

**South Derbyshire District  
Council**

**Draft Audit results report**

Year ended 31 March 2020

25 November 2020



Building a better  
working world



Private and Confidential

25 November 2020

Dear Audit Sub-Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Sub-Committee. This report summarises our preliminary audit conclusion in relation to the audit of South Derbyshire District Council for 2019/20.

We have substantially completed our audit of South Derbyshire District Council for the year ended 31 March 2020.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Sub-Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Sub-Committee meeting on 9 December 2020.

Yours faithfully

Helen Henshaw

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk)). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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



# 01 Executive Summary



# Executive Summary

## Scope update

In our updated audit planning report tabled at the 16 September 2020 Audit Sub-Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

### Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

### Changes in materiality

In our Audit Sub-Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £970k, with performance materiality, at 75% of overall materiality, of £730k, and a threshold for reporting misstatements of £48k.

The basis of our assessment has remained consistent with prior years at 2% of gross operating expenditure.

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 2% of gross operating expenditure we have updated our overall materiality assessment to £988k (Audit Planning Report – £970k). This results in updated performance materiality, at 75% of overall materiality, of £741k, and an updated threshold for reporting misstatements of £50k.

We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences remain appropriate.

**Information Produced by the Entity (IPE):** We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

**Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.** The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We discuss the impact on our audit fee on page 32.

# Executive Summary

## Status of the audit

We have substantially completed our audit of South Derbyshire District Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the outstanding matters set out in Appendix B we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise.

We expect to issue the audit certificate at the same time as the audit opinion.

## Audit differences

There are two unadjusted audit differences arising from our audit to date. These are detailed in section 4. The impact on the reported outturn for the year is £110k credit to the Comprehensive income and expenditure statement.

Management has also made a small number of adjustments to the draft financial statements based on our feedback and findings. The most significant of these are reported in section 4. These had no impact on reported outturn for the year.

## Objections

We have received no objections to the 2019/20 accounts from members of the public.

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of South Derbyshire District Council's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues
- ▶ You agree with the resolution of the issue
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Sub-Committee.



# Executive Summary

## Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you. We have followed up the findings of the previous audit and this is reported in section 7.

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risk:

### Securing financial resilience

Review of the updated of the medium term financial strategy (MTFS) reported to Finance and Management Committee on 13 February 2020, outlines that the Council has forecasted budget deficits from 2020/21 to 2024/25, ranging from £0.76m to £1.4m, respectively. These gaps will require the Council to draw upon its general fund reserves. The impact is the general fund reserve will fall from £8.5m to 2.1m, over that period but remaining above the Council's minimum level threshold of £1m.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of South Derbyshire District Council. We have no matters to report as a result of this work.

We are still in the process of performing the very limited procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We will orally update the Audit Sub-Committee with the results of our work.

We have no other matters to report.

## Independence

Please refer to Section 9 for our update on Independence.



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## Areas of Audit Focus



# Areas of Audit Focus

## Significant risk

### Risk of fraud in revenue and expenditure recognition

#### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

#### What judgements are we focused on?

We focused on the following risk areas:

- ▶ Inappropriate capitalisation of revenue expenditure and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement; and
- ▶ Inappropriate cut-off of revenue expenditure and non-grant income at the year-end date resulting in transactions being recorded in the wrong financial period.

#### What did we do?

In order to address this risk we carried out the following procedures:

- ▶ Reviewed the appropriateness of expenditure recognition and capitalisation accounting policies;
- ▶ Tested the year end cut-off of expenditure and non-grant income to ensure that transactions have been recorded in the appropriate financial period;
- ▶ Using our data analytics tool to identified and tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statement, specifically those that move expenditure to PPE balance sheet general ledger codes; and
- ▶ Performed sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised.

#### What are our conclusions?

We tested a sample of 22 additions to Property, Plant and Equipment in the year. No issues were noted in respect of inappropriate capitalisation of expenditure.

We have reviewed receivable (income) and payable (expenditure) transactions for the one month prior to the year end and five months after the year end, examining evidence in support of all transactions over a threshold determined by our risk assessment. We have found no instances of transactions being recorded in the wrong financial period.

Prior to preparation of the draft financial statements Management identified an error in the previous years' financial statements meaning that Housing Benefit Overpayment receivables being recovered from former claimants (and the associated bad debt provision) had been excluded from the financial statements. This resulted in a prior period adjustment being recorded in the 2019/20 draft financial statements. This effectively reflects income which has not been recognised in previous years. We have performed audit procedures to gain assurance that the prior period adjustment is supportable, and have been through our internal consultation processes in respect of the adequacy of the disclosures made in the financial statements. We are satisfied that the adjustment is appropriate and complete.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.



## Areas of Audit Focus

### Significant risk

#### Misstatements due to fraud or error

##### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

##### What did we do?

- ▶ Identify fraud risks during the planning stages.
- ▶ Inquire of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understand the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determined an appropriate strategy to address those identified risks of fraud.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

##### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.  
We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business



## Areas of Audit Focus

### Significant risk

#### Valuation of Property, Plant and Equipment (PPE)

##### What is the risk?

The fair value of other land and buildings represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet for land and buildings in particular.

The Council engaged an external expert valuer who will apply a number of complex assumptions to these assets. They performed a full revaluation of the asset base for 2019/20. Annually assets are assessed to identify whether there is any indication of impairment.

As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated.

##### What judgements are we focused on?

We have identified a risk to reported asset valuations due to material judgemental inputs and estimation techniques applied.

We consider the risk applies to valuation of PPE and could result in a misstatement of the asset valuations reported in the balance sheet.

Additionally, the Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty, specifically to assets valued on a market or fair value basis.

##### What did we do?

- ▶ Documented our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding;
- ▶ Evaluated the competence, capabilities and objectivity of management's specialist;
- ▶ Reviewed the terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards. And assess if the instruction includes a specific instruction from the council to the valuer relating to an assessment on the unvalued population;
- ▶ Considered the work performed by the Council's external valuer, including the adequacy and scope of the work performed;
- ▶ Performed a sample test the asset data used by the valuer over the completeness and appropriateness of information provided to the valuer in performing their valuations (e.g. floor plans to support valuations based on a price attributed to area measurements);
- ▶ Reviewed the classification of assets and ensure the correct valuation methodology has been applied.
- ▶ Considered changes to useful economic lives as a result of the most recent valuation;
- ▶ Tested the accounting entries have been correctly processed and recorded in the financial statements;
- ▶ Reviewed any assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- ▶ Engaged our internal specialist valuation team to review a sample of the Council's re-assessment of valuations carried out pre-Covid-19 outbreak to assess the material accuracy of the values reported as at the 31/03/2020; and
- ▶ Challenged the appropriateness of disclosures have been made in the accounts concerning the material uncertainty.



## Areas of Audit Focus

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### Significant risk - Valuation of Property, Plant and Equipment (PPE), continued.



#### What are our conclusions?

Our work in this area is not yet complete. We have received a draft report from specialists in our EY Real Estates team who have looked in detail at the valuation of a sample of 5 assets revalued in the year. There is some additional work required to verify the inputs used in the valuation calculations before we can conclude on their reasonableness.



## Areas of Audit Focus

### Significant risk

#### Going Concern Disclosures

##### What is the risk?

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

We consider the unpredictability of the current environment to give rise to a risk that the Council will not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19.

##### What judgements are we focused on?

We consider the risk applies to going concern and post balance sheet disclosures.

##### What did we do?

In order to address this risk we carried out the following procedures:

- Obtained managements going concern assessment and review for any evidence of bias and consistency with the accounts;
- Reviewed the financial modelling and forecasts prepared by the Council. This will consider key assumptions, stress testing applied to those assumptions and consider the risk to cashflow up to the date of 12 months after the signing date of the accounts and opinion;
- Ensured that an appropriate going concern disclosure has been made within the financial statements;
- Reviewed the Council's approach to identifying and disclosing events after the balance sheet date; and
- Considered the impact on our audit report and complied with EY consultation requirements.

##### What are our conclusions?

The Council's level of usable reserves totals £53m as at 31 March 2020. This includes unallocated contingencies and specific reserves.

The Government has provided un-ringfenced funding of £1.4m to the Council to meet additional costs due to Covid-19. It is currently estimated that the aggregated loss of income and additional costs highlighted above, will total no higher than £0.5m. This leaves some contingency before the Council needs to use its own reserves

We have reviewed the Council's cash flow forecast out to the end of February 2022. Over that period the lowest cash balance is £29.2m.

We have complied with EY internal consultation requirements and are satisfied with the disclosures made in the financial statements. No modification will be required to our audit report in respect of going concern.



## Areas of Audit Focus

### Other areas of audit focus



#### Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require extensive disclosures within the financial statements regarding membership of the Local Government Pension Scheme administered by Derbyshire County Council.

The information disclosed is based on the IAS 19 report issued to the Council by the actuaries to the County Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

At 31 March 2020 the net liability totals £27.6m.

Management obtained revised actuarial reports to reflect the recent McCloud remedy consultation which resulted in a revised liability figure of £27.4m (a reduction of £249k). Due to the immaterial size, management have chosen not to amend the financial statements. This has been reported in section 4.

We have recently received an assurance letter from the auditors of the Derbyshire Pension Fund on the results of their procedures. This letter alerts us to the fact that the auditors of the Fund will be including an Emphasis of Matter in their audit opinion in respect of Material Uncertainty clauses included in a number of property fund valuation reports in which the Pension fund invests.

We are currently consulting internally on the implications of this for our own audit opinion and any additional procedures which we need to perform.

Until this work is complete we are unable to conclude.



## 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

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

##### Opinion

We have audited the financial statements of South Derbyshire District Council for the year ended 31 March 2020 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 and
- the related notes 1 to 36.
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 10.
- Collection Fund and the related notes 1 to 6.

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 2019/20.

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 2020 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 2019/20.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Other information

The other information comprises the information included in the Statement of Accounts 2019/20 set out on pages 1 to 94, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

##### Opinion on other matters prescribed by the Local Audit and Accountability Act 2014 *Arrangements to secure economy, efficiency and effectiveness in the use of resources*

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, 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 2020.



# Audit Report (continued)

## Our opinion on 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

### Responsibility of the Chief Finance Officer

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities set out on page 13, the Chief Finance Officer 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### *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 April 2020, as to whether South Derbyshire District 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 South Derbyshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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, South Derbyshire District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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.



# Audit Report (continued)

## Our opinion on the financial statements

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.

### 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.

### Use of our report

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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Helen Henshaw (Key Audit Partner)*  
*Ernst & Young LLP (Local Auditor)*  
*Birmingham*  
*Date*



## 04 Audit Differences

# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted differences

We highlight the following misstatements greater than £741k which have been corrected by management that were identified during the course of our audit:

- ▶ Pension disclosure notes - The Fair Value of Plan assets incorrectly states Cash & Cash Equivalent figure of £7,450k but should be £5,008k (misstatement of £2,442k) - misstatement is disclosure only

## Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the **Audit Sub-Committee** and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2020 (£000)	Effect on the current period:	Balance Sheet (Decrease)/Increase			
		Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
Errors					
Known differences:					
▶ Amendment to pension liability to reflect McCloud remedy	(249)				249
▶ Housing Benefit Expenditure overclaimed	139				(139)



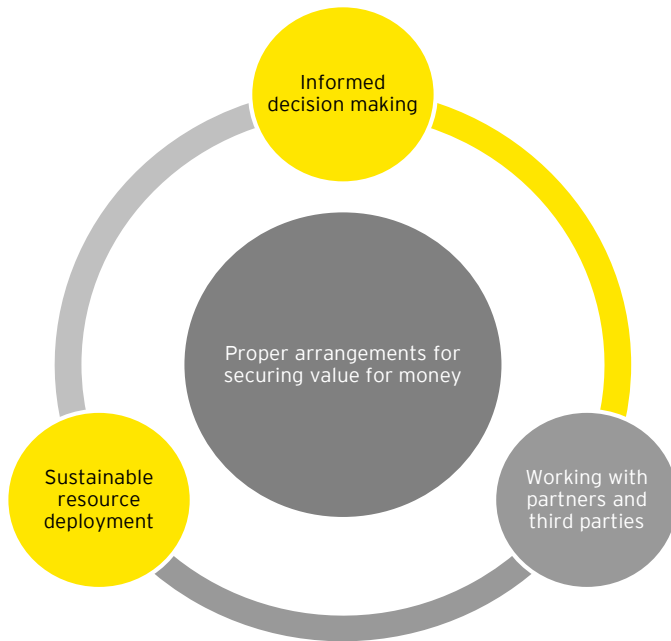
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## Value for Money

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# Value for Money



## Background

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 2019/20 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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Impact of covid-19 on our Value for Money assessment

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

## Overall conclusion

We identified one significant risk around these arrangements. The tables below present our findings in response to the risk in our Audit Planning Report.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

## Value for Money Risk

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report. No additional VFM risks have been identified since then.

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



## 06 Other reporting issues

01

## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### 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, is specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters arising to the Audit Sub-Committee.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

## Other reporting issues

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.



07

## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any additional significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

### Status of previous year's recommendations

Description	Update
<b><u>Authorisation of manual journal entries</u></b> Posting of manual journal entries in the general ledger are not authorised in the system. The Council's key control for authorisation is that all manual journals are recorded in a central journal log to be reviewed and updated by the Head of Finance to evidence the authorisation. Our review of the journal processes, using our data analytics tool to check the completeness of the log identified that during the financial year 285 journals had not been recorded and therefore were unauthorised. It should be noted that none of the excluded journals was material in value. We recommend that the jog log is regularly reviewed for completeness to ensure all manual journals for the financial year are recorded and authorised.	We have noted no issues in the approval of manual journals during our audit procedures for 2019/20.
<b><u>Related parties and declarations of interest</u></b> We reviewed the Council's arrangements to capture and evaluate declarations of interest for senior managers and elected members. We identified that seven members had not completed the required declaration in accordance with Council's procedures. We undertook further checks and were satisfied that the missing declarations did not have any undisclosed material related party transactions.	At the time of writing there are still 15 declarations of interest outstanding in relation to the 2019/20 financial year from Members. We therefore consider that this issue remains, and Members should be reminded of their legal obligation under the Localism Act 2011 which states that it is a criminal offence not to register interests within 28 days. Therefore the year end declaration for the purposes of completing the financial statements should be no additional burden to the process they are already following.



# 08 Data Analytics



# Use of Data Analytics in the Audit

## Analytics Driven Audit

### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2019/20, our use of these analysers in the Authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



09

## Independence

## Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated 16 March 2020.

We complied with the APB Ethical Standards. 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 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 and your Audit Sub-Committee 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 Sub-Committee on 9 December 2020.

We have undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd in respect. This consisted of agreed upon procedures in respect of the Council's Housing Benefit Subsidy Claim. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee - Code work	TBC*	39,942	41,942
Non-audit work (housing benefits)	TBC	TBC	15,500
Non-audit work (pooling of housing capital receipts)	TBC	TBC	2,000
Total non-audit services	TBC	TBC	59,442

\* In our Audit Planning Report we identified and reported areas where audit work will be required over and above the level of the scale fee previously set which corresponded to the risks set out in our audit plan, and primarily the value for money risk.

Subsequent to the issuance of our Audit Planning Report, as a result of the impact of the Covid-19 pandemic, there has also been additional work required in respect of our consideration of the going concern basis of accounting.

We will discuss these additional costs with management and provide indicative fee levels for each of these areas. We will report the final levels to you upon conclusion of our work and agreement with management.

All scale fee variations are subject to approval from PSAA Ltd.

## Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity. We highlighted in our audit planning reported dated 8 July 2020 the relationships that may be reasonably considered to bear upon our objectivity and independence. However we have adopted the safeguards to mitigate these threats. Full details of the services that we have provided and the related threats and safeguards are included in our audit planning report dated 8 July 2020.

### Services provided by Ernst & Young

The previous page includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services have been provided on a contingent fee basis.

As at the date of this report, we have been contracted to provide housing benefit service again for the 2019/20 financial year as reported in our audit planning report.

## New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

### Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
  - Tax advocacy services
  - Remuneration advisory services
  - Internal audit services
  - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Ethics, Transparency and Audit Panel where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Ethics, Transparency and Audit Panel details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for a non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

### Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

## Other communications

### EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

[https://www.ey.com/en\\_uk/who-we-are/transparency-report-2020](https://www.ey.com/en_uk/who-we-are/transparency-report-2020)







# 10 Appendices




## Appendix A

# Required communications with the Audit Sub-Committee




There are certain communications that we must provide to the Audit Sub-Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Sub-Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report 16 March 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report 16 March 2020
Significant findings from the audit	<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> </ul>	Audit planning report 16 March 2020

## Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<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>	Audit results report
Misstatements	<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>▶ Material misstatements corrected by management</li> </ul>	Audit results report
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the Audit Sub-Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit results report
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Sub-Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ul style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit Sub-Committee responsibility.</li> </ul>	Audit results report

## Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority'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 Authority</li> </ul>	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, 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> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report 16 March 2020 and</p> <p>Audit results report</p>
External confirmations	<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>	Audit results report
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit results report




## Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>Enquiry of the Audit Sub-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 Sub-Committee may be aware of</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit results report
Certification work	<ul style="list-style-type: none"> <li>Summary of certification work</li> </ul>	Certification Report

## Appendix B

# Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Annual Report and accounts	Review of the final Annual Report and associated support for incorporation of EY review comments on disclosure notes	EY and management
Valuation of property, plant and equipment	Conclusion of procedures in respect of valuation inputs	EY
Revenue expenditure funded from capital under statute (Refcus)	Small number of additional items to test based on partner review.	EY and management
Housing Revenue Account	Closure of partner review comments	EY
Conclusion of procedures in respect of housing benefits expenditure	Management to provide: (i) a reconciliation between the amount of benefits awarded per Cells 11, 55, and 94 of the HB Claim and the comparable amount in the General Ledger; (ii) evidence (including system reports) to demonstrate that the amount of HRA Rent Rebates awarded on the HB system agrees to the amount credited to Rent Accounts per the Rents system.	EY and management
Procedures in respect of Local Government Pension Scheme	Review and consideration of IAS19 assurances from auditor of Derbyshire Pension Fund	EY
Partner review	Minute review to point of signing and final partner review of all audit procedures including those to consider subsequent events to the date of signing.	EY and management
Whole of Government Accounts return to NAO	Completion of required assurance return	EY
Management representation letter	Receipt of signed management representation letter	Management and Audit Sub-Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management

# Draft Management representation letter

## Management Rep Letter

[To be prepared on the Council's letterhead]  
[Date]

Mrs Helen Henshaw  
Ernst & Young  
One Colmore Square  
Birmingham  
B4 6HQ

Dear Helen

This letter of representations is provided in connection with your audit of the financial statements of South Derbyshire District Council ("the Council") for the year ended 31 March 2020. 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 March 2020 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 2019/20.

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), 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 2019/20.
2. We acknowledge, as members of management of the Council, 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, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, 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. As members of management of the Council, 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 2019/20, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
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 [specify reasons for not correcting misstatement].

### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

## Draft Management representation letter (continued)

### Management Rep Letter

3. 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.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council’s financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council’s activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

#### **C. 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 [all material transactions, events and conditions] are reflected in the financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council, Finance and Management committee and Audit Sub-Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date: *[date to be confirmed]*.
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 [period] 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.
7. From [the date of our last management representation letter] through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

## Draft Management representation letter (continued)

### Management Rep Letter

#### D. 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 to litigation and claims, both actual and contingent. No guarantees have been given to third parties.
4. No claims in connection with litigation have been or are expected to be received.

#### E. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

#### G. Comparative information - corresponding financial information

##### Restatement of Housing Benefit Overpayments receivables:

1. *A review of Housing Benefit Overpayments has been undertaken in year and an increase to the reported Debtors of £1.7m and Bad Debt Provision of £0.4m for 2018/19 has been made.*
2. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

#### H. Going Concern

1. Note 1(a) to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

#### Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

#### J. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

#### K. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

## Draft Management representation letter (continued)

### Management Rep Letter

#### L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment and the pension liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

#### M. Estimates

1. Valuation of property plant and equipment and pension liability
2. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
3. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic, and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
5. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

#### N. 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.

*Yours faithfully,*

\_\_\_\_\_  
Chief Finance Officer



\_\_\_\_\_  
Chairman of the Audit Sub-Committee

## Appendix D

# Accounting and regulatory update



## Future accounting developments

Since the date of our last report to the Ethics, Transparency and Audit Panel, there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on South Derbyshire District Council 
IFRS 16	<ul style="list-style-type: none"><li>▶ The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20.</li></ul>	<ul style="list-style-type: none"><li>▶ South Derbyshire District Council need to ensure that all lease arrangements entered into are identified and quantified (including for the comparative period) prior to the new implementation date</li><li>▶ Consider whether appropriate systems and processes are in place to embed the requirements of the new accounting standard going forward.</li></ul>

## Regulatory update

Since the date of our last report to the Ethics, Transparency and Audit Panel, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on South Derbyshire District Council 
Code of Audit Practice 2020	<ul style="list-style-type: none"><li>▶ The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.</li></ul>	<ul style="list-style-type: none"><li>▶ The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed.</li><li>▶ Further updates will be provided when possible.</li></ul>

## Appendix D

# Reflections from the Redmond Review

## Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Published on the 8<sup>th</sup> September 2020, Sir Tony Redmond's findings and recommendations from his independent review provides a significant opportunity to shape the future sustainability of local government financial reporting and auditing. We believe this will help ensure audit continues to meet the evolving needs of local authorities, the public, and the public interest.

### Guiding principles for reform

We believe reforms should be guided by the following principles:

- Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit.
- The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity, risks and financial resilience pressures we have seen facing the public sector pre and post Covid-19.
- There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole.



## Reflections from the Redmond Review (continued)

Taking our guiding principles, we broadly welcome the Redmond review and proposals, in particular:

### ***Quality of financial reporting and external audit***

- The recognition that all stakeholders in the ecosystem have a role to play to improve accountability, transparency and sustainability. This includes improving the effectiveness of Audit Committees, strengthening the training skills, capacity capability and attractiveness of the public sector finance and audit professions.
- His conclusion that the current procurement and fee structure does not support sustainable audit quality. We have provided you with our perspectives on how baseline audit fees need to change to take account of your risk profile, complexity as well as the regulatory and professional context which drive our audits.

### ***Reforming the public sector financial reporting and external audit ecosystem***

- Establishing the Office for Local Audit Regulation (OLAR), which provides a “system leader” and will bring clarity to the existing framework for local authority audit.
- The importance of MHCLG establishing a liaison committee of all key stakeholders to oversee reforms. To begin with MHCLG should take urgent action to implement primary legislation to establish OLAR, revise the timetable for financial reporting and revisit the procurement and fee structure for public sector audit.

### ***Multidisciplinary audit firm model***

- The importance of the auditors work to critically assess the financial resilience and viability of public sector bodies and his proposals on how this assessment could be enhanced within the NAOs code of audit practice.

### ***Safeguarding professional accounting and auditing standards***

- The need for CIPFA/LASAAC to revisit the accounting code and introduce summarised accounts. We agree that there is a need for more proportionality in the Code which also sets out the expectations of practitioners and auditors and how this could be applied in areas such as pensions and asset valuations. However, we believe that any future proposals on the accounting code should not create a two-tier system.

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## Reflections from the Redmond Review (continued)

### What are we doing in the meantime?

1. Planning for a 30 September financial reporting target date for 2020/2021 accounts, integrated with our NHS work.
2. Implementing the new NAO code and changes to our VFM conclusion work and reporting for 2020/2021 audits. We will also work with the NAO and other audit suppliers on any refinements to how auditors assess financial resilience.
3. Continuing to engage with and influence MHCLG, NAO, PSAA CIPFA/LASAAC, FRC and other key stakeholders on the actions required to implement the Redmond proposals as swiftly as possible and how these effectively align to the broader package of audit reforms which BIES will consult on later this year.

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