

# The Audit Findings for South Derbyshire District Council

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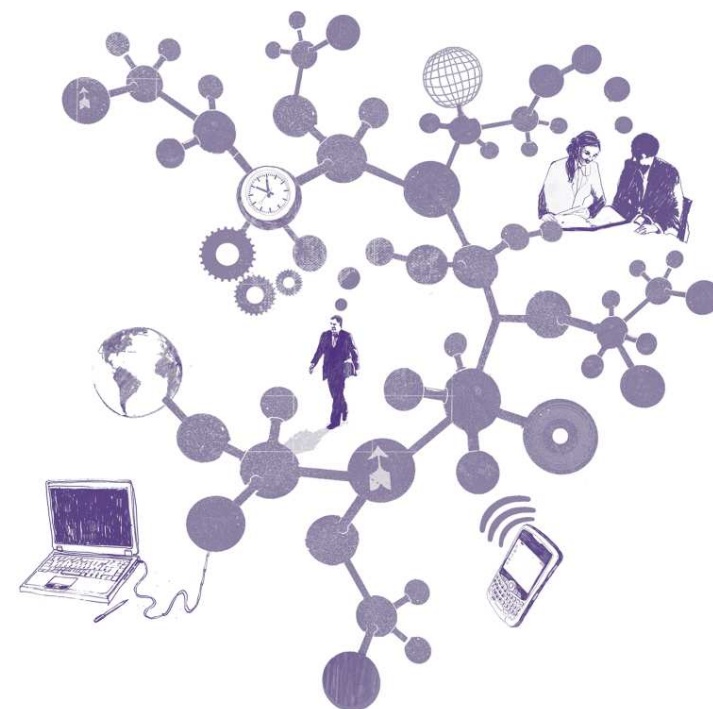
**Year ended 31 March 2015**

September 2015

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11 September 2015

Dear Mr McArdle

### **Audit Findings for South Derbyshire District Council for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of South Derbyshire District Council, the Audit - Sub Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents will be discussed with the Audit - Sub Committee.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

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.

Yours sincerely

Phil Jones

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# Section 1: Executive summary

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**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 2015. 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 UK&I).

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 and 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 6 March 2015.

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

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

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

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

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

- We have not identified any adjustments affecting the Council's reported surplus on provision of services of £6,414k.
- We identified a number of misclassification and disclosure changes during the course of the audit. Management have adjusted the financial statements for these changes.
- The supporting working papers presented for audit were of a higher standard than last year.
- We have also identified a number of adjustments to improve the presentation of the financial statements.

Further details are set out in section two 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.

We however set out our concerns in this section relating to the 'efficiency dividend.' The detail relating to this matter is described in the section headed, Significant matters discussed with management. The Council took a decision which in our view did not demonstrate a robust consideration of the wider cost-benefits to the community it serves, particularly in light of the pressures which will impact on the Council's long-term financial sustainability.

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

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

We have completed our work on the Whole of Government Accounts and have no issues which we wish to highlight for your attention.

### **Controls**

#### **Roles and responsibilities**

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.

### **Findings**

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

Further details are provided within section two of this report.

### **The way forward**

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

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

### **Acknowledgment**

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

**Grant Thornton UK LLP**  
**September 2015**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

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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 the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit – Sub Committee on 1 April 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 1 April 2015.

## **Audit opinion**

Our proposed audit opinion is set out in Appendix B.



# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 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 (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at South Derbyshire District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including South Derbyshire District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>As part of our work we have completed;</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 (UK&amp;I) 240 there is a presumed risk of management over-ride of controls</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

# Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Operating expenses (completeness)</b></p>	<p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• performed detailed substantive testing of the expenditure balances included in the financial statements</li> <li>• carried out specific work around the completeness of balances</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Employee remuneration (completeness)</b></p>	<p>Employee remuneration accrual understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• performed detailed substantive testing of employee remuneration balances included in the financial statements</li> <li>• carried out specific work around the completeness of balances</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

## Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Welfare expenditure (valuation gross)</b></p>	<p>Welfare benefit expenditure improperly computed</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• reviewed the benefits system reconciliation to ensure that information from the benefits system can be agreed to the ledger and financial statements</li> <li>• carried out procedures in accordance with the HBCount methodology required to certify the housing benefit subsidy claim</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Significant matters discussed with management


	Significant matter	Commentary
1.	<p><b>Payment of an Efficiency Dividend</b></p>	<p>The Council has distributed an 'efficiency dividend' of £250k to council tax payers in 2015/16, amounting to £6.20 per council tax payer. The Council set the 2015/16 budget at its meeting on 19 February 2015 but determined late in the process that a further report should be considered by the Council at the earliest opportunity in response to the current level of the General Fund Reserve (GFR). A further report was presented to Council on March 2<sup>nd</sup> which presented a number of options for utilising a proportion of the unallocated GFR. The options included for instance: supplementing current capital projects, investing in IT as well as providing an 'efficiency dividend' to council tax payers. The report of March 2<sup>nd</sup> by the Director of Finance &amp; Corporate Services, set out the Council's projected medium-term financial position, which argued that if the Council made use of £250k of general reserves, it would still retain a reserve of £1.75m by 2020, on the assumption that around £2.5m of reserves would be required to support the budget in the years 2017/18-2019/20.</p> <p>Whilst the Council's level of general reserves is reasonably healthy compared to similar councils, it is important to note that the forward projections of the Council's medium-term financial position are necessarily based on current assumptions which could clearly change over time in response to changes in both the external economic environment and Governments' spending intentions.</p> <p>It is moreover unclear why these proposals were not built into all other budget discussions considered by the Council before 19 February, not least as the decision which the Council reached at its meeting on March 2<sup>nd</sup> resulted in additional costs to the Council of £46k, due to the need to amend software and other routines to enable council tax bills to be sent out, showing the discount per household, which amounted to £6.20 per council tax payer. We have discussed with management our concerns about the way in which this decision was reached, which we set out below:</p> <ul style="list-style-type: none"> <li>• <i>Governance</i>: this was a last minute decision reached outside the normal budget setting process. Furthermore, it was not a priority for the Council or part of the Corporate Plan. The imminence of all-out local council elections in May 2015 should also have alerted the Council to the dangers that this action might be perceived as inconsistent with the spirit of good governance.</li> <li>• <i>Value for money</i>: this decision resulted in the Council incurring £46k in additional costs to provide a discount to each council tax payer of £6.20 each, a benefit which appears relatively small. The lack of proportionality between benefit and cost is underlined by the fact that the few councils we are aware of who have done something similar achieved a better cost-benefit balance. In addition the rationale for such a decision was better justified; for instance one council dispensed an efficiency dividend in response to a one-off unplanned windfall.</li> <li>• <i>Affordability</i>: whilst General Reserves are reasonably healthy the Council also needs to be prudent in retaining sufficient financial resources to meet its medium term requirements, given that there are considerable long-term uncertainties about Government funding levels and economic conditions.</li> </ul>

## Significant matters discussed with management continued

	Significant matter	Commentary
		<ul style="list-style-type: none"> <li>• <i>Legality</i> – the Council has relied upon the general power of competence under Section 1 ('Section 1') of the Localism Act 2011 to provide the vires for the decision. Other councils who have undertaken similar initiatives have also relied upon this power and have secured legal opinions which are supportive of the use of the power. The Council relied upon the legal advice of its solicitor, and also taking account of the legal advice produced elsewhere in relation to similar decisions.</li> <li>• Should the Council contemplate repeating this initiative at any future stage, we would recommend that it should consider any such decision in light of all of the factors outlined above (governance, value for money, affordability), but in particular we would recommend that a contemporaneous legal opinion be sought as to its potential lawfulness, focusing on the particular decision and circumstances in play relevant at that time.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• Noted</li> </ul>

# Accounting policies, estimates & judgements

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

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




**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate and disclosures sufficient

● Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Estimates and judgements</b>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– useful life of capital equipment</li> <li>– pension fund valuations and settlements</li> <li>– revaluations</li> <li>– impairments</li> <li>– provisions</li> </ul> </li> </ul>	There was appropriate disclosure of key estimates and judgements.	 (green)
<b>Going concern</b>	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Directors' assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.	 (green)
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 (green)

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, Estimates & Judgements– review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<p><b>Estimates and judgements - Property, Plant &amp; Equipment</b></p> <p>In previous years the Council carried out a rolling programme of revaluations. This approach was similar to many other authorities and we were satisfied that you had satisfied yourselves that the carrying amount of Property, Plant and Equipment (based on these valuations) did not differ materially from the fair value at 31 March 2014.</p> <p>However, in our view this rolling programme did not meet the Code's requirement to value items within a class of property , plant and equipment simultaneously, as this Code requirement, which is based on IAS 16 Property, Plant and Equipment, only permits a class of assets to be revalued on a rolling basis provided that:</p> <ul style="list-style-type: none"> <li>• the revaluation of the class of assets is completed within a 'short period'</li> <li>• the revaluations are kept up to date.</li> </ul> <p>In our view, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p>	<p>Page 59 of the accounts sets out the authority's valuation of property, plant and equipment. This shows that the Council revalued substantially all assets except for vehicles, plant and equipment as at 31 March 2015. Appropriate action has been taken to address the issue.</p>

**Assessment**  
 ✓ Action completed  
 X Not yet addressed



# Other communication requirements

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

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit - Sub Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>As noted above, the Council has relied upon the general power of competence under Section 1 of the Localism Act 2011 for the payment of the Efficiency Dividend.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> <li>In particular, representations will be requested from management in respect for not amending the financial statements for the items identified on page 21.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found a number of errors and omissions in the disclosure notes (see misclassifications and disclosure changes below).</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed</li> </ul>
6.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmation from PWLB for loans. We requested from management permission to send confirmation requests to four banks and four local authorities for bank and short term investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</li> </ul>

## 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 considered and walked through the internal controls for Employee Remuneration, Operating Expenses and Welfare Expenditure as set out on pages 10 and 11 above.

The controls were found to be operating effectively and we have no matters to report to the Audit – Sub Committee. We have not repeated the weaknesses identified from our systems work and reported in our Audit Plan.

# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<ul style="list-style-type: none"> <li>The Council should review its quality assurance arrangements for producing the financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>Quality assurance arrangements have been put in place for 2014/15. The supporting working papers presented for audit were of a higher standard than last year.</li> </ul>

**Assessment**

- ✓ Action completed
- X Not yet addressed

## Adjusted misstatements

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

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

# Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit - Sub Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1 <b>Vehicles, plant and equipment – the cost and depreciation charge at 1 April 2014 are £1,216k higher than the fixed asset register.</b>			The net book value is correctly stated
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	

## Impact of uncorrected misstatements in the prior year

There are no uncorrected misstatements in the prior year. All adjustments identified during the audit were made within the final set of financial statements.

## Extrapolated misstatements

Our testing of operating expenses identified one payment of £8,765 that had been incorrectly posted to 2014/15. This related to the financial year 2015/16. We carried out additional testing and extrapolated the error to ensure that operating expenses was not materially misstated. The extrapolated error of £69,481 was not material and we have not asked management to amend the accounts for this misstatement.

## 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	213	Receivables	Debtor amounts with Derbyshire County Council have been reclassified from other entities and individuals to other Local Authorities.
2 Misclassification	61	Receivables	Debtor amounts relating to a schools contribution towards a leisure centre have been reclassified from other Local Authorities to other entities and individuals.
3 Disclosure	1,200	Financial Instruments	The disclosure note incorrectly included creditors with central government bodies.
4 Disclosure	252	Financial Instruments	The disclosure note incorrectly included debtors with central government bodies.
5 Disclosure	2,500	Financial Instruments	The disclosure note incorrectly excluded accruals.
6 Disclosure	1,836	Financial Instruments	The disclosure note incorrectly included assets held for sale.
7 Disclosure		Collection Fund	The Business Rates precepts was understated by £100k , income was understated by £86k, and surplus overstated by £14k.

## Misclassifications & disclosure changes continued

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
8	Disclosure		Financial Instruments	The financial instrument disclosure notes were enhanced to include: <ul style="list-style-type: none"> <li>• Fair value disclosures</li> <li>• Maturity analysis of financial liabilities</li> <li>• Interest income, expenses, gains and losses.</li> </ul>
9	Disclosure	48	Capital Expenditure and Capital Financing	The disclosure note was amended to be consistent with the Property, Plant and Equipment disclosure note.
10	Disclosure		Property, plant and equipment	The disclosure note was amended to correctly disclosure revaluations, impairments, and depreciation written out as required by the Code.
11	Disclosure		Capital Adjustment Account	The disclosure note was enhanced to include details of the movements during the year as required by the Code.
12	Disclosure		Revaluation Reserve	The disclosure note was enhanced to include details of the movements during the year as required by the Code.
13	Disclosure		Earmarked Reserves	The disclosure note was enhanced to include details of the movements during the year as required by the Code.
14	Disclosure		Movement in Reserves Statement	Amendments were made to correctly disclose the transfers to/from Earmarked Reserves
15	Disclosure		Capital accounting	There were a number of inconsistencies between the Capital Adjustment Account, Capital Expenditure and Capital Financing, and Adjustments between Accounting Basis and Funding Basis under Regulations. The largest adjustment was £1.2m relating to revenue expenditure funded from capital under statute. The disclosure notes were also enhanced to include additional adjustments as required by the Code.



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## Section 3: Value for Money

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# Value for Money

## Value for money conclusion

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

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

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

These criteria are:

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

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

## Key findings

### Securing financial resilience

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

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

Overall our work highlighted that the Council has adequate arrangements for securing financial resilience. The Council has a good track record in managing its budget. The Medium Term Financial Plan shows a projected budget surplus for 2015/16 and 2016/17. A deficit is then forecast from 2017/18 of £526k increasing to £1.1m by 2019/20. The General Reserve is healthy but is expected to reduce from £5m in 2015/16 to £2.1m by 2019/20. The Council faces a financial challenge to identify savings in order to keep the financial position sustainable over the medium term.

We however set out here our concerns in this section relating to the 'efficiency dividend.' The detail relating to this matter is described in the section headed, Significant matters discussed with management. The Council took a decision which in our view did not demonstrate a robust consideration of the wider cost-benefits to the community it serves, particularly in light of the pressures which will impact on the Council's long-term financial sustainability.

### Challenging economy, efficiency and effectiveness

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

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the Council has sound arrangements in place for challenging economy, efficiency and effectiveness. Our work highlighted that the Council's approach to delivering corporate and directorate cost savings continues to be robust.

## Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

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

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

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

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	The Council has a good track record in managing its budget and its level of reserves are healthy. The Council monitors its financial performance on a regular basis. There are some workforce issues to address including implementing job evaluation. The Council is relatively late in the process of implementing job evaluation and has only recently appointed a consultant to assist with the exercise. The Council does not have a Financial Services Manager and has had to use temporary staff over recent months.	<b>Amber</b>
<b>Strategic financial planning</b>	The Medium Term Financial Plan shows a projected budget surplus for 2015/16 and 2016/17. A deficit is then forecast from 2017/18 of £526k increasing to £1.1m by 2019/20. The General Reserve is healthy but is expected to reduce from £5m in 2015/16 to £2.1m by 2019/20. There are a number of uncertainties including the level of future funding for the Council and further cost pressures including the cost of implementing job evaluation.	<b>Amber</b>
<b>Financial governance</b>	As noted above in significant matters discussed with management, the Council has given an 'efficiency dividend' of £250k. This was a last minute decision and not carried out as part of the normal budget setting process. The Council incurred £250k plus £46k in costs to give Council Tax payers a credit of only £6.20 each. Whilst the general reserves are healthy the Council should be cautious until the funding position for local authorities is more certain and to maintain the flexibility to meet additional spending pressures.	<b>Amber</b>
<b>Financial control</b>	The Council has effective financial control in place. This includes its budget planning, the monitoring of its financial position and its financial forecasting. During the year there was a lack of capacity in the finance team. This is primarily because the Council has not yet replaced the Financial Services Manager.	<b>Green</b>
<b>Prioritising resources</b>	The Medium Term Financial Plan takes account of changing national funding and assesses the impact of these changes on the Council's strategic priorities and financial targets, and also considers other income streams that could be increased to supplement the loss of government grant funding.	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	The Council's approach to delivering corporate and directorate cost savings continues to be robust. It continues to explore innovative ways of delivering services through working in partnership with groups such as Northgate Public Service. There remains uncertainty around some of the key assumptions in the Medium Term Financial Plan and the Council faces a financial challenge to identify savings in order to keep the financial position sustainable over the medium term.	<b>Amber</b>

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission, and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
<b>Workforce</b>	<p>The Council is relatively late in the process of implementing job evaluation and there are uncertainties around the cost of implementation. The job evaluation exercise should be completed as soon as possible so that the Council can assess the potential additional costs.</p> <p>The Council does not have a Financial Services Manager and is relying on the support from temporary staff. The lack of capacity in the finance department increases the risks to the Council. It should ensure that appropriate arrangements are in place to recruit the necessary resources to improve the capacity of the finance team.</p>	<b>Amber</b>
<b>Strategic Financial Planning</b>	<p>A deficit is forecast from 2017/18 of £526k increasing to £1.1m by 2019/20. The General Reserve is healthy but is expected to reduce from £5m in 2015/16 to £2.1m by 2019/20. There are a number of uncertainties including the level of future funding for the Council, increased demand for services and further cost pressures. The Council should continue to regularly monitor and update the Medium Term Financial Plan.</p>	<b>Amber</b>
<b>Financial Governance</b>	<p>The Council made a decision to give an 'Efficiency Dividend' of £250k and incurred costs of £46k. This has raised a number of questions. The Council took a decision which in our view did not demonstrate a robust consideration of the wider cost - benefits to the community it serves. It should give greater consideration of these issues before making similar decisions in the future.</p>	<b>Amber</b>
<b>Improving Efficiency and Productivity</b>	<p>There remains uncertainty around some of the key assumptions in the Medium Term Financial Plan and the Council faces a financial challenge to identify savings in order to keep the financial position sustainable over the medium term. The Council should continue to monitor the key assumptions in the Medium Term Financial Plan.</p>	<b>Amber</b>

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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	65,700	65,700
Grant certification on behalf of Audit Commission	24,440	24,440
<b>Total audit fees</b>	<b>90,140</b>	<b>90,140</b>

## 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 Financial Reporting Council'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.

## Fees for other services

Service	Fees £
<b>Audit related services</b>	Nil
<b>Non audit related services</b>	
Benchmarking in connection with the existing service contracts	10,000

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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 (UK&) 260, as well as other (UK&I) 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.

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



# Appendices

# Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The job evaluation exercise should be completed as soon as possible so that the Council can assess the potential additional costs.	High	This has now commenced and is due to be completed by April 2016.	
2	The Council should ensure that appropriate arrangements are in place to recruit the necessary resources to improve the capacity of the finance team.	Medium	A restructure of the Financial Services Unit was approved by the Finance and Management Committee on 3rd September 2015. Recruitment to 2 vacant posts, including the Financial Services Manager, has now commenced	
3	The Council should continue to regularly monitor and update the Medium Term Financial Plan. In particular, it should continue to monitor the key assumptions in the Plan.	High	This will be completed in accordance with usual practice. A full review of the MTFP will continue to be completed following the annual out-turn and as part of the annual budgets setting process. General updates will be provided in quarterly monitoring reports.	
4	The Council should give more robust consideration to the wider cost-benefits to the community it serves, before making similar decisions to the efficiency dividend in the future.	High	Noted	

**Priority**  
*High, Medium or Low*

# Appendix B: Audit opinion

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

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

We have audited the financial statements of South Derbyshire District Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the 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 2014/15.

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

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

As explained more fully in the Statement of the Director of Finance and Corporate Services Responsibilities, the Director of Finance and Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, 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 also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of South Derbyshire District Council as at 31 March 2015 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 2014/15 and applicable law.

### **Opinion on other matters**

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

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

We are required to 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; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a 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 in October 2014.

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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 2015.

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

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, 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 2015.

**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.

Phil Jones  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza  
20 Colmore Circus  
Birmingham  
B4 6AT

Date



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