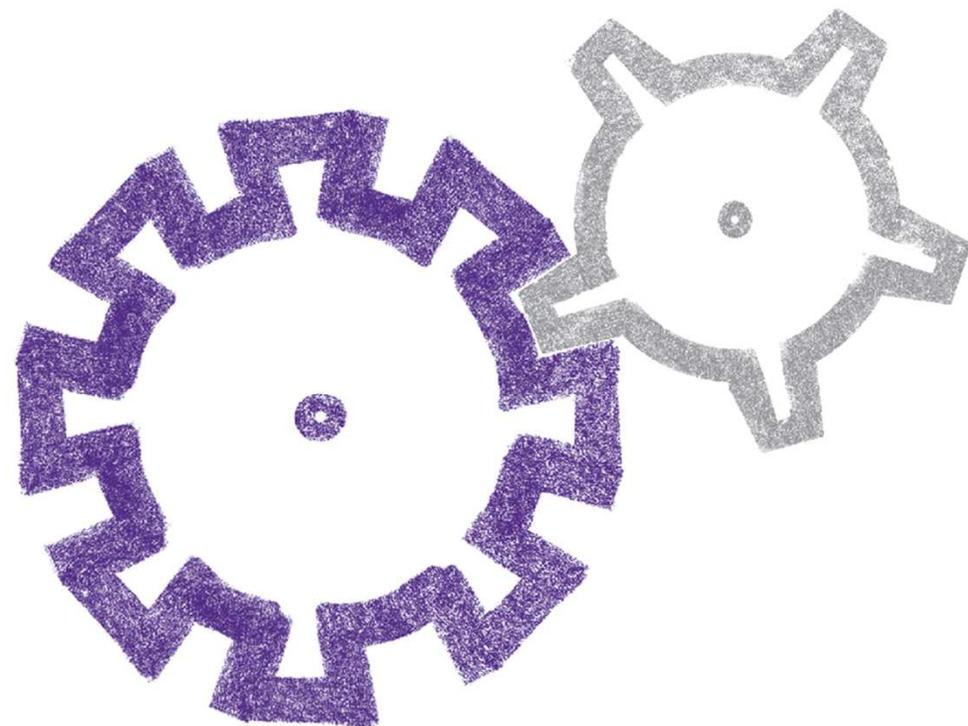


South Derbyshire District Council

Annual report to those charged with governance 2010/11

7 October 2011



6 October 2011

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To the Audit Sub Committee of South Derbyshire District Council

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Audit Sub Committee of South Derbyshire District Council. The purpose of this report is to highlight the key issues arising from our audit of South Derbyshire District Council's (the Council) statement of accounts for the year ending 31 March 2011.

This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Yours sincerely



Jon Roberts
Engagement Lead
Partner for Grant Thornton UK LLP



National Not for Profit Team - Accountancy Age 'Audit Team of the Year' 2010 winners

This report has been prepared to advise you of the matters arising from our final accounts audit and should not be used for any other purpose.

Our report is part of a continuing dialogue between the Council and ourselves and should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist. The Council should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implement them, seeking your own specialist advice as appropriate.

We accept no responsibility in the event that any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

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1. Executive summary

We have completed our accounts audit in accordance with our audit strategy as set out in our Audit Approach Memorandum presented to the Audit Committee on 23 February 2011.

The Council is responsible for the preparation of a statement of accounts that record its financial position as at 31 March 2011, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's statement of accounts present a true and fair view of the financial position. Under the Audit Commission's Code of Audit Practice, 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 table below provides a summary of the work performed during the year and our key findings. For further detail refer to the relevant section within the report.

Risk assessment

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Our audit risks were outlined in our Audit Approach Memorandum 2010/11 and refreshed in our Interim Audit Report. We have not needed to change our audit approach during the year and no new matters arose through our work on the final accounts.

Financial statements

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Our audit identified a number of adjustments to the statement of accounts; however, there was no impact on either the general fund balance nor the net asset position.

There are five unadjusted errors and a reconciliation difference in the accounts that the Audit Sub Committee must to review.

No matters arose from our work on the statement of accounts that had a bearing on either going concern or financial standing.

Subject to our final completion steps and based on the work carried out to date, we expect to issue an unqualified opinion on the Council's statement of accounts.

Other key matters

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We have not identified any matters that indicate a material weakness in the Council's financial controls other than our on-going concerns relating to the fixed asset register and our comments in respect of the accounts preparation process, as detailed at Section 3.

Our work has not identified any significant weaknesses in the Council's management of the risk of fraud.

We have read the Annual Governance Statement and are satisfied it is a fair reflection of our understanding of the Council's affairs.

No taxpayer exercised their rights to publicly inspect the statement of accounts. One matter was raised with us in relation to the procurement of the grounds maintenance contract, which we considered at the time to have been satisfactorily dealt with. We do not, therefore, expect there to be a delay in issuing our audit certificate.

Value for money conclusion

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We have addressed the risks identified from our planning and detailed risk assessment through the course of our audit.

A number of errors and omissions were noted during our audit of the statement of accounts. Resolution of these matters resulted in the accounts being signed off after the statutory deadline, which has resulted in us issuing a qualified Value for Money conclusion.

We have made some recommendations for improvement.

2. Audit risk conclusions

We have concluded, in the table below, against the audit risks identified in our Audit Approach Memorandum 2010/11, which were updated in our Interim Audit Report. We can confirm our audit strategy and audit approach has not changed from that previously reported to you. Details of the specific risks facing the financial statements, as reported in our Interim Audit Report, are recorded at Appendix A.

Issue	Work completed	Assurance gained
Accounting under IFRS	<ul style="list-style-type: none"> We have reviewed the process put in place by the Council for completing the transition to IFRS, and reviewed in detail those material adjustments that have been applied to the opening balances. 	<ul style="list-style-type: none"> Our review of the brought-forward balance sheet led to a number of adjustments being made to the financial statements, as set out in section 3 of this report.
Financial performance pressures	<ul style="list-style-type: none"> We reviewed the Council's financial controls and its budgetary pressures to enable us to update our financial statements plan risk assessment. Additionally we have completed our Value for Money assessment 	<ul style="list-style-type: none"> We are satisfied that the financial position of the Council is adequate to conclude on the accounts.
Revaluation of fixed assets	<ul style="list-style-type: none"> We reviewed the results of the valuation reports to gain assurance that the assumptions used were reasonable. We also reviewed the recording of the adjustments in the financial statements to ensure that the results of the revaluation had been correctly accounted for. 	<ul style="list-style-type: none"> We are satisfied that the results of the revaluation have been correctly accounted for.
Outsourcing of corporate services	<ul style="list-style-type: none"> We performed a detailed review of internal audit's work on contract monitoring arrangements. We also considered the adequacy of arrangements in respect of the financial statement process. 	<ul style="list-style-type: none"> Our review of the internal audit reports did not identify any additional issues. However, as noted in this report, a number of matters have arisen during the course of our audit in relation to the financial statements process.

2. Audit risk conclusions (continued)

Issue	Work completed	Assurance gained
Income Recognition Benefits Claim	<ul style="list-style-type: none">We have reviewed the provision in the accounts relating to the 2009/10 Council Tax and Housing Benefit Subsidy claim, together with the findings from our tests of the 2010/11 claim.	<ul style="list-style-type: none">We are satisfied that an appropriate provision has been made for clawback at 31 March 2011. A contingent liabilities disclosure has been added to the accounts in relation to the potential for clawback in 2010/11.
Sale of crematorium	<ul style="list-style-type: none">We reviewed the Council's treatment and associated disclosures of the disposal of the crematorium in the financial statements.	<ul style="list-style-type: none">We are satisfied that the Council's recognition of the disposal in 2011/12 is appropriate and that the disclosures in the 2010/11 accounts are adequate.

3. Financial statements audit

Introduction

We were presented with a draft statement of accounts on 20 July 2011 and accompanying working papers at the start of our site visit in August 2011.

It was disappointing to note that the working papers presented for audit, whilst acceptable, contained a number of cross referencing and reconciliation errors that we have not experienced in previous years. We also noted a number of working papers that were requested as part of our requirements schedule that were not prepared in advance of our visit.

In addition, a number of key disclosures had been omitted from the statement of accounts, such as the International Financial Reporting Standards transition note, which meant that the version of the accounts presented to us for audit was not fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), based on (IFRS).

Accounts & Audit Regulations (England) 2011

Last year, the Council was required to present draft accounts to those charged with governance prior to 30 June 2010. The new regulations allow the Council's section 151 officer to certify the accounts prior to 30 June 2011 and only present audited accounts to the Audit Sub-Committee before 30 September 2011.

The Council has not met the requirements of these new regulations as the audit was not completed and the accounts signed by 30 September 2011.

Status of the audit

We aimed to carry out our audit in accordance with the proposed timetable and deadlines communicated to you in our Audit Approach Memorandum. This timetable slipped considerably due to the additional work that had to be completed on non-current assets by the Council and ourselves to enable us to audit the figures presented in the accounts.

This resulted in delays to the processing of adjustments to the accounts, which when represented to us for review were found to be incomplete and inaccurate in some areas. This resulted in further queries, delays and amendments, particularly in relation to the cashflow statement. Our audit is now substantially complete, this is subject to the satisfactory conclusion of our concluding procedures and review of the amended accounts.

Management representations

At the conclusion of our audit, we request that your Chief Executive and S151 officer sign a management representation letter that confirms, amongst other matters, management's responsibilities to prepare financial statements that present a true and fair view and to provide us with all information necessary to complete our audit.

The Audit Sub-Committee should review the management representation letter and confirm it is content that the declarations may be signed in good faith.

3. Financial statements audit

Matters arising during the course of the audit

Matters arising from our audit of the financial statements are set out below. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix C.

Property Plant and Equipment (PPE)

Our initial review of the statement of accounts identified that an IFRS transition note had not been included. From our discussion with Council officers and your outsourced service provider, it became apparent that this was due the Fixed Asset Register (FAR) system being unable to directly provide the information required.

This note provides a fundamental reconciliation for users of the accounts, as well as for audit purposes, as it explains the movements between the PPE values published in the 2009/10 accounts and the restated position under IFRS.

As a result, our audit of this area was significantly delayed whilst the Council and its service provider worked to provide the required reconciliation, employing a data interrogation specialist to rebuild sections of the FAR.

During this process, it was noted that the interface between the FAR system and the financial ledger, Agresso, was not processing all of the necessary adjustments to the accounts. In particular, an adjustment of £4.4m was identified as being required to correct the revaluation reserve for valuation adjustments that had not been actioned in the ledger, this included £3.9m relating to Council Dwellings. This impacts on the historical revaluation reserve balances and has been amended as a prior period adjustment.

While we have now concluded our audit work in this area, it has taken more resource than we anticipated, delayed the finalisation of the accounts and has highlighted considerable flaws in the interface between systems and shortcomings in the FAR systems ability to provide auditable information to support the financial statements. As a result, we have recommended at Appendix C that a fundamental review of the FAR be undertaken.

We have also recommend that the importance of the disclosure review of the accounts be heightened as the draft Statement of Accounts were approved by the S151 officer and presented for audit with known omissions. Specifically, we have recommended at Appendix C that a fully annotated disclosure checklist be completed to evidence review and that the Council considers requesting that its service provider formally communicates any areas of known non-compliance when the draft accounts are provided to the S151 officer for review.

Details of the adjustments made to the PPE notes and to reflect the prior period adjustment are included at Appendix B.

Cashflow Statement

A number of fundamental errors were identified with the cashflow statements presented for audit. This resulted in the statements being completely reworded. Details of the adjustments made to the cashflow statement are included at Appendix B.

3. Financial statements audit

Adjusted misstatements

Our audit identified a number of adjustments which have been processed by officers.

Details of adjustments made are noted at Appendix B. These adjustments have not impacted on the reported Comprehensive Income and Expenditure Statement deficit or on the General Fund, both of which remain unaltered at £10.537m and £3.009m respectively after audit adjustments.

Unadjusted misstatements

The auditor is required to communicate all uncorrected misstatements, other than those considered to be clearly trivial, to the entity's management and to request that management corrects them.

Five adjustments were proposed during the course of our audit that have not been processed by the Council as follows:

- Council tax subsidy recognised in the Collection Fund was understated by £63,000
- NNDR income recognised in the Collection Fund was understated by £55,000
- An expenditure accrual (creditor) of £15,000 had been incorrectly posted to the VAT ledger code (debtor), resulting in a balance sheet misclassification
- An old debt of £15,000 had not been provided for, despite recovery being considered doubtful.

- An asset, with a value of £32,000, has been incorrectly classified as a community asset when it should be shown as general land and buildings.

In addition, an unreconciled difference of £16,000 was identified in relation to the revaluation of land and buildings.

Had these adjustments been processed, the Collection Fund balance would have increased by £118,000 to £197,000 and the reported Comprehensive Income and Expenditure Statement deficit and General Fund balance would have increased by £15,000.

Members are required to formally consider officers' treatment of the accounting adjustments referred to in this report and minute their decision accordingly.

3. Financial statements audit

Qualitative aspects of financial reporting

The qualitative aspects of our audit of your statement of accounts include the selection of appropriate accounting policies and the appropriateness of significant estimates and judgements made by management in compiling the accounts.

As part of our commitment to provide added value through the audit, we have also considered other aspects of financial reporting.

Accounting policies

The Council's accounting policies are in accordance with IFRS as adapted through the CIPFA's Code of Practice.

We recommended some presentational changes to accounting policies to bring them into line with IFRS; however these changes were not significant and did not alter the accounting practices adopted by the Council. We are also able to confirm the accounting policies were consistently applied to the material transactions in the Council's statement of accounts.

Significant estimates and judgements

We evaluated the underlying assumptions and reasonableness of the significant estimates and judgements made by your finance team in preparing the statement of accounts. For instance, affecting debtors (through a provision for impairment), PPE (asset valuations, and depreciation), provision and contingencies (probability and estimation of settlement) and employee benefits (pension liabilities and holiday entitlement/TOIL).

As a result of our review, the disclosures relating to the judgements and material estimates have been extended from the five areas identified in the draft accounts to a total of 13 disclosures. The most significant omissions included the estimation required for asset valuations and critical judgements for leases classification, investment properties, and provisions and contingencies.

These additional disclosures did not alter the accounting treatment that had been applied to these transactions. We are, therefore, satisfied that a reasonable approach was taken and that these balances are free from material misstatement.

3. Financial statements audit

Transition to International Financial Reporting Standards (IFRS)

In February 2011 we reported to Audit-sub Committee the findings from our review of the Council's arrangements for transition to IFRS. Our report highlighted that, at that time, the Council had not been able to determine the final accounting entries required to restate the 1 April 2009 and 2009/10 accounts balances for fixed assets, due to software issues with the CIPFA asset management system .

As noted earlier in our report, this matter had not been fully resolved by the time of our audit, which was disappointing. We also noted a number of IFRS disclosure omissions during our work and would question whether sufficient resource was allocated to the transition project given the range of changes occurring in finance, such as the implementation of Agresso.

Explanatory foreword

We read the explanatory foreword to ensure it was consistent with the statement of accounts and our understanding of the Council's performance for the year.

We identified some presentational changes to the narrative provided in the explanatory foreword to provide greater clarity to readers of the accounts. These amendments included:

1. additional explanation of the impact of the introduction of IFRS
2. details of the Council pension scheme liability position and future considerations for the scheme
3. additional information on the impact of the current economic climate, the Council's medium term financial plan and how financial cuts and efficiencies are being achieved.

Following these adjustments, we are satisfied the overall content and figures presented in the explanatory foreword are consistent with the statement of accounts.

Segmental reporting

Councils are required to disclose their business operating segments. An operating segment is a separately identifiable component of the Council, which earns revenues and incurs expenses, and whose operating results are regularly reviewed by the Council's 'chief operating decision maker' to assess the segment's performance and allocate resources.

The Council has determined that decisions relating to resource allocation are taken by the Council on the basis of budget reports analysed across Committee portfolios. The statement of accounts therefore show three operating segments:

1. environmental and development services
2. finance and management
3. housing and community services

The segmental disclosures provided in the draft Statement of Accounts had been presented based on these three operating segments but with a breakdown against the Council's 21 service areas showing actual expenditure against the budget and variance. Following our review, this note has been replaced with note which analyses the amounts shown in the Comprehensive Income and Expenditure Account by the three operating segments for the current and prior period.

3. Financial statements audit

Overall conclusions

Opinion on the statement of accounts

Subject to the satisfactory completion of our concluding procedures, we anticipate providing an unqualified opinion on the Council's statement of accounts once they have been formally adopted by the Council.

The way forward

Matters arising from the financial statements audit have been discussed with the S151 Officer. We have made a number of recommendations, which are set out in the action plan at Appendix C.

4. Other matters for those charged with governance

Evaluation of key controls

We have undertaken sufficient work on the key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues, additional to those already identified by Internal Audit, that present a material risk to the accuracy of the statement of accounts. Where we have identified issues relating to the Council's internal controls and made recommendations for improvement, these are detailed at Appendix C.

Management of the risk of fraud

We have discussed the processes in place to identify and respond to the risk of fraud at the Council with your S151 Officer, members of your finance team and with Internal Audit.

In the course of our accounts audit work, we did not uncover any evidence of fraud or previously undisclosed control weaknesses that might undermine the Council's process for mitigating the risk of fraud.

Journals

We used our audit software to carry out intelligent testing of journal entries because journals are a key area where the statement of accounts may be inappropriately manipulated.

Our testing identified that journals for periods 9 to 12 had not been evidenced as authorised. Whilst, this is not consistent with the Council's policies, we are satisfied with the validity of these journals. We have also noted from our discussions with officers that journal authorisation is now automated as part of the workflow approvals required within Agresso.

Annual Governance Statement (AGS)

We have examined the Council's arrangements and processes for compiling the AGS. In addition, we read the AGS and considered whether the statement is in accordance with our knowledge of the Council.

We reviewed the draft AGS and considered the document to be satisfactory in terms of content, a fair representation of Council operations during the year and in line with the Code. We concluded the overall arrangements were satisfactory and appropriate to ensure that management actions are reviewed effectively.

Public inspection of the accounts

We did not receive any questions from the public in respect of the statement of accounts for the year ended 31 March 2011.

Audit certificate

The audit certificate confirms we have completed the audit of accounts 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.

We plan to issue our audit certificate on the same date that we issue our value for money conclusion and opinion on the financial statements. We are able to do so because:

- there are no material matters outstanding relating to our audit of your statement of accounts nor the value for money conclusion
- no questions have been raised by a member of the public and therefore remain unanswered.

5. Value for Money

Value for Money conclusion

The Audit Commission's 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
- review regularly the adequacy and effectiveness of these arrangements.

For 2010/11 the required elements, as defined in the Code, were considered alongside the following two criteria specified by the Audit Commission:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Our approach was set out in our Audit Approach Memorandum and this section of our report summarises the work performed and our overall conclusions on the criteria supporting the Value for Money conclusion.

Basis for qualified conclusion

In considering the Council's arrangements for reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people, we noted that significant errors and omissions had been identified in the statement of accounts during the course of our audit. The resolution of these issues resulted in the statutory deadline for the approval and publication of the statement of accounts being missed.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, with the exception of the matter reported in the basis for qualified conclusion paragraph above, 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 ending 31 March 2011.

5. Value for Money

Programme of work: review of proper arrangements

Our work has encompassed a review against proper corporate performance and financial management arrangements as defined by the Code. The findings from our review against these arrangements are summarised in the table below:

Code criteria	Work completed	Significant matters arising	Conclusion
Planning finances effectively to deliver strategic priorities and secure sound financial health	Considered through our work on the going concern assertion and also through our work on financial resilience	The Council, in common with other district councils, faces a challenging future in the face off long term financial pressures.	Proper arrangements considered to be in place
Having a sound understanding of costs and performance and achieving efficiencies in activities	Reviewed as part of our review of financial resilience	None	Proper arrangements considered to be in place
Reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people	Reviewed as part of financial resilience work, our audit of the statement of accounts (pages 9 and 10)	A number of errors and omissions were noted during our audit of the statement of accounts (see section 3). Resolution of these matters resulted in the accounts being signed off after the statutory deadline, which has resulted in us issuing a qualified Value for Money conclusion.	Inadequate arrangements considered to be in place
Commissioning and procuring services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity	None	Proper arrangements considered to be in place

5. Value for Money

Programme of work: review of proper arrangements

Code criteria	Work completed	Significant matters arising	Conclusion
Producing relevant and reliable data and information to support decision making and manage performance	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity	None	Proper arrangements considered to be in place
Promoting and demonstrating the principles and values of good governance	Considered through our work on the Annual Governance Statement (page 12)	None	Proper arrangements considered to be in place
Managing risks and maintaining a sound system of internal control	Considered through our interim accounts audit and our review of your Annual Governance Statement (page 12)	The Internal Audit service has experienced some issues but this should be resolved now that this function will now be performed by Derby City Council which has strength in depth. The Council should continue to monitor this closely.	Proper arrangements considered to be in place
Making effective use of natural resources	We have updated our 2009/10 assessment through discussions with officers and considering any changes to our initial risk assessment	None	Proper arrangements considered to be in place

5. Value for Money

Programme of work: review of proper arrangements

Code criteria	Work completed	Significant matters arising	Conclusion
Managing assets effectively to help deliver strategic priorities and service needs	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity	None	Proper arrangements considered to be in place
Planning, organising and developing the workforce effectively to support the achievement of strategic priorities	<p>Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity.</p> <p>We also considered your arrangements for monitoring sickness absence levels as a measure of productivity</p>	None	Proper arrangements considered to be in place

5. Value for Money

Financial resilience

We assessed whether the Council has robust systems and processes in place to effectively manage its financial risks and opportunities, and to secure a stable financial position. We undertook an initial risk assessment of the Council's arrangements for: financial planning; financial governance; and financial control. The main factors to support a positive value for money conclusion in this area are set out in the table below:

Financial resilience

Financial planning

- The Council maintains up to date corporate plans and ensures that these are interlinked to other plans. These are reviewed regularly enabling swift responses to external factors.
- The Council's current MTFP covers the period 2009-2016 and is updated annually to ensure it accurately reflects the Council's response to the challenges it faces. This demonstrates that the Council has long term focus.
- Stakeholders are consulted as part of the budgeting process. Internally, departmental managers communicate the financial position and challenges through departmental meetings.
- The Council works to ensure its plans are deliverable. This is evidenced by SMT and Cabinet reviewing all plans prior to implementation.

Financial governance

- Governance arrangements are generally fit for purpose with good structures in place to ensure robust arrangements.
- The Council has a corporate-wide risk register. In 2009/10 the Council revised its risk management approach and developed a strategic risk group that will be set up from across the council and contains an overall strategy, toolkit and terms of reference for looking at the Council's risks throughout the organisation.
- The Council has demonstrated that members and senior officers are clear about their roles. The take up of training and development opportunities is high and quality is checked.
- The Council uses a traffic light system for performance management purposes to identify areas of achievement. Policy Committees receive monitoring reports and agree suitable action to take where necessary. Also a Financial and Management Committee receive quality finance monitoring reports for the same purpose.

Financial control

- Relevant performance information is reported to officers and members on a quarterly basis to manage performance and shape service delivery to respond to declining performance levels. Trend data is highlighted and the council uses this info to shape decisions regarding service delivery.
- There have been no historical issues noted with capacity in the Finance Department and the staffing is considered adequate for a district council. Following the outsourcing of Corporate Services there has been a change in the structure of the Finance Department.
- The Council produces relevant and reliable data through mechanisms supported by its data quality policy and data sharing protocol with key partners and has implemented a new performance management system.
- However, the main issues representing a risk to the Council's financial control relate to internal audit, the staff restructuring combined with the move to Northgate, and the issues around the integrity of the asset management system.

5. Value for Money

Securing economy, efficiency and effectiveness

As with our work on financial resilience, we undertook an initial risk assessment of the Council's arrangements for: prioritising resources; and improving efficiency and productivity. The main factors that support a positive value for money conclusion in this area are set out in the table below:

Securing economy, efficiency and effectiveness

Prioritising resources

- Economic and demographic changes and trends are incorporated in decision making by the Council, with stakeholder involvement in the process.
- Members and managers have been involved in the budget setting process and resulting spending reductions. Main scrutiny and involvement is through the Performance Monitoring and Budget Scrutiny Committee.
- The Council takes steps to encourage stakeholder input in the prioritisation of resources.
- The Council has a good understanding of its costs.
- The Council ensures that it challenges service delivery to drive further efficiencies.

Improving efficiency and productivity

- The Council is developing its knowledge of its cost base to identify opportunities for additional savings, looking at the long term e.g. the corporate outsourcing contract. It is also making good use of Northgate advisors to identify further efficiencies.
- The Council has a strong understanding of its cost base and performance. This has allowed it to develop achievable budgets and efficiency savings. Besides the corporate performance monitoring framework, the Council has bought the IPF report which compares and analyses spending and performance. This has been performed where costs appear high.
- In 2009/10, NI 179 Value for Money releasing gains were £1,541k, higher than the median for the nearest neighbour benchmark group of £1,446k, indicating a strong performance.
- The Council has a five year efficiency savings plan from 2011 to 2016 of 3m, £2.5m of which has already been confirmed.

Appendices

Appendix A. Accounts risks

An audit accounts risk is an area of the statement of accounts where we believe there is a higher risk of a material misstatement occurring. The table below sets out the assurances we gained over those risks.

Property, plant and equipment (PPE / Fixed Assets)

Risks	Response	Assurances gained
PPE might include fictitious additions	We have reviewed significant additions and agreed these to supporting documentation such as invoices.	The fixed assets year end balance in the statement of accounts does not appear to be materially misstated.
PPE activity may not be valid	Items of a capital nature that have been expensed have been reviewed to assess whether the treatment is appropriate. Significant additions and disposals during the year have been reviewed to ensure that they correctly reflected in the statement of accounts.	Our testing did not identify any material items of revenue expenditure that was incorrectly capitalised
Revaluation measurements not correct	We have reviewed the valuation assumptions for reasonableness. Accounting treatment of the revaluation gains and losses have been reviewed to assess if treatment is correct.	The revaluation treatment in the statement of accounts appears appropriate.

Operating Expenses

Risks	Response	Assurances gained
Creditors understated or not recorded in the correct period	Year end creditors have been reviewed for completeness. Cut off testing will be performed on a sample of payments and invoices received pre and post year end.	Our testing did not identify any errors that indicated that the creditors figure is materially understated.

Appendix A. Accounts risks (continued)

Council Tax		
Risks	Response	Assurances gained
Tax revenue transactions not recorded	We performed analytical review on council tax income for the year to gain assurance that the balance was in line with expectations.	Council tax income for the year did not materially differ from our expectations.
Recorded debtors not valid	Debtor balances have been agreed to supporting documentation from third parties.	The council tax debtor in the statement of accounts is not materially misstated.
Grant Revenues		
Risks	Response	Assurances gained
Recorded debtors not valid	Recoverability of recorded grant debtors has been reviewed in line with ongoing grant certification work. Debtors have been agreed to post year end payments where possible.	Grant revenue debtors in the statement of accounts is not materially misstated.
Housing and Council Tax Benefit Expenditure		
Risks	Response	Assurances gained
Recorded debtors not valid	We have reviewed the recoverability of the debtor balance in line with on-going grant certification work. Correspondence with the Department of Work and Pensions on the 2009/10 clawback has been reviewed to determine whether any outstanding liability at 31 March 2011 is properly reflected in the accounts.	Our testing did not identify any errors that indicated that the debtors balance is materially overstated.

B. Audit adjustments

Adjustment type

Misstatement - A change in the value of a balance presented in the statement of accounts

Classification - The movement of a balance from one location in the accounts to another

Disclosure - A change in the way in which a balance is disclosed or presented in an explanatory note

Adjustments to the statement of accounts

Accounts balance	£'000	Impact on the statement of accounts
Misstatements		
Revaluation reserve and impairments	538	<p>As noted in Section 3, a number of adjustments were required to correct the errors identified between the fixed asset register and the Agresso ledger system. These related to the incorrect posting of impairment adjustments on assets held at valuation or cost. The adjustments made were:</p> <p>The following overall journals are proposed:</p> <ul style="list-style-type: none"> • Prior period adjustment to increase (credit) the revaluation reserve on the balance sheet £538k • Prior period adjustment to reduce (credit) previous impairment charges to the HRA £3,765K. This entry has then been reversed within the HRA to reflect the funding basis under regulations £3,765k. • Net reduction (debit) to the capital adjustment account £538K • Reduce (credit) the General Fund impairment charge by £423k. This entry has then been reversed within the General Fund to reflect the funding basis under regulations £423k.
Investment properties	709	<p>The IFRS transition movements for investment properties had been incorrectly shown as being made at 31 March 2010. As a result the accumulated depreciation, depreciation charge for the year and impairments relating to 2009/10 had not been correctly eliminated as required by the Code. This has now been amended.</p>
Classification		
Debtors	624	<p>A £3.348m balance included in 'NHS debtors' related to NNDR and council tax payer balances and has been reclassified to 'Government Departments'. There is no impact on the figure for total debtors.</p>
PPE	60	<p>An adjustment to reflect the impairment of a plot of land during the year had been included in the disposals line within the PPE note. This is due to the way that CIPFA asset management requires the impairment to be classed as a disposal in the system. As a result disclosure within the PPE note has been corrected.</p>

Adjustments to the statement of accounts

Accounts balance	£'000	Impact on the statement of accounts
Disclosure		
Segmental reporting	N/a	<p>As noted in Section 3 of this report, the segmental analysis disclosures were not in line with Code requirements. The following amendments were required:</p> <ol style="list-style-type: none"> 1. narrative disclosure of items not included in service reporting but included in CIES (for example depreciation) 2. a reconciliation between the segmental analysis and amounts reported in CIES 3. restatement of the analysis to a gross basis 4. inclusion of prior period comparatives and the removal of the budget and variance to budget columns 5. correction of the CIES reconciliation figures to match the CIES.
Property, plant and equipment	N/a	<p>The name and qualifications of valuer used by the Council to derive assets valuations for the accounts was added to the PPE note. The PPE note and HRA PPE note were also extended to identify that the valuations were carried out at 31 March 2011.</p> <p>A significant number of addition errors were noted in the PPE note presented in the draft accounts.</p>
Officers remuneration	N/a	The disclosure of individuals earning over £50,000 had been transposed between the 2009/10 and 2010/11 columns. A note has also been added to explain the change in Monitoring Officer for clarity.
Contingent liability	N/a	This note has been amended to include reference to the risk of clawback of Council Tax and Housing Benefit Subsidy on the basis that clawbacks have been reported in previous years so it is possible that this may occur in relation to the 2010/11 claim.
Explanatory forward	N/a	Details of the impact of the transition to IFRS have been enhanced to expand and simplify the explanations provided. The explanatory forward has also been expanded to include narrative in relation to the impact on the Council of pension liabilities and the current economic climate (ie spending cuts and the MTFP).
Statement of responsibilities	N/a	This has been amended to include a required statement in respect of managing the Council's affairs to secure economic, efficient and effective use of resources and safeguard its assets.
Critical judgements	N/a	This note has been considerably expanded to include government funding, provisions, contingent liabilities, classification of leases as operating or finance and investment property as valued at fair value.

Adjustments to the statement of accounts

Accounts balance	£'000	Impact on the statement of accounts
Disclosure		
Assumptions and other sources of uncertainty	N/a	This note has been amended to include asset valuations, employee benefits and bad debt provisions.
Provisions	N/a	A narrative explanation of the nature and uncertainty associated with each provision has been added.
Collection fund - notes	N/a	The rateable value disclosed of £48,955,788 related to March 2010. This has been amended to the 2011 figure of £53,626,230. The disclosed Precepts were incorrect as follows: <ul style="list-style-type: none"> • 2010/11 - Derbyshire County Council was overstated by £1.419m at £34.968m, Derbyshire Police Authority was overstated by £116,000 at £5.216m and Derbyshire Fire Authority was overstated by £89,000 at £2.181m. • 2009/10 - Derbyshire County Council was overstated by £1.515m at £34.035m, Derbyshire Police Authority was overstated by £231,000 at £5.174m and Derbyshire Fire Authority was overstated by £96,000 at £2.122m. This note has also been amended to reconcile to the Collection Fund. There is no impact on the face of the Collection Fund.
Accounting policies	N/a	Income recognition policy expanded to disclose that benefit expenditure is accounted for on a 52 week basis as the difference is not material to the accounts.
Leases	N/a	The lease note has been amended as the future commitments table showed the annual commitment rather than the cumulative amount as required under IFRS.
Capital commitments	N/a	Note removed as the Council has no future commitments that require disclosure.
Capital adjustment account	N/a	Grants unapplied amended to reconciled to the grants unapplied note.
Financial instruments	N/a	The credit risk section of the financial instruments note has been amended to include an analysis of potential risk which was previously omitted. The note has also been expanded to make reference to credit rating agencies.
Members' interests	N/a	The related party note has been expanded to include members' interests as this section of the note had been omitted.
Long term debt	N/a	Reference to the break clause in the agreement relating to the Council's £1m long term loan has been added to this note.

Adjustments to the statement of accounts

Accounts balance	£'000	Impact on the statement of accounts
Disclosure		
IFRS first time adoption	N/a	<p>The following were added to the IFRS first time adoption note:</p> <ul style="list-style-type: none"> disclosure to show the movement of grants and contributions unapplied accounts from long term creditors to earmarked reserves as part of the IFRS transition movements disclosure of the impact of IFRS transition on assets for sale disclosure of the impact of IFRS transition on investment properties disclosure of the reclassification of short term investments as cash equivalents as a result of IFRS transition
	N/a	<p>The PPE note has also extended to show the impact on the accounts of UKGAAP adjustments which, as noted in Section 3, were initial not presented as they could not be determined. These additional disclosures reconcile land and buildings, community assets, investment properties and assets held for sale.</p>
	£269k	<p>Transitional movements in respect of grants contributions were incorrectly made in the draft note and the following amendments were required to correct reconciliation differences:</p> <ul style="list-style-type: none"> At 1 Apr 2009: debit the capital grants unapplied reserve £269k, credit earmarked reserves £111k and credit general reserves £185k
	£315k	<ul style="list-style-type: none"> At 31 Mar 2010: debit capital grants unapplied reserve £315k, credit earmarked reserves £327k and debit general reserves £12k
Annual Governance Statement	N/a	An amendment has been made to refer to the data security breach that occurred in 2010/11.
Cashflow	£11.3m	<p>A number of significant errors were identified with the cashflow presented for audit. This resulted in the statement being fully reworked. The resulting amendments were:</p> <ul style="list-style-type: none"> £4.188m reduction in the net deficit on the provision of services £11.296m reduction in the net adjustment for non-cash movements £4.146m increase in the net adjustment to the provision of services deficit for investing and financing activities £1.04m increase in the net outflow from investing activities £4m decrease in the net outflow from financing activities

Appendix C. Action plan

#	Recommendation	Priority	Council response	Implementation date and responsibility
1	<p>Fixed Asset Register (FAR)</p> <p>Given the problems identified during this and previous years audits with the fixed asset system, we recommend that the Council undertakes a fundamental review of the system to assess whether it is fit for purpose and provides a robust platform from which to manage and account for its assets on an on-going basis.</p>	High	Given the issues and findings, it has already been resolved that a new method of calculating the information for the financial statements will be implemented and work has commenced.	New method implemented by December 2011. (Chief Finance Officer - CFO).
2	<p>Disclosure review</p> <p>A number of significant disclosures omissions were identified during the course of our audit. To improve the completeness and quality of the accounts submitted for audit we recommend that:</p> <p>a) the CIPFA disclosure checklist is completed by the finance team and annotated with comments to evidence that this has been done, highlighting any judgements made</p> <p>b) that the Council considers requesting Northgate formally communicate any areas of non-compliance with accounting requirements when the draft accounts are presented to the Council for consideration.</p>	High	Agreed	To be fed into the 2011/12 closedown process. Checklist and non-compliance to be submitted by 31 st May 2012 in order that the CFO is able to sign-off draft accounts for audit.
3	<p>Working papers</p> <p>We recommend that working papers prepared to support the balances and disclosures in the accounts are subject to an evidenced independent review. Based on our experience during this years audit, the review should include a check to ensure that values on supporting schedules agree directly to the lead document and that our audit request schedule has been fully met.</p>	Medium	Agreed	To be fed into the 2011/12 closedown process. Review to be completed by Northgate prior to Audit (July 2012).
4	<p>Financial instruments</p> <p>We note that an analysis of the age of financial assets that are past due has not been disclosed in the accounts. Officers have explained that this is due to an aged debtor analysis not being available as more than one system is being used. We recommend that the Council considers how it will meet this disclosure requirement in the future.</p>	Medium	This will be overcome with the upgraded Agresso system and the required report is currently being written.	December 2011 (Chief Finance Officer)

Appendix D. The reporting requirements of ISA 260

Purpose of report

The purpose of this report is to highlight the key issues affecting the results of the Council and the preparation of the Council's statement of accounts for the year ended 31 March 2011.

The document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

We would like to point out that the matters dealt with in this report 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 statement of accounts of the Council.

This report is strictly confidential, and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Council arising under the terms of our audit engagement.

The contents of this report should not be disclosed with third parties without our prior written consent.

Responsibilities of the Council and auditors

The Council is responsible for the preparation of the statement of accounts and for making

available to us all of the information and explanations we consider necessary. Therefore, it is essential that the directors confirm that our understanding of all the matters in this report is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of the roles and responsibilities with respect to internal controls

The Council's officers are responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Audit Sub Committee that it has done so.

The Audit Sub Committee is required to review the Council's internal financial controls. In addition, the Audit Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Audit Sub Committee should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of 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 would be pleased to discuss any further work in this regard with the Audit Sub Committee.

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit

Independence and robustness

Ethical standards require us to give you full and fair disclosure of the matters relating to our independence. In this context we ensure that:

- the appointed audit partner and audit manager are subject to rotation every seven years;
- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Council;
- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner; and
- at all times during the audit, we will maintain a robustly independent position in respect of key judgement areas.

Audit and non-audit services

Services supplied to the Council for the year ended 31 March 2011 are as follows:

£

Audit services

Statutory audit	103,000
Grant certification work	55,000*

* estimated charge

Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements.

The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW. Grant Thornton also conducts internal quality reviews of engagements.

Furthermore, audits of public interest bodies are subject to the Audit Commission's quality review process.

We would be happy to discuss further the firm's approach to quality assurance.

About us

Grant Thornton UK LLP is a leading financial and business adviser to the public and private sectors. The firm has over 215 partners and more than 4,000 staff operating from 28 offices throughout the UK.

Grant Thornton is dedicated to providing value-added assurance and advisory services to local authorities.

Our high-quality audit and assurance service is tailored to identify where improvements can be made to governance processes, the assurance framework and performance management, to help deliver value for money and move organisations towards best practice.

Our Government Audit practice is the fastest growing amongst the major firms; we have doubled our market share in recent years as a result of our quality of service for over 80 Local Authorities, Social Housing, Charity and Healthcare organisations.

Your team are all local government specialists, led by a partner with over 20 years' experience working with local authorities.



National Not for Profit Team - Accountancy Age 'Audit Team of the Year' 2010 winners



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