recommendations. The 2018-19 audit work confirms the controls are embedded.</p> <p>We conclude the S24 recommendation have been implemented</p>



Value for Money (cont'd)

Significant Risk	Conclusion
Robustness of medium term financial planning The Council's Medium Term Financial Plan and planning process have not previously been sufficiently robust. Savings targets were 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. We have been informed of changes implemented in this area, but there is a risk present as we must ascertain whether the changes have been embedded within the Council. This therefore presents a significant risk to our Value For Money conclusion	<p>We note that the MTFP and the process of identifying achievable savings and quantifiable pressures is sufficiently robust. Adequate plans and reporting is in place to deliver and monitor the identified savings.</p> <p>We conclude that the robustness of the MTFP has no impact on our VFM conclusion.</p>
Provision of internal audit services In the prior year, our view was that 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 was often weak. In early 2017 the Council initiated a review of the internal audit service offering, a transformation programme was initiated and improvements were made. We will continue to monitor progress in 2018-19	<p>Improvements have been made by the internal audit service.</p> <p>No significant weaknesses have been highlighted in internal audit reporting, there is improved communication with council Officers and audit and accounts committee.</p> <p>The council are now able to rely on internal audit and respect the services provided.</p>



05

Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

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 did not identify any issues which required us to issue a report in the public interest.

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.

We did not identify any issues which required us to issue a written recommendation.



Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2018/19 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 and Accounts Committee on 30 July 2019. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

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

- No reconciliation between HRA system and the General Ledger for the housing rents income at year-end which could result in the GL not agreeing to the HRA subledger
- The annual governance statement has not been made available alongside the draft accounts for the inspection period.



06

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 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>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.</p> <p>There are transitional arrangements within the standard and although the 2020/21 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.</p>	<p>Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>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.</p>
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> - new definitions of assets, liabilities, income and expenses - updates for the inclusion of the recognition process and criteria and new provisions on derecognition - enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. <p>The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>

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