South Derbyshire District Council

Annual Audit Letter for the year ended 31 March 2020

January 2021

EY
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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).

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 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 Audit Results Report 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 Hywel Ball, 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.

Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to South Derbyshire District Council (the Council) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
► Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. We worked with the Council to deliver our audit in line with the revised reporting timescale.
Impact on our risk assessment	
► Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
► Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
► Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Council.
Impact on the scope of our audit	
► Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk: ► Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and ► Agree IPE to scanned documents or other system screenshots.
► Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

The tables below set out 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 2020 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 concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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).	The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the consolidation pack.

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 25 November 2020.
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 11 January 2021.

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

Helen Henshaw
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

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 2019/20 Audit Results Report to the 9 December 2020 Audit Sub-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

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 16 March 2020 and the updated plan tabled at the 16 September 2020 meeting of the Audit Sub-Committee, 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 2019/20 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 Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

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.

Section 3

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 11 January 2021.

Our detailed findings were reported to the 9 December 2020 Audit Sub-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 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 Authority'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
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 focused on the following risk areas: ‣ Inappropriate capitalisation of revenue expenditure and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement; and ‣ Inappropriate cut-off of revenue expenditure and non-grant income at the year-end date resulting in transactions being recorded in the wrong financial period.	We tested a sample of 22 additions to Property, Plant and Equipment in the year. No issues were noted in respect of inappropriate capitalisation of expenditure. We have reviewed receivable (income) and payable (expenditure) transactions for the one month prior to the year end and five months after the year end, examining evidence in support of all transactions over a threshold determined by our risk assessment. We have found no instances of transactions being recorded in the wrong financial period. Prior to preparation of the draft financial statements Management identified an error in the previous years' financial statements meaning that Housing Benefit Overpayment receivables being recovered from former claimants (and the associated bad debt provision) had been excluded from the financial statements. This resulted in a prior period adjustment being recorded in the 2019/20 draft financial statements. This effectively reflects income which has not been recognised in previous years. We have performed audit procedures to gain assurance that the prior period adjustment is supportable, and have been through our internal consultation processes in respect of the adequacy of the disclosures made in the financial statements. We are satisfied that the adjustment is appropriate and complete. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.

Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
Valuation of property, plant and equipment 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. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet for land and buildings in particular. The Council engaged an external expert valuer who will apply a number of complex assumptions to these assets. They performed a full revaluation of the asset base for 2019/20. Annually assets are assessed to identify whether there is any indication of impairment. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated.	Management engaged their own specialist to value all land and buildings owned by the Council as at 31 March 2020. We have assessed the competency of Management's valuer. We have assessed the inputs used by the valuer in their calculations. We have used our own internal valuation specialist to review a sample of 5 of the assets in detail and have concluded that the valuations are acceptable. We have been able to take this assurance and apply it to the remainder of the land and buildings on the Council's balance sheet. We have concluded that the valuation of land and buildings is free from material misstatement.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
Going Concern Disclosures	The Council's level of usable reserves totals £53m as at 31 March 2020. This includes unallocated contingencies and specific reserves. The Government has provided un-ringfenced funding of £1.4m to the Council to meet additional costs due to Covid-19. It is currently estimated that the aggregated loss of income and additional costs highlighted above, will total no higher than £0.5m. This leaves some contingency before the Council needs to use its own reserves We have reviewed the Council's cash flow forecast out to the end of February 2022. Over that period the lowest cash balance is £29.2m. We have complied with EY internal consultation requirements and are satisfied with the disclosures made in the financial statements. No modification will be required to our audit report in respect of going concern.
Pension Liability Valuation	At 31 March 2020 the net liability totals £27.6m. Management obtained revised actuarial reports to reflect the recent McCloud remedy consultation which resulted in a revised liability figure of £27.4m (a reduction of £249k). Due to the immaterial size, management have chosen not to amend the financial statements. We received an assurance letter from the auditors of the Derbyshire Pension Fund on the results of their procedures. This raised two matters which impact the disclosures of South Derbyshire District Council: • A difference between 'benefits paid' used by the actuary and that confirmed by the auditor of the Derbyshire Fund of £497k. This is a disclosure misstatement only. Dr pension assets £497k, Cr Pension liability £497k. • The auditors of the Derbyshire Pension Fund reported an unadjusted (downward) error in their audit of the Derbyshire fund in respect of unquoted investment assets. South Derbyshire's share of this error is estimated as £120k. Management have not adjusted the financial statements for these amounts.

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 £988k, which is 2% of gross operating expenditure reported in the accounts of £46.3m adjusted for other operating expenditure and interest payable. We consider gross operating 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 Sub-Committee that we would report to the Committee all audit differences in excess of £50k.

Section 4

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 in its use of resources. This is known as our value for money conclusion.

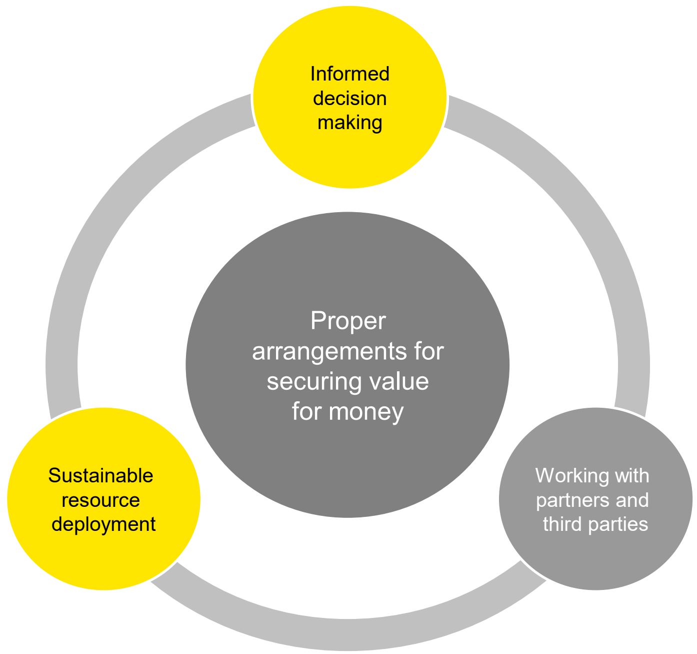
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

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

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider NHS bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We identified one significant risk in relation to these arrangements. The table below presents the findings of our work in response to the risk identified.

We have performed the procedures outlined in our audit plan. We did not identify any 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 therefore issued an unqualified value for money conclusion on 11 January 2021.

Significant Risk	Conclusion
Securing financial resilience Review of the updated of the medium term financial strategy (MTFS) reported to Finance and Management Committee on 13 February 2020, outlines that the Council has forecasted budget deficits from 2020/21 to 2024/25, ranging from £0.76m to £1.4m, respectively. These gaps will require the Council to will require a draw its general fund reserves. The impact is the general fund reserve will fall from £8.5m to 2.1m, over that period but remaining above the Council's minimum level threshold of £1m.	Based on the results of our procedures we are satisfied that the Council has appropriate arrangements in place to manage its financial resources and plans. Our work noted that the Council uses reasonable assumptions, such as pay and price inflation rates, in its budgeting processes. The Council monitors the revenue, including general fund, Housing Revenue Account and capital position on a monthly basis and reports to members quarterly. The Council reports also include a quarterly refresh of the MTFS, noting changes to the overall reserves position. The latest iteration of MTFS reports that from 2021/22 the Council has forecasted general fund deficits of £0.383m rising to £2.7m in 2025/26. These budget gaps are planned to be funded by contributions from the general fund reserve which during the same period will reduce from £10.7m to £1.5m. In addition to the general fund reserve, the Council has a number of earmarked reserves which as at 31 March 2020 totalled £16.2m. The Council has been adversely affected covid-19 through loss of income and incurring additional expenditure. We have observed that members have received covd-19 updates from management including the financial impact on the Council's revenue budget and collection fund which covers business rates and council tax. To date the Council has received financial support from Central Government which includes £1.4m to assist with the revenue budget which has supported additional expenditure of £0.75m. Although the General Fund reserve levels are above the minimum reserve threshold, the Council's MTFS continues to show financial pressures. In the absence of confirmed funding from central government and potential challenges post-Covid 19, the Council will need to continue scrutinising its financial plans and consider whether a savings plan will be required to address forecast budget deficits to minimise the risk of requiring additional general fund reserves contributions.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £500mn. Therefore, we were not required to perform any audit procedures on the consolidation pack.

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.

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.

Objections Received

We did not receive any objections to the 2019/20 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 Sub-Committee on 25 November 2020. 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.

Other Reporting Issues (cont'd)

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.

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

Description	Impact
Authorisation of manual journal entries Posting of manual journal entries in the general ledger are not authorised in the system. The Council's key control for authorisation is that all manual journals are recorded in a central journal log to be reviewed and updated by the Head of Finance to evidence the authorisation. Our review of the journal processes, using our data analytics tool to check the completeness of the log identified that during the financial year 285 journals had not been recorded and therefore were unauthorised. It should be noted that none of the excluded journals was material in value. We recommend that the jog log is regularly reviewed for completeness to ensure all manual journals for the financial year are recorded and authorised.	We have noted no issues in the approval of manual journals during our audit procedures for 2019/20.
Related parties and declarations of interest We reviewed the Council's arrangements to capture and evaluate declarations of interest for senior managers and elected members. We identified that seven members had not completed the required declaration in accordance with Council's procedures. We undertook further checks and were satisfied that the missing declarations did not have any undisclosed material related party transactions.	There are15 declarations of interest outstanding in relation to the 2019/20 financial year from Members. We therefore consider that this issue remains, and Members should be reminded of their legal obligation under the Localism Act 2011 which states that it is a criminal offence not to register interests within 28 days. Therefore the year end declaration for the purposes of completing the financial statements should be no additional burden to the process they are already following.

Section 6

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	It was proposed that IFRS 16 (Leases) would be applicable for local authority accounts from the 2021/22 financial year, deferred a year due to the impact of Covid-19. 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. However in response to the ongoing pandemic and its pressures on council finance teams, the CIPFA LASAAC Local Authority Accounting Code Board has announced that the implementation of IFRS 16 in the Code of Practice on Local Authority Accounting in the UK (the Code) will be deferred until the 2022-23 financial year. This decision brings the Code in line with the decision by the Government's Financial Reporting Advisory Board to put back the effective date for the implementation of the standard to 1 April 2022. CIPFA LASAAC has indicated that the deferral is limited to one year only and that there is no intention to grant any further extensions based on a lack of preparedness. The announcement is available on CIPFA's website.	There are transitional arrangements within the standard and It is assumed this will be reflected in the 2021/22 Accounting Code of Practice for Local Authorities when published. 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. 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.

Section 8

Audit Fees

Audit Fees

Our fee for the 2019/20 audit is made up of the scale fee set out by the PSAA plus our estimate of the increase needed to the scale fee to reflect the additional professional and regulatory requirements for the audit of South Derbyshire District Council (as discussed at the Audit Sub-Committee meeting of 13 July 2020) plus specific one-off costs incurred in delivering the 2019/20 external audit

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Final Fee 2018/19 £
Audit Scale Fee – Code work	37,942	37,942	37,942
Changes in work required to address professional and regulatory requirements and scope associated with risk.	24,616*	24,616*	-
Additional specific one-off work required for Covid-19 considerations and current year errors (note 1).	16,003	-	4,000
Total Audit Fee	78,561	62,558	41,942
Non-audit work – Housing Benefit Subsidy Claim	TBC	18,500	15,500
Non-audit work - Pooling of housing capital receipts	TBC	TBC	2,000
Total Fees	TBC	TBC	59,442

*At the meeting of 13 July 2020, the Audit Sub-Committee did not agreed this amount and it will be therefore presented to the PSAA for a decision to be made.

Note 1:

We have performed additional work during 2019/20 as a result of Covid-19 and other one-off issues. These are noted below.

Going Concern (including internal consultations and disclosure review/revisions)	£6,372
Prior Period Adjustment (including required internal consultations and disclosure review/revisions)	£3,062
C-19 (risk assessment updates)	£3,246
Use of Valuation specialists to support the audit of property, plant and equipment	£3,323
Total	£16,003

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ED None

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