

# South Derbyshire District Council

Audit Results Report - ISA (UK and Ireland) 260 for the  
year ended 31 March 2016

21 September 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://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 from 1 April 2015’ 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. This report is intended solely for the use of the Members of the audited body. 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.

# 1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Key Findings
<b>Status of the audit</b>	<p>We have substantially completed our audit of the financial statements of South Derbyshire District Council for the year ended 2015/16. Subject to satisfactory completion of the following outstanding items, we expect to issue an audit opinion in the form which appears in Appendix D:</p> <ul style="list-style-type: none"> <li>▶ Final review and casting of the final financial statements;</li> <li>▶ Audit completion steps including our subsequent events review; and</li> <li>▶ Receipt of the signed management representation letter.</li> </ul> <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Council's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We are completing the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission. We currently have no issues to report.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
<b>Objections</b>	<p>We have not received any objections to the 2015/16 accounts from members of the public.</p>
<b>Audit differences</b>	<p>We have identified 2 unadjusted audit differences within the draft financial statements, which management have chosen not to adjust. We ask the Audit Committee to consider approving management's rationale as to why these corrections have not been made and, if approved, include this in the Letter of Representation. Appendix A to this report sets out the uncorrected misstatement. We do not consider this to be material to our audit opinion.</p> <p>A small number of audit adjustments were made during the course of our work, the largest being:</p> <ul style="list-style-type: none"> <li>• An adjustment to remove £523k of income from the CIES that had been incorrectly recognised during the year;</li> <li>• Reclassification of land valued at £200k from Community Assets to Other Land and buildings.</li> </ul> <p>Other adjustments related to amendments to disclosures within the financial statements.</p> <p>Further details are set out at Appendix A.</p>
<b>Scope and materiality</b>	<p>In our audit plan presented at the February Audit Committee meeting, we communicated that our audit procedures would be performed using a materiality of £884k based on 2% of expenditure at cost of services level in 2014-15. We have reassessed this based on the actual results for the financial year resulting in an increase in materiality to £921k.</p> <p>The threshold for reporting audit differences which impact the financial statements increased from £44k to £46k.</p> <p>The following area is one where misstatement at a level lower than our overall materiality level might be considered as sensitive in nature. For this area we developed an audit strategy specific to address this:</p>

Area of Work	Key Findings
	<ul style="list-style-type: none"> <li>▶ Remuneration disclosures including payment to the highest paid employees and directors.</li> </ul> <p>We carried out our work in accordance with our Audit Plan.</p>
<b>Significant audit risks</b>	<p>We identified the following significant audit risks during the planning phase of our audit, and reported these to you in our audit plan:</p> <ul style="list-style-type: none"> <li>▶ Risk of management override.</li> <li>▶ Revenue and expenditure recognition.</li> </ul> <p>In addition, we identified one 'other' risk:</p> <ul style="list-style-type: none"> <li>▶ Consideration of the valuation of the Council's asset base</li> </ul> <p>The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.</p>
<b>Other reporting issues</b>	<p>We have no other matters we wish to report.</p>
<b>Control observations</b>	<p>We have adopted a fully substantive approach and have therefore not tested the operation of controls. We have identified a control finding from our testing of payroll transactions.</p>
<b>Value for Money conclusion</b>	<p>As set out in our Audit Plan, we identified a significant risk around financial resilience and the Council's need to identify savings and efficiencies of £1.5m in order to achieve financial balance over the medium term. These savings are in the context of a medium term financial plan that currently projects the level of general fund reserves dropping below the minimum level of £1m from 2019-20 and projected deficits in excess of available reserves from 2020-21.</p> <p>On the basis of the work performed, we propose to issue an unqualified value for money conclusion.</p> <p>Further details are included at Section 4 to this report.</p>

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

Steve Clark  
 Partner  
 For and on behalf of Ernst & Young LLP

## 2. Responsibilities and purpose of our work

### 2.1 The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes 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.

### 2.2 Purpose of our work

Our audit was designed to:

- ▶ Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- ▶ Report on an exception basis on the Annual Governance Statement;
- ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- ▶ Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

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

### 3. Financial statements audit

#### 3.1 Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity’s controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant financial statements risk	EY’s audit response	Assurance gained and issues arising
<b>Risk of management override</b>		
<p>As identified in ISA (UK and Ireland) 240 ‘The Auditor’s responsibilities relating to fraud in the audit of financial statements’, 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.</p>	<ul style="list-style-type: none"> <li>▶ Made inquiries of management about risks of fraud and the controls put in place to address those risks.</li> <li>▶ Reviewed accounting estimates for evidence of management bias.</li> <li>▶ Developed a testing approach to journal entries.</li> <li>▶ Tested the appropriateness of a sample of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li> <li>▶ Assessed key accounting estimates for evidence of management bias.</li> <li>▶ Remained sceptical for the existence of any significant unusual transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls.</p> <p>In particular, our testing of journal entries has not identified any significant issues.</p>
<b>Revenue and expenditure recognition</b>		
<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at South Derbyshire District Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> <li>▶ There is little incentive to manipulate revenue recognition.</li> <li>▶ Opportunities to manipulate revenue recognition are very limited.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Reviewed and tested revenue and expenditure recognition policies;</li> <li>▶ Reviewed, tested and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias;</li> <li>▶ Developed a testing strategy to test samples of material revenue and expenditure streams; and</li> <li>▶ Reviewed and tested revenue cut-off at the period end date.</li> </ul>	<p>Our testing of income and review of transactions after the Balance Sheet date has identified an adjustment to the income as presented in the draft financial statements.</p> <p>During the year, the Council raised an invoice for Section 106 amounts to a third party to the value of £970k.</p> <p>After the year-end, it was identified that the correct amount should be £447k and a credit note was issued.</p> <p>The credit note was not coded to 2016/17 and therefore 2015/16 income</p>

Significant financial statements risk	EY's audit response	Assurance gained and issues arising
<p>However, revenue in this context has been modified by Practice Note 10 which states that auditors should also consider the risk that material misstatements due to fraudulent financial reporting may arise for the manipulation of expenditure recognition.</p> <p>Having considered the factors for expenditure recognition, we believe the risk lies within other operating expenditure and in particular the completeness of short term creditors (specifically accruals), cut off procedures over expenditure and the completeness of 'other service expenditure' (as defined by the Council in its financial statements).</p>	<p>▶ Reviewed post year-end transactions for evidence of unrecorded liabilities at the Balance Sheet date.</p>	<p>and the corresponding debtor was overstated by £523k.</p> <p>This error has no impact on the reported General Fund Balance of the Council as the income was taken to an earmarked reserve.</p> <p>Following discussion with management, the Council has amended the financial statements to correct for this matter.</p> <p>Our audit work has not identified any further significant issues in respect of revenue or expenditure recognition.</p>

We also identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Other financial statement risk	EY's audit response	Assurance gained and issues arising
<b>Asset valuation</b>		
<p>During the year the Council valued its portfolio of land and building assets. This resulted in a small increase in the value of Council assets.</p>	<p>We performed procedures to confirm that the Council had appropriately accounted for valuation movements including sample testing of valuations back to the report of the valuer to confirm appropriate amendments had been made to carrying values in the asset register.</p> <p>We considered the qualifications and independence of the valuer engaged to perform the valuation.</p>	<p>Our testing confirmed that the Council has appropriately accounted for the changes in valuation and included relevant disclosures in the financial statements.</p> <p>We are satisfied that the valuer is appropriately qualified and experienced and independent of the Council.</p> <p>In conducting sample testing of the valuation of individual assets, we identified that one asset had been incorrectly classified as a community asset. Following discussion with management this asset has been reclassified to 'Other Land and Buildings.'</p> <p>There are no further matters to note.</p>

In addition to the findings of work on the areas specifically identified within our Audit Plan, we have identified a number of additional findings which we draw to your attention below.

Financial Statement area	Findings	Outcome
<b>Bad debt Provision</b>		
We have reviewed the Council's Bad Debt Provision for prudence and compliance with relevant policies.	Review of the bad debt provision for Council tax arrears identified that, in calculating the provision for 2015-16 the Council omitted outstanding arrears of £568k relating to 2014-15. The impact of this is that the overall Council tax bad debt provision is understated by £279k. The proportion of this attributable to the Council is £31k.	Following discussion with management, the Council have not adjusted the financial statements to amend for this finding.  We have therefore reported this in the schedule of unadjusted misstatements and included a specific representation on this in the Letter of Representation.
<b>Council Tax and NNDR arrears</b>		
As part of our procedures to confirm the existence of the Council's debtor balances at the year-end, we have reviewed Council Tax and NNDR arrears.	In testing and verifying the year-end Council Tax and NNDR arrears we identified that arrears were offset with pre-paid amounts in the Balance Sheet. This resulted in understatement of debtors and creditors by £286k.	The Council has not amended the Financial Statements in respect of this finding.  We have therefore reported this in the schedule of unadjusted misstatements and included a specific representation on this in the Letter of Representation.
<b>Financial Instruments</b>		
As part of our review of material financial statement disclosures, we considered the financial assets and liabilities reported in the financial instruments note.	Our review of the content of the financial assets and liabilities reported in the note identified that the Council had incorrectly included assets and liabilities that are statutory in nature or do not meet the definition of financial instruments. This included Council Tax and NNDR balances along with pre-paid amounts.  As a result, financial assets were overstated by £1.8m.	The Council has amended the Financial Statements in respect of this finding.

## 3.2 Opening balances

We have performed relevant audit procedures on the Council's opening balances confirming that they have been correctly rolled forward from the 2014/15 audited financial statements.

## 3.3 Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;

- ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- ▶ Any significant difficulties encountered during the audit; and
- ▶ Other audit matters of governance interest.

We have no matters we wish to report.

### **3.4 Control themes and observations**

It is the responsibility of the Council 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 Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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

During our audit procedures we did identify one finding relating to the operation of internal control at the Council, particularly regarding payroll.

Our testing of a sample of 60 payroll transactions during the year back to supporting documentation including contracts of employment, identified eight instances where there was no signed contract for Council employees. We performed alternative audit procedures to satisfy ourselves that these individuals were legitimate employees of the Council and were being paid appropriately.

We recommend that the Council review procedures to ensure that signed contracts of employment are retained and held on file for all of its employees.

### **3.5 Annual Governance Statement**

We have reviewed the Annual Governance Statement for consistency with our knowledge of the Council and the underlying systems of governance and control including the findings of Internal Audit. We can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

### **3.6 Request for written representations**

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix E.

#### **3.6.1 Whole of Government Accounts**

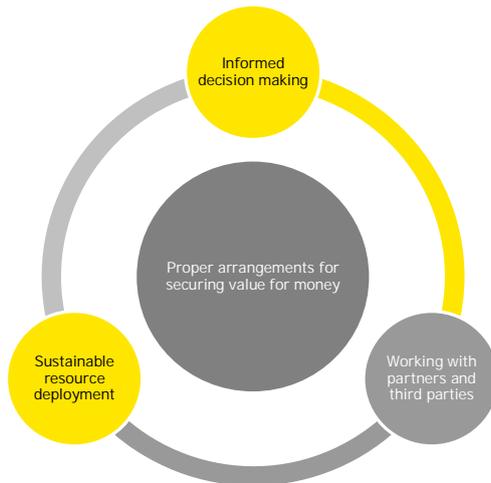
Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

This work has yet to be completed and we will report any matters that arise to the Audit Committee.

## 4. 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.

For 2015/16 this is based on the overall evaluation criterion: "In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."



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.

### 4.1 Risks

As set out in our Audit Plan, we identified a significant risk around the Council's financial resilience over the medium term. This is specifically due to the Council's need to identify savings and efficiencies of £1.5m in order to achieve financial balance over the medium term. These savings are in the context of a medium term financial plan that currently projects the level of general fund reserves dropping below the minimum level of £1m from 2019-20 and projected deficits in excess of available reserves from 2020-21.

#### 4.1.1 Significant Risk - findings

Reduced levels of central government funding mixed with challenging local socio-economics and demographics means the Council needs to identify a significant amount of efficiency and cost savings in the next three to five years.

In setting the 2016-17 budget and updated Medium Term Financial Plan (MTFP) in February 2016, the Council noted a savings requirement of £1.5 million over the life of the Plan in order to preserve a minimum level of general reserves of £1 million to 2020.

The current Medium Term Financial Plan indicates that the Council expects to move into annual deficit position from 2017/18, requiring cumulative savings/efficiencies of £5.9m over this period to retain a balanced position without the use of reserves. This is equivalent to a 13% reduction on 2015/16 expenditure levels. At this stage there is a cumulative budget gap of £0.9 million over the next three years.

The MTFs sets out the scale of savings the Council expects to have to make in the period 2016/17 to 2010/21. This was updated as part of the 2016/17 budget approval above and will be refreshed again in September 2016.

An analysis of the Council's forecast financial performance over the next four years is included in the table below:

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Identified surplus (deficit)	857	-337	-1443	-2086
Cumulative surplus/ (deficit)	857	520	-923	-3,009
Identified savings/income/efficiencies	N/a	0	0	0
Cumulative Budget Gap	N/a	N/a	-923	-3,009
Cumulative deficit as a % of 2015/16 Gross Expenditure	N/a	N/a	2%	6.5%

The Council has a strong track record of delivering budget surpluses and has prudently increased the level of its reserves in recent years, anticipating the challenges of the future. It is therefore essential that the Council recognise the scale of the challenge ahead and the current expectation that these reserves will be used up over the term of the current financial plan. Officers and Members will therefore need to focus on plans to develop savings and efficiency plans, increase sources of income and challenge service delivery models over the coming months.

A summary of the detailed work completed as part of our response to the identified significant risk is set out below:

- Considered the extent to which savings identified for 2016/17 have been realised to date.
- Considered the progress made by the Council in identifying savings necessary to reduce the 2017/18 budget gap.
- Reviewed the appropriateness of the assumptions built into the 2016/17 budget and MTFS in more detail.
- Considered the impact on the Council's finances of any errors identified by our 2015/16 audit

## 4.2 Overall conclusion

Based on the work performed and key findings as set out above, we expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources. This is based on the Council's past record of financial management and delivering financial sustainability, the current level of reserves available and the plans to deliver a balanced position over the next three years

## Appendix A – Detailed audit findings

### Unadjusted misstatements

The following differences have been identified during the course of our audit and have not been considered material by management or by us for adjustments. We are bringing them to the Committee's attention to enable you to form your own view on these items.

Item of account	Balance sheet (Decrease) / Increase £000	Comprehensive income and expenditure statement (Decrease) / Increase £000
Balance Sheet – Debtors	(279)	
CIES – Cost of Services - expenditure		31
Balance Sheet - Creditors	(248)	
Being adjustment to increase Bad Debt Provision charge due to error in calculation of the provision element relating to Council Tax.		
Balance Sheet - Debtors	(286)	
Balance Sheet - Creditors	(286)	
Being adjustment to account for Collection Fund debtors and creditors on a gross basis.		
Cumulative effect of adjusted differences	(31)	31

### Corrected audit differences

The following corrected differences, which are greater than £46k, have been identified during the course of our audit and warrant communicating to you.

These items have been corrected by management within the revised financial statements.

Item of account	Balance sheet (Decrease) / Increase £000	Comprehensive income and expenditure statement (Decrease) / Increase £000
CIES – Income		(523)
Balance Sheet – Debtors	(523)	
Being adjustment to remove income and debtor incorrectly recognised.		
Cumulative effect of adjusted differences	(523)	(523)

### Disclosures

Disclosure	Explanation
<b>Note 9 – PPE</b>	An asset valued at £200k and included as a 'Community Asset' was found to be incorrectly classified as such. This asset has been reclassified to 'Land and Buildings' assets.
<b>Note 11 – Financial Instruments</b>	Financial assets overstated by £1,814k due to the inclusion of prepaid amounts and statutory debtors. There is no impact on the reported financial position of the Council as this is a disclosure issue only.

In addition to the above, we requested a small number of other narrative and disclosure adjustments to be made within the financial statements.

## Appendix B – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 17 February 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. 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 of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee in September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 17 February 2016.

## Appendix C – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

	Predecessor auditor fee	EY planned fee	EY forecast fee
Financial statements and VFM conclusion	65,700	49,275	49,275

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

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

## Appendix D – Draft audit report

### **INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SOUTH DERBYSHIRE DISTRICT COUNCIL**

#### **Opinion on the Council’s financial statements**

We have audited the financial statements of South Derbyshire District Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund Collection Fund and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of South Derbyshire District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council’s members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the Head of Finance and auditor**

As explained more fully in the Statement of the Director of Finance and Corporate Services’ Responsibilities, the Director of Finance and Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of South Derbyshire District Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

### **Opinion on other matters**

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

### **Conclusion on South Derbyshire District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### ***Authority's responsibilities***

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### ***Auditor's responsibilities***

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in

its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

***Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources***

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

***Conclusion***

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, South Derbyshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

***Certificate***

We certify that we have completed the audit of the accounts of South Derbyshire District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Stephen Clark (senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Birmingham

## Appendix E – Management representation letter

### DATE

Ernst & Young  
1 Colmore Square  
Birmingham  
B4 6HQ

This letter of representation is provided in connection with your audit of the financial statements of South Derbyshire District Council (“the Council”) for the year ended 31/03/2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of South Derbyshire District Council as of 31/03/2016 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because they do not materially impact the reported financial position of the Authority.

### B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by “whistleblowers”) which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

### C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

#### **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and Cabinet and Audit committees held through the Financial Year to the most recent meeting on the following date: 26/07/2016.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the Financial Year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the Accounting Policies to the financial statements all guarantees that we have given to third parties.
4. No claims in connection with litigation have been or are expected to be received.

#### **F. Subsequent Events**

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **G. Accounting Estimates**

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
  - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements

**H. Retirement benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

**I. Segmental reporting**

1. I have reviewed the operating segments reported internally to the Authority and I am satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:
  - The nature of the services
  - The nature of the processes
  - The type or class of customer for the services.

Yours faithfully,

\_\_\_\_\_

\_\_\_\_\_

**Schedule of Unadjusted Audit Differences**

Item of account	Balance sheet (Decrease) / Increase £000	Comprehensive income and expenditure statement (Decrease) / Increase £000
Balance Sheet – Debtors	(279)	
CIES – Cost os Services - expenditure		31
Balance Sheet - Creditors	(248)	
Being adjustment to increase Bad Debt Provision charge due to error in calculation of the provision element relating to Council Tax.		
Balance Sheet - Debtors	286	
Balance Sheet - Creditors	(286)	
Being adjustment to account for Collection Fund debtors and creditors on a gross basis.		
Cumulative effect of adjusted differences	(31)	31

## Appendix F – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▶ Findings and issues regarding the opening balance on initial audits</li> </ul>	Audit Results Report
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about South Derbyshire District Council's ability to continue as a going concern for the 12 months from the date of our report.
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit Results Report
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters we wish to report.

Required communication	Reference
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management’s refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	We have received all requested confirmations.
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	We have not identified any material instances of non-compliance with laws and regulations.
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Plan and Audit Results Report
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	Annual Audit Letter/Audit Results Report
<p><b>Group audits</b></p> <ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team’s planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team’s evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor’s work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team’s access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul>	Audit Plan and Audit Results Report
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> </ul> <p>Breakdown of fee information at the completion of the audit</p>	Audit Plan Audit Results Report Annual Audit Letter (if considered necessary)
<p><b>Certification work</b></p> <p>Summary of certification work undertaken</p>	Certification Report

**EY** | Assurance | Tax | Transactions | Advisory

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