

# The Audit Findings for South Derbyshire District Council

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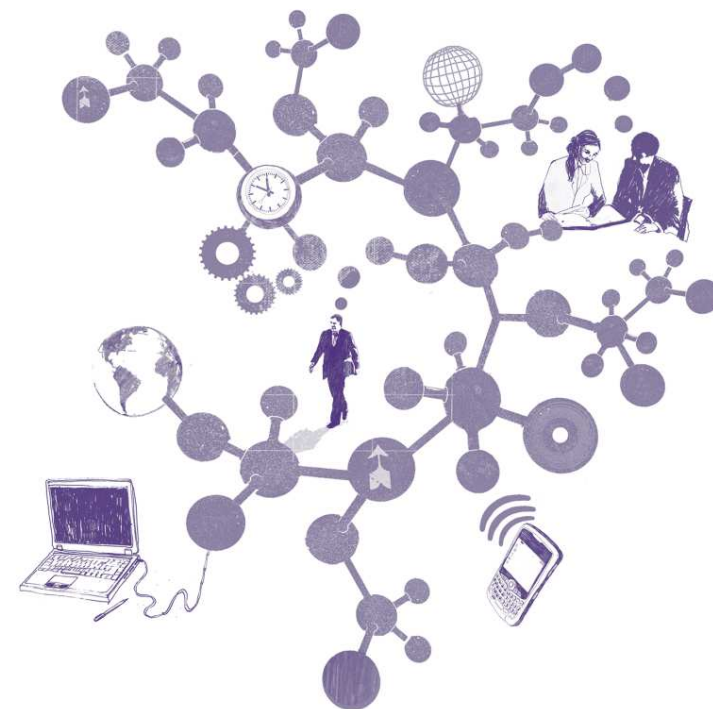
**Year ended 31 March 2014**

15 September 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of South Derbyshire District Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 18 March 2014.

Our audit is substantially complete although we are finalising our work in the following areas:

- valuation of property, plant and equipment
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion and
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- We have not identified any adjustments affecting the Council's reported surplus on provision of services of £2,164k.
- We identified a number of misclassification and disclosure changes during the course of the audit. Management have adjusted the financial statements for all these changes.
- The draft accounts and supporting working papers presented for audit, whilst adequate, were not to the same high standard as last year.
- We have also identified a number of adjustments to improve the presentation of the financial statements.

Further details are set out in section 2 of this report.

### **Value for Money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

### **Controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section 2 of this report.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance and Corporate Services.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance and Corporate Services and the finance team.

### **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

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## Section 2: Audit findings

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# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Sub Committee on 2 April 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 2 April 2014.

## **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.



# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.


Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Operating expenses (completeness)</b></p>	<p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• carried out detailed substantive testing of expenditure balances included in the financial statements</li> <li>• carried out specific work around the completeness of balances. This included tests to ensure that expenditure is not understated and cut off testing of a sample of transactions</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Employee remuneration (completeness)</b></p>	<p>Employee remuneration accrual understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• carried out substantive testing of employee remuneration by analytical review and reviewing payroll monthly feeds to the General Ledger</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Welfare expenditure (valuation – gross)</b></p>	<p>Welfare benefit expenditure improperly computed</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• reviewed the Benefits system reconciliation to ensure that information from the benefits system can be agreed to the ledger and financial statements</li> <li>• carried out procedures in accordance with the Audit Commission's HBCount methodology required to certify the housing benefit subsidy claim</li> <li>• carried out testing of a sample of council tax benefit granted under the new Council Tax reduction scheme</li> </ul>	<p>Our Housing Benefits testing has found errors in relation to the classification and overpayment of subsidy. The scope of the errors would not result in a material misstatement of the financial statements. As part of HBCount methodology we are carrying out further testing on the errors identified.</p>
<p><b>Housing Rent Revenue Account (completeness)</b></p>	<p>Revenue transactions not recorded</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• carried out detailed substantive testing of Housing Rent balances included in the financial statements</li> <li>• carried out specific work around the completeness of balances. This included cut off testing of a sample of transactions</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p><b>Revenue recognition</b></p>	<ul style="list-style-type: none"> <li>Revenue from the sales of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or services potential associated with the transaction will flow to the Council</li> <li>Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council</li> <li>Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurances that the Council will comply with the conditions attached to the payments, and grants or contributions will be received.</li> </ul>	<p>The accounting policy is appropriate and has been adequately disclosed.</p>	<p style="text-align: center;">   <b>Green</b> </p>


**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators (Red)

● Accounting policy appropriate but scope for improved disclosure (Amber)

● Accounting policy appropriate and disclosures sufficient (Green)

# Accounting policies, estimates & judgements

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– useful life of capital equipment</li> <li>– pension fund valuations and settlements</li> <li>– revaluations</li> <li>– impairments</li> <li>– provisions</li> </ul> </li> </ul>	There was appropriate disclosure of key estimates and judgements	<div style="text-align: center;">   <b>Green</b> </div>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators (Red)

● Accounting policy appropriate but scope for improved disclosure (Amber)

● Accounting policy appropriate and disclosures sufficient (Green)

# Accounting policies, estimates & judgements

Accounting area	Summary of policy	Comments	Assessment
<p><b>Judgements and estimates - PPE</b></p>	<ul style="list-style-type: none"> <li>Page 68 of the draft accounts sets out the Council's rolling programme of asset revaluations. This ensures that all property, plant and equipment is revalued at least every five years.</li> </ul>	<p>The Code requires councils to value all items within a class of property, plant and equipment simultaneously. A rolling basis of revaluation is only permitted when:</p> <ul style="list-style-type: none"> <li>- the revaluation of the class of assets is completed within a 'short period'</li> <li>- the revaluations are kept up to date.</li> </ul> <p>We would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p> <p>However, the Council has assured itself that these valuations reflect current valuations at 31/3/2014 by undertaking a desktop review of all assets that had not been revalued in 2013/14.</p> <p>This approach is similar to many other authorities and whilst not compliant with the Code we are satisfied that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014.</p> <p>As a result, whilst we have accepted the approach for 31/3/2014 we have included a recommendation at Appendix A that this will be reviewed for 2014/15.</p>	<p style="text-align: center;">● Amber</p>
<p><b>Other accounting policies</b></p>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<p>Our review of accounting policies has highlighted that there was no accounting policy for NNDR and Council Tax revenue. These have been added.</p>	<p style="text-align: center;">● Amber</p>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators (Red)

● Accounting policy appropriate but scope for improved disclosure (Amber)

● Accounting policy appropriate and disclosures sufficient (Green)

# Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management.

All of the adjustments were either misclassifications or disclosure changes and these have been processed by management.

There are no unadjusted misstatements. All adjustments identified during the audit have been made within the final set of financial statements.

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	1,022	Note 17 Payables	Misclassification of payables within note 17 between Central Government Departments, HRA and Any Other Bodies.
2 Misclassification	968	Bad debt provision Provisions Collection Fund receivables	Misclassification within the Balance Sheet between the bad debt provision (overstated by £968k), provisions (understated by £252k) and Collection Fund receivable (overstated by £761k).
3 Disclosure	N/A	Various	<p>There were a number of inconsistencies within the primary statements and between the primary statements and disclosure notes for example:</p> <ul style="list-style-type: none"> <li>• The Cash Flow Statement showed a net deficit on the provision of services of £2,153k. The Comprehensive Income and Expenditure Statement showed a surplus on the provision of services of £2,164k.</li> <li>• The Comprehensive Income and Expenditure Statements showed an actuarial surplus on the defined benefit pension scheme of £5,575k. Note 32 Defined Benefit Pension Scheme showed £3,122k.</li> <li>• The Balance Sheet long term payables was £69k. Note 17 long term payables was shown as £34k.</li> <li>• The Comprehensive Income and Expenditure Statement shows a surplus on provision of services for 2013/14 and 2012/13. Note 23 amounts reported for resource allocation decisions states a deficit on the provision of services for both years. The Movement in Reserves Statement also states deficit on provision of services.</li> </ul>



## Misclassifications & disclosure changes

Adjustment type	Value £'000	Account balance	Impact on the financial statements
4 Disclosure	N/A	Note 26 Officer's remuneration	<p>There were a number of misstatements in this disclosure note:</p> <ul style="list-style-type: none"> <li>• The officers disclosed in the bandings over £50,000 table are the same as those in the senior officers table. The disclosures in the bandings over £50,000 table should only relate to other officers. There was one other officer that had not been included in the table.</li> <li>• The senior officer's remuneration for 2012/13 was incorrectly disclosed for the Director of Finance and Corporate Services.</li> <li>• The Director of Operations salary information for 2012/13 has been incorrectly included as part of the Director of Housing and Environment information.</li> </ul>
5 Disclosure	1,482	Note 22 Adjustments between Accounting Basis and Funding Basis under Regulations	The analysis of the adjustments between accounting basis and funding basis under regulations does not include REFCUS.
6 Disclosure	N/A	Note 3 Critical Judgements and note 4 Assumptions made about the Future and Other Major Sources of Uncertainty	The provision for NNDR appeals provision was not mentioned as a critical judgement or source of uncertainty.
7 Disclosure	21	Balance Sheet	The balance Sheet did not add up for total reserves. As a result the total reserves did not agree to net assets.
8 Disclosure	10	External Audit Fees	Additional disclosure was required of fees for other services.


## Misclassifications & disclosure changes

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
9	Disclosure	N/A	Prior period adjustments Note 33	Additional disclosure was made of the prior period adjustments relating to IAS19 including a restated Comprehensive Income and Expenditure Statement. In addition, the draft prior year adjustment note relating to internal recharges was removed.
10	Disclosure	1,000	HRA Note 9	There was inconsistency between the note £86,713k and the PPE table £87,713k
11	Disclosure	3,122	Note 32 Defined Benefit Pension Schemes	The table for projected defined benefit cost for the period 31 March 2015 excluded interest cost on defined benefit obligation of £3,122k.
12	Disclosure	N/A	Comprehensive Income and Expenditure Statement and Note 7 Financing and Investment Income and Expenditure	The old IAS 19 terminology has been used for pensions such as 'Actuarial (surplus)/losses in CIES' rather than 'remeasurement of the net defined benefit liability'. Similarly, in Note 7, 'Pension interest cost and expected return on pension assets' rather than 'net interest on the net defined benefit liability'.
13	Disclosure	N/A	Note 35 Contingent Liabilities	Additional disclosure was required in relation to the contingent liability for NNDR appeals not yet received.



# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A. We have reported minor deficiencies in ICT controls to management.

	Assessment	Issue and risk	Recommendations
1.	 amber	<ul style="list-style-type: none"> <li>The draft accounts and supporting working papers presented for audit, whilst adequate, were not to the same high standard as last year. Our audit has identified a number of misclassification and disclosure changes to the accounts.</li> </ul>	The Council should review its quality assurance arrangements for producing the financial statements.

## Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

# Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Sub Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found a number of omissions in the financial statements (see misclassifications and disclosure changes above).</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>
7.	<b>Other matters</b>	<ul style="list-style-type: none"> <li>The auditors of the Derbyshire Pension Fund have reported system weaknesses relating to pension payments. Under and over payments have been identified as a result of a reconciliation exercise between AXISE (the pensions database) and SAP (the Fund's finance and payroll system). There is no automated interface between the two systems. The Fund's reconciliation identified around 2,450 cases where the pension amounts were different in the two systems and around 1,200 cases remain to be investigated. Of the cases reviewed so far, there have been 44 cases where the amounts paid were wrong, resulting in either under or over payments to the pensioner – 16 were under and 28 over payments. The largest single overpayment error to date is approximately £15k to one of the pensioners. There are only two errors greater than £3k. The total amount written off to date for overpayments is approximately £130k. All under payments identified to date have been corrected and arrears paid.</li> </ul>

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## Section 3: Value for Money

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# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted that the Council has adequate arrangements for securing financial resilience. The Council has a good track record in managing its budget. The Council's Revenue Support Grant has reduced by almost 30% over the last three years and this equates to approximately £2.25m or 20% of its net revenue expenditure. For the period 2014/15 to 2018/19, mainstream resources are projected to reduce by approximately £0.8m (15%). There is an estimated budget deficit in the future, rising from £172,000 in 2015/16 to nearly £900,000 in 2018/19. The Council faces a financial challenge to identify savings in order to keep the financial position sustainable over the medium term.

### Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the Council has sound arrangements in place for challenging economy, efficiency and effectiveness. Our work highlighted that the Council's approach to delivering corporate and directorate cost savings continues to be robust. There has been prudent financial management, together with a programme of efficiency savings from transformation in procurement and service delivery. These savings have helped to sustain the Council's financial position against a background of reducing resources.

## Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	The Council monitors its financial performance on a regular basis and has managed its cash flow effectively. The VFM profile tools collated by the Audit Commission show that the Council is performing in line with other district councils with regard to financial performance and spending on its residents.	<b>Green</b>
<b>Strategic financial planning</b>	The five year Medium Term Financial Plan has been updated to reflect the Council's changing financial environment. In order for a sustainable position to be achieved in the medium term and to maintain a minimum level of balances a savings requirement of £175,000 is required from 2014/15. A robust approach is taken to the management of strategic and financial risks.	<b>Green</b>
<b>Financial governance</b>	The Council has a Corporate Risk register in place which sets out the framework within which the Council manages its strategic risks to ensure that these do not adversely hinder progress towards achieving the Council's corporate priorities. Members are regularly updated on financial performance and risks.	<b>Green</b>
<b>Financial control</b>	The Council has effective financial control in place. This includes its budget planning, the monitoring of its financial position and its financial forecasting, including savings planning. Cash management is also effective. Due to the absence of the financial services manager and loss of a key member of the finance team during the year there was a lack of capacity in the finance team which has had an impact on the quality of the financial statements produced for audit. This is to be addressed through the recruitment of additional finance staff.	<b>Green</b>
<b>Prioritising resources</b>	The Medium Term Financial Plan takes account of changing national funding and assesses the impact of these changes on the Council's strategic priorities and financial targets, and also considers other income streams that could be increased to supplement the loss of government grant funding. The Council is continuously seeking to improve efficiency through changing the way that it works including shared services and working in partnership with neighbouring councils.	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	The Council has explored innovative ways of delivering services through working in partnership with groups such as Northgate Public Service. The partnership includes a risk-reward scheme where the cost of introducing new initiatives to transform services will only be paid out of cashable savings.	<b>Green</b>

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## Section 4: Fees, non audit services and independence

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# Fees, non audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

## Fees

	Per Audit plan £	Actual fees £
Council audit	64,800	65,700
Grant certification		
• 2013/14	28,100	24,848
• 2012/13	0	3,500
<b>Total audit fees</b>	<b>92,900</b>	<b>94,048</b>

There is an additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for district authorities and is subject to agreement by the Audit Commission.

There is an additional fee of £3,500 for further testing of the 2012/13 Housing and Council Tax Subsidy Claim.

## Fees for other services

Service	Fees £
Review of Recharge of Central Support Services into the Housing Revenue Account	5,000
Atlas Implementation - benchmarking	5,000

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

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# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date and responsibility
1	The Council should review its approach to the revaluation of property, plant and equipment in 2014/15.	High	We will review the classification of assets and the frequency of valuations to meet the requirements of the Code. In liaison with the Valuation Officer, a local approach will be developed and reported back to this Committee ahead of the valuation process for the 2014/15 accounts.	December 2014 Corporate Asset Manager
2	The Council should review its quality assurance arrangements for producing the financial statements.	High	A review will be undertaken of the accountancy function and how resources are deployed during the year, in particular the role of Financial Accountant. The timetable for closing the accounts is to be brought forward and this will allow time for quality checking. A peer review will also be considered.	February 2015 Financial Services Manager

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

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

### Opinion on the Authority financial statements

We have audited the financial statements of South Derbyshire District Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and 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 2013/14.

This report is made solely to the members of South Derbyshire District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Director of Finance and Corporate Services 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, 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 explanatory foreword 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 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

### Opinion on other matters

In our opinion, the information given in the explanatory foreword 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 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

**Respective responsibilities of the Authority and the auditor**

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.

We are required under Section 5 of the Audit Commission Act 1998 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 Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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 audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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 Authority 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 on the specified criteria published by the Audit Commission in October 2013, 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 2014.

**Certificate**

We certify that we have completed the audit of the financial statements of South Derbyshire District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Kyla Bellingall  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza  
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Birmingham  
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Date



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