



# The Audit Findings for South Derbyshire District Council

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**Year ended 31 March 2013**

13 September 2013

**Kyla Bellingall**

Director

T 0121 232 5359

E [kyla.bellingall@uk.gt.com](mailto:kyla.bellingall@uk.gt.com)

**Tony Parks**

Manager

T 0121 232 5301

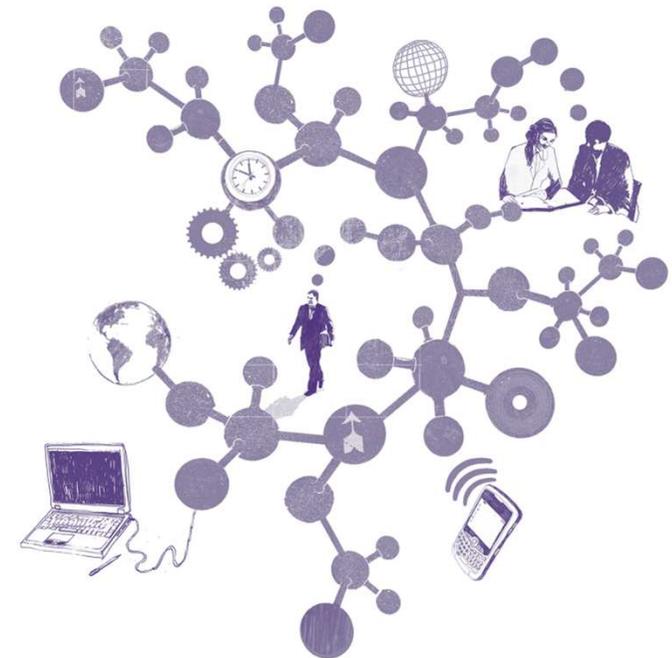
E [tony.l.parks@uk.gt.com](mailto:tony.l.parks@uk.gt.com)

**Avtar Sohal**

Executive

T 0121 232 5279

E [avtar.sohal@uk.gt.com](mailto:avtar.sohal@uk.gt.com)



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

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

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# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	4
2. Audit findings	7
3. Value for Money	20
4. Fees, non audit services and independence	25
5. Communication of audit matters	27

## **Appendices**

- A Audit opinion
- B Overview of audit findings

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## Section 1: Executive summary

**01. Executive summary**

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of South Derbyshire District Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

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

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2013.

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

- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion and
- Whole of Government Accounts.

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

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

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

- we have not identified any adjustments affecting the Council's reported net expenditure of £8,830k.
- there are no unadjusted misstatements. All adjustments identified during the audit have been made within the final set of financial statements.
- there was one material misstatement. This related to £6.6m internal recharges incorrectly included in income and expenditure. This has been corrected by management.
- we have made a number of adjustments to improve the presentation of the financial statements.
- the draft accounts and supporting working papers were of a high standard.

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

### **Value for money conclusion**

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

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

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

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

### **Controls**

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

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

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

Further details are provided within section 2 of this report.

### **The way forward**

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

### **Acknowledgment**

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

**Grant Thornton UK LLP**  
**September 2013**

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## Section 2: *Audit findings*

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Sub Committee on 3 April 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 3 April 2013. A summary of the risks identified in that plan and our audit findings is provided at Appendix B.

## **Audit opinion**

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

## **Outstanding matters**

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

- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion and
- Whole of Government Accounts.

## Audit findings against significant risks

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

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

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

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Operating expenses</b></p>	<p>Operating expenses understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls in relation to the completeness assertion to assess whether those controls are designed effectively</li> <li>• performance of attribute testing on a sample of transactions.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Operating expenses</b></p>	<p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls in relation to the completeness assertion to assess whether those controls are designed effectively</li> <li>• test of detail on trade creditors and accruals in the financial statements including reviewing the calculation of significant accruals and other items and reviewing payments after the year end.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

## Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	Employee remuneration accruals understated/ payroll tax obligations understated.	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls in relation to the completeness assertion to assess whether those controls are designed effectively</li> <li>• performance of attribute testing on a sample of transactions</li> <li>• test employee remuneration disclosures in the financial statements to supporting evidence.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Welfare expenditure</b>	Welfare benefits improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls in relation to the valuation gross assertion to assess whether those controls are designed effectively</li> <li>• testing of the final Housing Benefit Claim using the HBCOUNT methodology, with assurance taken from the testing of the initial 20 cases per benefit category.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Housing rent</b></p>	<p>Revenue transactions not recorded.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls in relation to the completeness assertion to assess whether those controls are designed effectively</li> <li>• testing of detail on housing rent revenue transactions included in the financial statements.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified. We did however have difficulty obtaining detailed reports by property to support the figures in the financial statements and are in discussion with officers as to how to ensure this information is readily available for next years audit.</p>

# Accounting policies, estimates & judgements

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

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

**Assessment**

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient
- Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– useful life of capital equipment</li> <li>– pension fund valuations and settlements</li> <li>– revaluations</li> <li>– impairments</li> <li>– provisions</li> </ul> </li> </ul>	There was appropriate disclosure of key estimates and judgments	 <b>Green</b>
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	 <b>Green</b>

**Assessment**

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

## Adjusted misstatements

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

### Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 <b>Internal recharges incorrectly included in revenues and expenditure</b>	6,648 (6,648)		
<b>Overall impact</b>	<b>£nil</b>	<b>£nil</b>	<b>£nil</b>

## Misclassifications & disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	1,400	NNDR debtors and creditors	The NNDR debtor of £1,400k and the NNDR creditor of £ 1,443k have been netted in the accounts to show a consolidated balance of £43k creditor.
2 Disclosure	113	Financial instruments	The financial liabilities carried at contract was incorrectly stated as £5,711k. This was amended to £5,598k to be consistent with note 17 of the accounts.
3 Disclosure	N/A	Note 27 External Audit Fees	Amended the note to show correct audit fees of £65k and grant claim certification of £31k less the Audit Commission rebate of £6k. The disclosure note was also amended to include the fees for other services relating to the review of Housing Capital spend of £17k.
4 Disclosure	292	Note 18 Borrowings	The note stated that non current borrowings of £58,430k consists of four amounts. The total of the four amounts was £58,722k.
5 Disclosure	N/A	Note 9 Property, Plant & Equipment	The note did not disclose the name of the external valuer and their qualifications.
6 Disclosure	N/A	Note 29 Related Parties	The disclosure note was enhanced to include transactions with other public bodies such as pension contributions and reference to debtor/creditor balances.

## Misclassifications & disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
7	Disclosure	N/A	2011/12 Exceptional item	An additional disclosure note was included to explain the 2011/12 exceptional item.
8	Disclosure	N/A	Note 31 Defined benefit contributions	An additional disclosure was made of the best employer estimate of contributions expected to be paid to the plan in the next accounting period
9	Disclosure	N/A	Note 26 Officers remuneration	The disclosure of the remuneration bandings for senior employees was amended to show the correct bandings.

## Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We reported in our Audit Plan the results of our interim audit work and the fact that the Council had implemented a number of additional controls in January and February 2013. We have not identified any significant internal control deficiencies to bring to your attention.

## Other communication requirements

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

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>See above comments in misclassification and disclosure changes.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>See above comments in misclassification and disclosure changes.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non audit services and independence

05. Communication of audit matters

# Value for Money

## Value for Money conclusion

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

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

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

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work concluded that the Council has adequate arrangements for securing financial resilience. Its overall financial position is challenging with projected budget gaps in each of the years covered by the Medium Term Financial Plan (to 2017/18). The Council's arrangements mean that it is well placed to address this challenge.

### Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within.

Our overall conclusion is that the Council is responding well to the challenges of the Local Government Finance Settlement and delivering savings through restructuring. The Council has identified £300k of savings in 2013/14 and is targeting its resources effectively.

## Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Our initial risk assessment identified the following risks to our VfM conclusion which we followed up as part of our more detailed risk assessment:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
<p>Medium Term Financial Plan (MTFP) - the Council will need to continue to carefully monitor the MTFP to ensure it adequately reflects the financial uncertainty and the scale of savings required. The use of scenario planning and updated assumptions will be key to ensure that the MTFP remains realistic.</p>	<p>We have reviewed the MTFP and discussed the situation with officers.</p>	<p>We are satisfied that the Council is taking sensible action to safeguard its financial future and the essential services which it provides. Given the on-going financial pressures within Local Government, it is vital that the Council continues to:</p> <ul style="list-style-type: none"> <li>- Maintain tight financial control</li> <li>- Keep the MTFP up-to-date and plan for a range of scenarios</li> <li>- Effectively manage its efficiency savings plan to ensure that the required savings are delivered.</li> </ul>
<p>Financial challenges – the Council is expected to face further reductions in funding over and above those currently notified. This includes a reduction in funding to support the new Council Tax Allowance scheme. In addition, uncertainty around how the new NNDR redistribution system will impact upon the Council.</p>	<p>We have reviewed the MTFP and discussed the financial challenges with officers.</p>	<p>We are satisfied that the Council is factoring the impact of the changes into its medium term financial planning.</p>
<p>Strategic financial planning - given the challenging financial environment and expected further cuts in revenue funding, it is important that the Council continues to maintain reserve levels so that it has a 'safety net' for the future.</p>	<p>We have discussed the General Fund position with officers and evaluated it in the light of the range of other reserves which the Council holds. We have also noted that the level increased to £4.3m at 31 March 2013.</p>	<p>We are satisfied that the General Fund reserve does not represent a major risk to the Council's financial resilience.</p>

Residual Risk identified	Assurances obtained	Conclusion on residual risk
<p>Financial control - significant budget over or under spends may indicate poor in year forecasting. At quarter 3 the Council is projecting a variance of approximately 2% to budget. However final outturn figures will need to be reviewed to ascertain whether final outturn suggests budgeting was not appropriate.</p>	<p>We have reviewed the outturn report for 2012/13.</p>	<p>We are satisfied that the Council has appropriate budgetary control. There was an underspend of £389,270 against an approved budget of £11,343,340. The underspend represents 3.4% of the net budget on the General Fund. The main reasons for the underspend were savings in staffing, waste and cleansing, central costs and ground maintenance.</p>
<p>Long term borrowing –the Council has a higher than average ratio for long term borrowing compared to Council tax received.</p>	<p>We updated the long term borrowing ratios using the 2012/13 accounts and noted that the ratio has slightly improved from 5.2:1 in 2011/12 to 4.8:1 in 2012/13. We have discussed the situation with officers and reviewed the MTFP.</p>	<p>We are satisfied that the Council reflects its long term borrowing in the medium term financial plan. It adequately reflects the repayment profile for that borrowing, so to minimise any effect on service delivery. The borrowing is in respect to HRA self financing funding which was determined by Central Government. The MTFP shows that the overall financial situation for the HRA is positive and this does not represent a major risk to the Council.</p>
<p>Finance Department capacity - from 1 June 2012 the Council brought back in house the finance function. The Council has reviewed the structure of the finance function and in 2012/13 has restructured the finance team to have more permanent staff and to decrease the reliance on consultants.</p>	<p>We have discussed the finance department capacity with officers. The Council has enhanced the resilience of the Finance Department, by the recruitment of a Financial Accountant who is CIPFA qualified and a Senior Management accountant who is in the final stages of their ACCA studies. Other members of the finance department are also studying for professional accountancy qualifications.</p>	<p>We are satisfied that the Council has appropriate finance department capacity. The increase of permanent staff to assist the Financial Services Manager has reduced the reliance on consultants and brought about cost savings, improved resilience and provides longer term stability to the finance department.</p>

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Decision making not based on appropriate or adequate information -the Internal Audit function merged with Central Midlands Audit Partnership in January 2012. A number of audit files, supporting reports issued by the legacy internal audit service, have been misplaced.	We have reviewed the Head of Internal Audit's Annual report and had discussions with the Internal Audit. This has not been a problem in 2012/13.	We are satisfied that the Council has appropriate arrangements in place to ensure that decision making is based on appropriate and adequate information.
Benchmarking - the Council will need to increase its use of benchmarking to ensure that it understands its cost base compared to other district councils. This will enable it to identify further efficiencies.	We have held discussions on benchmarking with officers.	We are satisfied that the Council has appropriate arrangements in place to understand its cost base compared to other councils.
Procurement Arrangements – we are aware of a number of procedural issues that have occurred within procurement during 2012/13.	We have discussed the procurement arrangements with officers and obtained an update on the specific matters identified.	We are satisfied that appropriate action is being taken to address the weaknesses in procurement. The failings in procurement were due to the lack of experience and understanding of certain officers who are involved in procurement processes. In 2012/13 this has been addressed by employing a Head of Procurement to oversee the procurement process and providing additional training to staff.

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

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

## Fees, non audit services and independence

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

### Fees

	Per Audit plan £	Actual fees £
Council audit	64,800	64,800
Grant certification -indicative	31,400	31,400
<b>Total audit fees</b>	<b>96,200</b>	<b>96,200</b>

Work on grant certification is on-going. We will report any variance from the above fee to you once work has been completed.

### Fees for other services

Service	Fees £
Review of Housing Capital Spend: Phase 1 & 2	17,450

### Independence and ethics

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

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

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

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

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

## Respective responsibilities

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

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

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

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

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

# Appendices

# Appendix A: Audit opinion

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

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

### **Opinion on the Authority financial statements**

We have audited the financial statements of South Derbyshire District Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

### **Respective responsibilities of the Director of Finance & Corporate Services and auditor**

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

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance & Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of South Derbyshire District Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

### **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We report to you if:

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

We have nothing to report in these respects.

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

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

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, 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 2013.

**Certificate**

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

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

Colmore Plaza  
20 Colmore Circus  
Birmingham  
B4 6AT

Date

## Appendix B: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

### Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 3 April 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – Housing revenue	HRA	Other	Housing revenue transactions not recorded	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	Yes – page 15
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

## Audit findings

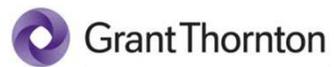
Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	Yes – page 16
Other Government grants	Grant income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

## Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	None		No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

## Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cash & Cash Equivalents	Bank & Cash	None		No	None
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



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