



Grant Thornton

South Derbyshire District Council Annual Audit Letter 2010/11

December 2011

Contents

1. Executive summary	2
2. Audit of the accounts	5
3. Value for money	8
4. Grants certification	11

Appendices

A. 2010/11 reports issued	13
B. Audit and other fees 2010/11	14

1. Executive summary

Purpose of this letter

This Annual Audit Letter ('Letter') summarises the key issues arising from the work that we have carried out at South Derbyshire District Council ('the Council') during our 2010/11 audit. The Letter is designed to communicate our key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

What this Letter covers

This Letter covers our 2010/11 audit, including key messages and conclusions from our work in:

- auditing the 2010/11 year end accounts (Section 2)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness to ensure Value for Money (VfM) is achieved (Section 3)
- certification of grant claims and returns to various government departments and other agencies (Section 4).

Responsibilities of the external auditors and the Council

This Letter 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).

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 main audit conclusions for the year

The 2010/11 accounts give a true and fair view of Council's financial affairs and of the income and expenditure recorded by the Council.

The value for money conclusion was qualified, which means that we were satisfied that, in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for a weakness identified in relation to one or more of the criteria specified by the Commission.

Context

In the current financial climate, the Coalition Government's continuing priority is to reduce the deficit, whilst ensuring the economic recovery continues. Savings of over £81 billion are planned from Government spending by 2015, including a 26% reduction in grants to local government over the four year period. At the same time, the Government has stated that it is their aim to reduce top-down government and devolve power and greater financial autonomy to local authorities by a range of measures including:

- further reducing ring-fenced central government grants
- changes to the Housing Revenue Account from April 2012 whereby councils will keep their own rental income but in return will take on a share of the £21 billion national council housing debt as part of a 30 year business plan
- planned changes to the administration of business rates so that any council that expands its business base would see increased business rates that it would be able to keep.

This Letter has been written in the context of the significant change agenda in which the Council is operating. The Council is experiencing increases in demand for services such as housing and housing benefits. Whilst the Council has an adequate level of general reserves and is not currently planning on using these to support the revenue budget, like all other local authorities it needs to meet the significant savings targets within its Medium Term Financial Strategy.

Key messages Accounts audit

We issued an unqualified audit opinion on 17 October 2011. A number of errors and omissions were noted during our audit of the statements of accounts. Resolution of these matters resulted in the accounts being signed off after the statutory deadline, which has resulted in us issuing a qualified Value for Money conclusion (see below). Further details can be found in section 2 of this Letter.

Value for Money

The value for money conclusion was qualified on 17 October 2011, which means that we were satisfied that, in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for a weakness identified in relation to one or more of the criteria specified by the Commission. Further details can be found in section 3 of this Letter.

Grants certification

To date we have certified four claims, of which two were qualified, with one of these also being amended. Further details can be found in section 4 of this Letter.

Key areas for Council action

We highlight the following key areas, where the Council should take action to further improve its arrangements in 2011/12:

- the Council needs to maintain its continued attention to the overall financial position and the quality of services that it provides
- ensuring the Finance department has sufficient capacity to deliver a set of financial statements on a timely basis that are fit for purpose
- ensuring that, working in partnership with Northgate Public Services, it develops an asset register which is fit for purpose
- ensuring that, working in partnership with Derby City Council, it provides a robust Internal Audit function.

The context for these key messages can be found in this Letter. A list of the reports issued during the year can be found at Appendix A. Recommendations have been raised within the reports listed and the Council should ensure that these recommendations are implemented as planned. Appendix B sets out our actual and budgeted fees for 2010/11.

Acknowledgements

This Letter has been agreed with the Head of Corporate Services and will be presented to the Audit Sub-Committee on 22 February 2012.

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

**Grant Thornton UK LLP
December 2011**

2. Audit of the accounts

Introduction

We issued an unqualified opinion on the Council's 2010/11 accounts on 30 September 2011, meeting the statutory certification deadline of 30 September 2011. Our opinion confirmed that the accounts give a true and fair view of the Council's financial affairs at 31 March 2011 and of its income and expenditure for the year.

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Sub-Committee at the Council). We presented our Annual Report to those Charged with Governance to the Audit Sub-Committee on 28 September and, subsequently to the Finance and Management Committee on 12 October, and summarise only the key messages in this Letter.

We were presented with a draft statement of accounts on 20 July 2011 and accompanying working papers at the start of our site visit in August 2011. It was disappointing to note that the working papers presented for audit, whilst generally acceptable, contained a number of cross referencing and reconciliation errors that we have not experienced in previous years. We also noted a number of working papers that were requested as part of our requirements schedule were not prepared in advance of our visit.

International Financial Reporting Standards

2010/11 was the first year that councils were required to prepare their accounts under International Financial Reporting Standards (IFRS). We undertook a review of the Council's preparedness in March 2011 and assessed the arrangements for re-stating each line of the balance sheet on a Red, Amber, Green (RAG) basis. Overall we rated the Council's arrangements as being Red.

As part of the work undertaken on the audit of the accounts, we assessed whether there had been any departures from the requirements of the CIPFA Accounting Code which is IFRS compliant. A number of key disclosures had been omitted from the statement of accounts, such as the International Financial Reporting Standards transition note, which meant that the version of the accounts presented to us for audit was not fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), based on (IFRS).

Audit of the accounts

We recommended 27 adjustments to the draft accounts, the most significant of these being:

- a number of adjustments were required to correct the errors identified between the fixed asset register and the Agresso ledger system. These related to the incorrect posting of impairment adjustments on assets held at valuation or cost (net effect of £538k)
- the IFRS transition movements for investment properties had been incorrectly shown as being made at 31 March 2010. As a result, the accumulated depreciation, depreciation charge for the year and impairments relating to 2009/10 had not been correctly eliminated, as required by the Code. The amendment was £709k.
- a number of significant errors were identified with the cashflow statement presented for audit. This resulted in the statement being fully reworked. The resulting amendments were:
 - £4.188m reduction in the net deficit on the provision of services
 - £11.296m reduction in the net adjustment for non-cash movements
 - £4.146m increase in the net adjustment to the provision of services deficit for investing and financing activities
 - £1.04m increase in the net outflow from investing activities
 - £4m decrease in the net outflow from financing activities.

Officers agreed to make these adjustments, which did not impact on the reported Comprehensive Income and Expenditure Statement deficit or on the General Fund, both of which remain unaltered at £10.537m and £3.009m respectively, after audit adjustments.

The actions agreed with the Council to minimise the chance of these errors occurring in the 2011/12 accounts were included in our Annual Report to those Charged with Governance and we will follow up on progress as part of our 2011/12 audit.

Financial performance

The Council reported an overspend of £312k against its agreed 2010/11 budget.

As at the end of month six (September) of 2011/12, the Council was reporting an overspend of £158k against its planned budget position. The Council understands the reason for the variance against budget and has agreed actions to address this situation.

Our review of VfM concluded that the level of the Council's General Fund reserves at 31 March 2011 remains above average compared to the nearest neighbours comparator group. However, it should be noted that General Fund reserves represent only one source of funding for future years costs and the Council has access to further earmarked reserves, which are also at the median compared to the nearest neighbours. Overall, it is our view that the Council's level of available reserves and contingencies, at this time, provide adequate cover for known future financial risks.

We will continue to keep the Council's financial position under review as part of our 2011/12 audit and the follow-up work we have planned on the Financial Resilience element of our VfM review.

Financial systems

We undertook work on key financial systems that was sufficient to support our approach to the accounts audit. The work was in three main areas:

- a review of key financial controls, for the purpose of designing our programme of work for the financial statements audit
- an assessment of the work of internal audit, to help inform our risk assessment of the adequacy of the Council's financial systems for producing the 2010/11 accounts
- a high level review of the general IT control environment.

Our work did not identify any control issues that present a material risk to the accuracy of the financial statements.

However, we identified a number of areas where controls should be strengthened, including:

- officers should implement a process to ensure that regular reviews of user access rights on the network take place
- officers should improve the controls on the Council's interfaces so that users cannot change the data outside of the applications
- Internal Audit should review all journals posted by the Chief Finance Officer for appropriateness, to reduce the risk of management manipulation of the financial statements.

The actions agreed with the Council to resolve these weaknesses were included in our interim report and we will follow up on progress as part of our 2011/12 audit.

Annual Governance Statement and Explanatory Foreword

We examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS) and read the AGS and Explanatory Foreword to consider whether they were in accordance with our knowledge of the Council. Our review of internal audit also supported our review of the AGS, which in turn informs our VfM conclusion and our audit of the financial statements.

We concluded that the AGS and Explanatory Foreword were consistent with our knowledge of the Council, subject to a small number of proposed adjustments, which management incorporated into the final versions of the documents. The Council had adequate processes in place to ensure that the AGS was updated to reflect developments up to the date of the signing of the accounts.

Certification arrangements

We received no questions or objections in respect of the financial statements for the year ended 31 March 2011 and were able to issue our audit certificate on the same date as signing the accounts.

Whole of Government Accounts (WGA)

As the Council did not comply with its accounts completion deadline, as stated above, it also did not submit its draft WGA L Pack for audit by the Department for Communities & Local Government (CLG) deadline of 29 July.

We received the WGA L Pack on 18 October after the CLG submission deadline of 30 September and we submitted the audited WGA to the CLG on 31 October.

3. Value for money

Introduction

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 were required to give our conclusion based on the following two criteria specified by the Audit Commission:

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

In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.

Key conclusions

We issued our annual VfM conclusion on 17 October 2011, at the same time as our accounts opinion, failing to meet the statutory deadline of 30 September 2011. The value for money conclusion was qualified on 17 October 2011, which means that we were satisfied that, in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for a weakness identified in relation to one or more of the criteria specified by the Commission.

Basis for qualified conclusion

In considering the Council's arrangements for securing financial resilience we assessed the capacity of the Finance Department. Following the transfer of the financial reporting arrangements to Northgate, the capacity of the team had been reduced, which resulted in significant errors and omissions in the statement of accounts during the course of our audit. The resolution of these issues resulted in the statutory deadline for the approval and publication of the statement of accounts being missed.

Following completion of our audit, the Council has taken firm and decisive action to address this issue and has brought the service back into its own structures. It will be important that it strengthens its financial capacity to address this weakness and improve financial resilience and improve the accuracy and timeliness of its statutory accounting procedures.

Value for money

We undertook a review of the Council's overall arrangements to inform our VfM conclusion. Key findings are within the table below.

Area of review	Summary observation
Key indicators of performance	The Council is generally operating in accordance with its plans which were set taking the current challenging economic circumstances into account. It should maintain close observation on liquidity and short term borrowing.
Strategic financial planning	The Council maintains up to date corporate plans and ensures that these are interlinked to other plans. These are reviews regularly enabling swift responses to external factors.
Financial governance	Governance arrangements are generally fit for purpose with good structures in place to ensure robust arrangements.
Financial control	There are a number of issues causing a risk to the Council's financial control relating to internal audit, the staff restructuring combined with the move to Northgate, and the issues around the integrity of the asset management system. The Council has plans to address all of these in 2011/12. However, the overriding issue, which resulted in a qualified conclusion, was the failure to meet the statutory deadline for the approval and publication of the statement of accounts. This was a consequence of a weakness in financial resilience, which resulted in significant errors and omissions in the statement of accounts during the course of our audit and the failure to report within statutory timescales.
Prioritising resources	The Council takes steps to encourage stakeholder input in the prioritisation of resources.
Improving efficiency and productivity	The Council has a good understanding of its costs and ensures that it challenges service delivery to drive further efficiencies.

We presented our VfM report to the Audit Committee on 28 September, and, subsequently, issued a revised report to officers following qualification of our VfM conclusion. This included an agreed action plan to deal with the issues raised. We will follow up progress in implementing the plan as part of our 2011/12 audit.

Challenging VfM

We undertook the following review during the year to inform this aspect of our VfM conclusion.

Sickness absence

In order to assess the Council's arrangements, we have reviewed the Council's systems and processes for ensuring that sickness absence is avoided as much as possible and, where it does occur, is managed properly.

In order to establish to what extent sickness absence is being effectively managed, we have conducted a review comprising:

- an examination of relevant documents
- interviews with relevant officers to understand their views on where there are opportunities to improve and what arrangements are being put in place to address these and promote a stronger control environment.

We are satisfied that the Council is responding well to the issue of sickness absence. Continued progress, along with the implementation of our recommendations, should ensure a Green rating is achieved within next year's VfM conclusion.

A detailed report on this issue has recently been completed and will be submitted for the Audit Sub-Committee's attention.

Approach to local VfM work 2011/12

At time of writing there are no changes proposed to the approach to local Value for Money work in 2011/12. We will focus on the two key reporting criteria, namely:

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

We will determine a local programme of VfM audit work based on our audit risk assessment, informed by the criteria above and our statutory responsibilities and agree this with the Council. Local risks for the Council to consider at this stage include:

- the capacity of the Finance department to deliver a set of financial statements that are timely and fit for purpose
- the capability, in partnership with Northgate Public Services, to deliver an asset register which is fit for purpose
- the capability, in partnership with Derby City Council, to provide a robust Internal Audit function.

4. Grants certification

Introduction

Each year we review and certify a number of grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Following the completion of the 2009/10 certification work we reported that performance against the key performance measures had remained largely consistent with the prior year, however we identified that the Council should work to continually reduce the number of claims requiring amendment.

Housing & Council Tax Benefit Claim

This claim is the most significant area of our grants certification work. In 2009/10 the Housing and Council Tax Benefits Claim initial testing identified errors in three of the four areas for sampling and the '40+' approach was applied to assess the extent of these errors. In our final letter to the Department of Work and Pensions, the claim was qualified and, based on extrapolation of errors across the population, an overclaim of £158,513 was reported.

The Council has submitted a representation to the Department of Work and Pensions on the extrapolated error. No formal response has been received to date on this issue.

Work is still in progress on the 2010/11 claim. We will report the outcome of our work in our Grants Report to the Audit Sub-Committee in early 2012.

Summary of 2010/11 findings to date

The Council has submitted six claims and returns for certification. At time of writing our work is complete on four of these claims. Of these, two were qualified, with one of these also being amended.

HRA Subsidy Base Data Return

The claim was qualified on the same basis as in prior years. The Council has valued its HRA stock using the beacon methodology, as allowed by CIPEA guidance, and hence does not hold comprehensive records for all archetypes to support the dwelling analysis in the claim form.

National Non Domestic Rates Return

This claim was certified without amendment or qualification by the 26 September 2011 deadline.

Other claims

Work has been completed on the Disabled Facilities Grant (DFG) and Pooling of Housing Capital Receipts claims. DFG was certified without amendment and Pooling of Housing Capital Receipts was qualified without amendment.

Work is on-going on other claims and the outcomes will be reported to the Audit Sub-Committee in early 2012.

Appendices

A. 2010/11 reports issued

Report	Date Issued
Audit Approach Memorandum	February 2011
Interim Report	June 2011
Report to Those Charged With Governance (ISA 260)	October 2011
Value for Money Report	October 2011
Sickness Absence Report	November 2011
Annual Audit Letter	November 2011
Grants Certification Report	Due early 2012

B. Audit and other fees 2010/11

Audit area	Budget 2010/11	Actual 2010/11
Financial statements*	75,500	TBC
Value for Money conclusion*	25,000	TBC
Corporate Services Outsourcing	7,500	7,500
Total Code of Practice fee	£108,000	£TBC
Certification of grant claims and returns**	£55,000	TBC

* The final accounts fee is still under review.

** The quoted fee for grant certification work is an estimate only and will be charged at published hourly rates.



Grant Thornton

www.grant-thornton.co.uk

© 2011 Grant Thornton UK LLP. All rights reserved.

"Grant Thornton" means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton UK LLP is a member firm within Grant Thornton International Ltd (Grant Thornton International), Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.

This publication has been prepared only as a guide. No responsibility can be accepted by us for loss occasioned to any person acting or refraining from acting as a result of any material in this publication.