

## Key Issues Memorandum

South Derbyshire District Council

For the year ended 31 March 2009

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The purpose of this memorandum is to highlight the key issues affecting the results of the Council and the preparation of the Council's financial statements for the year ended 31 March 2009. It is also used to report to those charged with governance to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

In addition, we have a number of statutory responsibilities under the Code of Audit Practice, which we report in this document. Most significantly, our responsibility to provide an opinion on the Council's arrangements for securing economy, efficiency and effectiveness in its Use of Resources.

We take responsibility for this memorandum, which has been prepared on the basis of the limitations set out at Appendix C.

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

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# 1 Executive summary

## **1.1 Status of audit**

Our audit is substantially complete and we do not anticipate that the completion of our work will give rise to any material adjustment.

## **1.2 Financial statement conclusion**

We anticipate providing an unqualified opinion on the Council's financial statements, following the acceptance of this report by the Audit Committee on the 30th September 2009.

The overall quality of the Council's working papers to support the 2008/09 accounts was of a continuing good standard and the Council presented its accounts by the 30 June 2009 deadline.

## **1.3 Use of resources conclusion**

In providing our opinion on the financial statements we are required to provide a conclusion on the Council's Use of Resources. We anticipate providing an unqualified Use of Resources conclusion with regard to the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources. This conclusion is drawn from our work through the organisational assessment of Comprehensive Area Assessment, which will be reported separately to the Council.

## **1.4 Way forward**

This report, along with our forthcoming Use of Resources report, will form the basis of our Annual Audit Letter, which will be issued to Members by 31 December 2009.

We also provide an Action Plan at Appendix B that summarises the key recommendations arising from our audit of the Council's accounts.

## 2 Detailed audit findings

### 2.1 Audit opinion

Our audit is substantially complete although we are finalising our procedures regarding your 'Whole of Government Accounts' submission

We anticipate providing an unqualified opinion on the Council's financial statements, following the acceptance of this report by the Audit Committee on the 30th September 2009.

### 2.2 Matters identified at the planning stage

In the conduct of our audit, we have not had to alter or change our audit plan, which we communicated in our Supplementary opinion audit plan 2008-09, issued 30 June 2009.

Our response to the matters identified at the planning stage are detailed below.

#### Matters identified at the planning stage

	Issue note during planning	Auditor response and conclusion
1	<p><b>Reducing asset values in the current economic climate</b> We will review the Council's processes to ensure the valuer has correctly considered impairment and that asset values are recorded in the Statement of Accounts in accordance with the SORP and FRS 11 'Impairment of fixed assets and goodwill' Further guidance is available from the CIPFA LAAP Bulletin 81 'Closure of the 2008/09 Accounts and Related Matters' published in April 2009.</p>	<p>The Council has revalued all of its dwellings and the majority of the remainder of its estate in 2008/09. These valuations were undertaken by the district valuer as at 31 March 2009.</p> <p>As part of our testing, we have confirmed that the approach taken by the Council and the experience of the valuers is compliant with the SORP. We have also assessed the general movement in asset values against expectations formed from our experience at other Councils and national valuation information and concluded movements as being reasonable. Sample testing of individual asset valuations identified no exceptions.</p>
2	<p><b>Disclosure</b> Minor changes to the format and presentation of the Statement of Accounts are required by the 2008 Statement of Recommended Practice (SORP).  We will review of the Statement of Accounts for SORP compliance.</p>	<p>We are pleased to report that our review of the 2008/09 accounts against the SORP 2008 identified fewer disclosure omissions and misstatements compared to our review in 2007/08.</p> <p>However, a few minor amendments to existing disclosures were required to the Statement of Accounts before we could conclude that they were materially compliant with SORP 2008. A summary of the disclosure amendments made is included at Appendix A.</p>

### 2.3 Matters identified during the course of the audit

	Issue	Auditor response and conclusion
3	<p><b>Fixed Asset Register</b></p> <p>The Council has implemented a new asset management system during the year. This has resulted in the following issues being noted during the course of our testing:</p> <ul style="list-style-type: none"> <li>• a reconciliation difference of £130,000 ,between the tangible fixed asset figure presented in the accounts, at 1 April 2008 and the asset management system;</li> <li>• a re-categorisation of opening balances within the fixed asset note to the accounts; and</li> <li>• differences in asset category balances between the asset management system and the note to the accounts, due to detailed system reports not being captured at the appropriate time on the live system.</li> </ul> <p>At 31 March 2009 the carrying value of tangible fixed asset shown in the asset management system does reconcile in total to the Statement of Accounts.</p>	<p>We have discussed these matters with officers and understand that:</p> <ul style="list-style-type: none"> <li>• a detailed review of the transfer of balances has taken place to ensure that assets are accurately reflected in the accounts;</li> <li>• following investigation by the Council, the opening reconciliation difference has been escalated to the software provider but has not yet been resolved; and</li> <li>• the Council is still investigating the movements in the asset management system from the date the notes to the accounts were prepared to the date of extracting reports for audit purposes as the intention was for no amendments to be processed. At this stage officers believe this is the result of a software upgrade to the system.</li> </ul> <p>Detailed testing of transactions within the asset management system identified no errors. Given that fixed asset balances have been reconciled in total we have concluded that tangible fixed assets are not materially misstated.</p> <p>We have included recommendations in the Action Plan that the Council ensures that system extracts are made on a timely basis and that officers continue to work with the system provider to resolve the issues identified.</p>

	Issue	Auditor response and conclusion
4	<p><b>Fixed Assets revalued prior to disposal</b> Detailed testing of tangible fixed asset disposals identified 6 Council Dwellings which had been revalued to disposal proceeds immediately prior to disposal.</p> <p>Revaluation of assets to disposal proceeds is contrary to new guidance set out in SORP 2008 and LAAP Bulletin 81.</p>	<p>We have discussed this with officers who have informed us that they have followed the guidance provided in the VOA Right to Buy (RTB) Manual which states that:</p> <p>"the value of a dwelling-house at the date on which the tenant's notice claiming to exercise RTB is served upon the authority, is the price which at that time it would realise if sold on the open market by a willing vendor subject to certain assumptions, disregarding any improvements made by certain persons and any failure by those persons to keep the dwelling-house in good internal repair."</p> <p>The Council's view, therefore, is that a valuation should be undertaken at the time the tenant invokes their RTB and that the value should reflect market value.</p> <p>Our view is that the recent SORP 2008 guidance and LAAP Bulletin 81 supersede this and we have therefore included a recommendation in the Action Plan that the Council amends its treatment in future and have reported this as an unadjusted different at Appendix A. The amounts involved, of £149,000 are not material to our audit opinion.</p>
5	<p><b>Bad Debt Provision</b> With the current economic climate the recoverability of debtors has been a particular focus of our work this year.</p> <p>During our review we noted that the expected recovery percentages applied by the Council to calculate its bad debt provisions had not been reviewed and updated during the year and could not be directly linked to debt collection data.</p>	<p>As part of our testing we have assessed the adequacy of the Council's bad debt provisions using in year collection data and post year end recovery figures. We have concluded that provision for bad debts is not materially misstated but have recommended at Appendix B that the percentage rates applied to calculate these provisions are reviewed annually, against current collection rates and that the results of this review are provided to us as audit evidence, in future, to support the Council's approach.</p>
6	<p><b>NNDR pool</b> Figures in the financial statements relating to subsidy income and payments due to the National Non Domestic Rates pool have been calculated on an estimated basis. Actual final claim figures are now available, which differ from the estimate.</p>	<p>The impact on the Collection Fund disclosure for Council Tax Benefit income is £38,000 and for National Non Domestic Rates is £14,000, which have not been adjusted for.</p>

## 2.4 Misstatements

It is pleasing to report that we have no adjusted misstatements to report as a result of our work.

Unadjusted misstatements identified during the course of our audit are set out at Appendix A, and, if adjusted, would have resulted in a reduction in the Income and Expenditure deficit of £149,000, with no impact on the General Fund.

## 2.5 Disclosure omissions

There were a few areas in which disclosures in the notes to the accounts did not fully comply with the 2008 SORP. Minor errors relating to classification and narrative included in the accounts were also identified. We are pleased to report that the Council has addressed the majority of the disclosure issues/omissions identified.

Full details are set out at Appendix A.

## 2.6 Accounting Policies

We have considered the appropriateness of the accounting policies adopted by the Council against the requirements of the 2008 local government Statement of Recommended Practice and have no matters to report.

## 2.7 Annual Governance Statement (AGS)

We have examined the Council's arrangements and process for compiling the AGS. In addition, we have read the AGS and we consider the statement to be in accordance with our knowledge of the Council.

No significant issues were identified from the review performed and therefore we can conclude the statement is in line with the requirements of the SORP checklist.

## 2.8 Use of Resources

Our Use of Resources conclusion is drawn from our work through the organisational assessment under the new Comprehensive Areas Assessment regime. We will provide the Council with a full and comprehensive report in due course.

Our proposed assessment for the Council is summarised below and results in an overall score of level 3. This is a considerable achievement, given the more demanding nature of the new assessment regime.

Theme	score
<b>Managing finances</b>	<b>3</b>
1.1 Planning for financial health	3
1.2 Understanding costs and achieving efficiencies	2
1.3 Financial reporting	3
<b>Governing the business</b>	<b>3</b>
2.1 Commissioning and procurement	2
2.2 Use of information	3
2.3 Good governance	3
2.4 Risk management and internal control	2
<b>Managing resources</b>	<b>2</b>
3.1 Natural resources	N/a
3.2 Strategic asset management	N/a
3.3 Workforce	2

Underlying principles of performance:  
 Level 2 - performs adequately  
 Level 3 - performs well  
 Level 4 - performs excellently

Based on the work carried out to date, supported by local Use of Resources work, we propose to issue an unqualified Use of Resources conclusion.



## **2.9 Treasury Management**

Treasury management arrangements were identified nationally as a key audit risk for auditors to consider when revising their plans for 2008/09 in light of the Icelandic bank failures.

In response, the Audit Commission has mandated a work programme on treasury management which we have completed as part of our audit procedures. This has been undertaken based on the Council's existing procedures and best practice improvement opportunities have been discussed with officers. We have not raised any formal recommendations within this report as the Council has limited investment holdings at present and is unlikely to be making significant investments in the foreseeable future. We do however recommend that when this position changes the Council undertakes a review of its procedures against the CIPFA Treasury Management Panel Bulletin, issued March 2009.

## **2.10 Allowances and expenses**

In response to the recent increased scrutiny of allowance and expense claims, we have included specific procedures in our audit approach to consider the Council's expenses and allowances policies for members and senior offices, including reviewing the work undertaken by Internal Audit in this area and limited testing of member and officer claims against Council policies.

The Council's policy for members allowances provides for a basic allowance with additional allowances granted for specific responsibilities. The basic allowance does not cover travel and subsistence cost, which increases the number of claims and the risk of irregularities, compared to councils operating inclusive allowances policies.

A high level review of allowance/expense claims for seven members and three officers identified no unusual transactions. Testing of disclosures in the Statement of Accounts identified that members' allowances and expenses had been appropriately disclosed.

We also noted that the most recent Internal Audit review in this area was completed in 2007/08.

## **2.11 Improving audit efficiency**

We intend to hold an audit debrief meeting with the Council to discuss opportunities to further improve the efficiency of the audit process for 2009/10.

## A Adjustments to the financial statements

### **Adjusted misstatements**

We have no adjusted misstatement to report as a result of our work

### **Unadjusted misstatements**

We have 2 unadjusted misstatements to report as a result of our work, as follows:

- Figures in the financial statements relating to subsidy income and payments due to the National Non Domestic Rates pool have been calculated on an estimated basis. Actual final claim figures are now available. The impact on the Collection Fund disclosure for Council Tax Benefit income is £38,000 and for National Non Domestic Rates is £14,000.
- 6 Council Dwellings were revalued to disposal proceeds immediately prior to disposal resulting in the revaluation reserve being overstated by £149,000 and the gain on disposal of fixed assets within the Income and Expenditure Account being understated by the same amount.

## Disclosure omissions

Our review confirmed that the draft financial statements included the majority of disclosures required by CIPFA's Statement of Recommended Practice. A relatively small number of disclosure amendments were identified through our work, the key matters being summarised in the table below. The Council has amended the disclosures in the revised accounts

	Issue	Commentary
1	<p><b>Financial Instruments</b></p> <p>We noted from review that the note to the accounts classifying financial instruments only includes investments and borrowings. FRS 29 'Financial Instruments - disclosure' requires disclosure of all financial instruments including bank balances, deferred liabilities, debtors and creditors.</p>	<p>We have discussed this disclosure omission with Officers who consider that sufficient disclosures of bank balances, deferred liabilities, debtors and creditors are made in other notes to the accounts and as a result additional disclosures have not been made.</p> <p>We will discuss the inclusion of these additional disclosures with the Council as part of our planning process for 2009/10.</p>
2	<p><b>Minor issues</b></p> <p>Other minor disclosure issues were identified in the financial statements. The more significant matters are set out in the commentary adjacent.</p>	<p>Disclosures were revised/added in a number of areas including:</p> <ul style="list-style-type: none"> <li>• disclosure of narrative in the Explanatory Foreword about the planned introduction of IFRS in 2010/11;</li> <li>• disclosure of the estimated useful life of intangible fixed assets within the statement of accounting policies;</li> <li>• revised presentation to show the Prior Period Adjustment relating to pensions at the bottom of the STRGL in line with FRS3 'Reporting Financial Performance';</li> <li>• reclassification of debtors from sundry debtors to other local authority and government debtors;</li> <li>• minor presentational issues and typographical errors.</li> </ul> <p>Disclosures were not revised in a few areas including:</p> <ul style="list-style-type: none"> <li>• the table of 'History of Experience Gains and Losses' within the Pensions note discloses 6 years of figures rather than only 5 years of figures.</li> </ul>

## B Action plan

	Priority	Issue and risk	Recommendation	Management response
1	Medium	<p><b>Asset management system (paragraph 2.3)</b>                      During the course of our testing, we noted that the FAR presented for audit did not directly reconcile to the Tangible Fixed Asset note presented in the Statement of Accounts. This was due to:</p> <ul style="list-style-type: none"> <li>the asset management system being a live system which had been amended between the accounts figures being extracted and reports being produced for audit.</li> <li>software issues that were being investigated by the Council and discussed with the software provider.</li> </ul>	<p>The Council should ensure that detailed reports, breaking down each asset category, are extracted from the asset management system when the notes to the accounts are prepared.</p> <p>The Council should also continue to investigate the reconciliation differences identified from the first year implementation of this new system.</p>	<p>Agreed. Procedures will be put in place and the software tested to ensure that this is not repeated in future years.</p>
2	Medium	<p><b>Bad Debt Provision</b>                      The Council has not undertaken a formal review of current debt collection rates against the percentages used to calculate bad debt provisions, to ensure that they still reflect a best estimate of recoverability.</p> <p>This results in a risk of overstatement of debtors.</p>	<p>The Council should review the percentage rates applied each year to calculate bad debt provisions, against current collection patterns, to ensure the percentages remain appropriate.</p> <p>The results of this review will then form a working paper that will support the Council's</p>	<p>Agreed. In addition, quarterly monitoring of the provision will also be undertaken.</p>

	Priority	Issue and risk	Recommendation	Management response
			future approach for audit purposes.	
3	Low	<p><b>Music Trust/Repton Parish Council</b>                      The Council has liabilities of £50,000 to the Music Trust and Repton Parish Council. Documentation to support these liabilities was not available during the audit.</p>	The Council is requested to locate evidence to support these balances in 2009/10.	Legal or other formal documentation will be established.
4	Medium	<p><b>Estimated Claims</b>                      It is general practice for the accounts figures relating to government department returns and claims to be based on estimates, as final returns are sometimes unavailable at the time of accounts production.</p> <p>Following submission of the final claims, it is best practice to review any movement from estimates and assess the impact on the accounts.</p>	The Council should include a review process for final claims and returns in the accounts production process for future years.	Agreed. This is undertaken, but the point is noted in formalising this as part of the process.

## C Reporting requirements of ISA 260

### **Introduction**

Together with the Audit Commission's Code of Audit, this section sets out the basis on which we have undertaken your audit.

### **Purpose of memorandum**

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP (us/we) and the Audit Committee of South Derbyshire District Council ('the Council'). The purpose of this report is to highlight the key issues arising from the audit of the Council's financial statements for the year ending 31st March 2009.

The document is used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) (ISAUK) 260, and to report audit findings to "those charged with governance", designated as the Audit Committee.

The Council is responsible for the preparation of financial statements which records its financial position as at 31 March 2009 and its income and expenditure for the year then ended. We as auditors are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements represent a true and fair view of the financial position.

Under the Audit Commission's Code of Audit Practice ('the Code') 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. To reach this conclusion we have carried out the Use of Resources assessment using criteria prescribed by the Audit Commission. This work also informs our Use of Resources opinion.

We would 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 financial statements of the Council.

### **Responsibilities of the Council and auditors**

The Council is responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Council confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

This report is made solely to the Members of the Council in accordance with Part II

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
- the form of reports expected

of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. To the fullest extent permitted by law, Grant Thornton UK LLP does not accept or assume responsibility to anyone other than the Council or its Members as a body, for its audit work, for this report, or for the opinions it has formed.

**Clarification of roles and responsibilities with respect to internal controls**

The Council's management is 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 Committee that it has done so.

The Audit 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 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.

The Audit 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 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 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 would be pleased to discuss any further work in this regard with the Audit Committee.

**Independence and robustness**

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 analyse our fees below:

	£
Audit of financial statements 2008/09*	68,650
Use of resources 2008/09*	30,100
Certification of grants and claims 2007/08	75,414
All other services - VAT	1,500

\* Fees are unaltered from our 2008/09 audit plan.

**Clarification of roles and responsibilities with respect to internal controls**

The Council's management is 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 Committee that it has done so.





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