



# The Audit Findings for Derby City Council

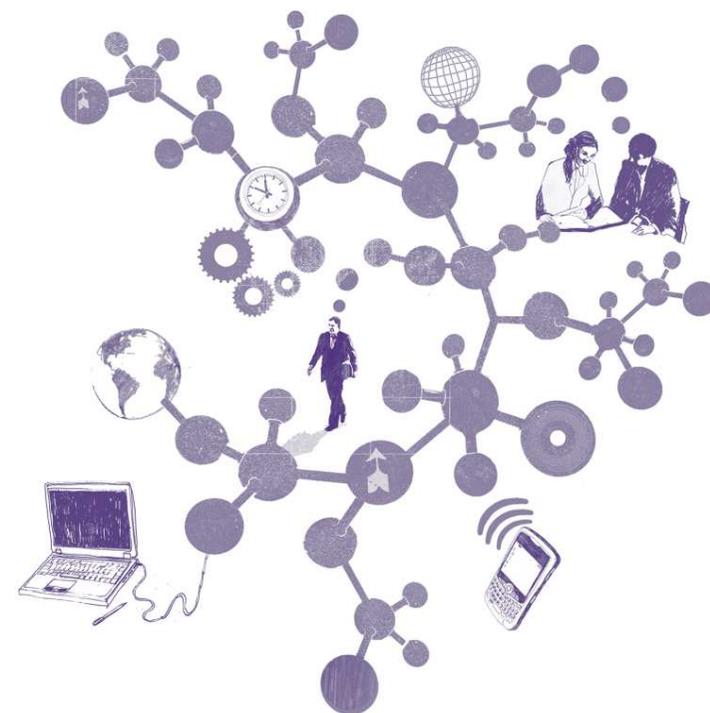
**Year ended 31 March 2015**

September 2015

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21 September 2015

Dear Members of the Audit and Accounts Committee

### **Audit Findings for Derby City 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 Derby City Council, the Audit and Accounts Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents will be discussed with the Audit and Accounts 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

#### **Chartered Accountants**

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# Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Derby City Council's (the Council) group and 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 group and 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
- Whole of Government Accounts and
- completing our benefits testing.

We received the draft financial statements 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 in respect of the financial statements.

We have identified four adjustments affecting the Council's draft reported financial position (details are recorded in section 2 of this report). The draft financial statements recorded a net surplus of £40,791k; the audited financial statements show a net surplus of £35,773. Most of this change relates to the adjustments for the Equal Pay provision.

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

- We identified a significant number of audit adjustments during the course of the audit.
- We experienced significant delays in obtaining some supporting evidence for our testing.
- A full set of supporting working papers were not provided at the start of the audit and there is scope to improve the quality of those provided.
- We have also identified a number of adjustments to improve the presentation of the financial statements.

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

### **Value for Money conclusion**

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issues which will give rise to a qualified 'except for' VfM conclusion.

The Council does not have a full three to five year medium term financial plan. The last plan was issued in February 2015 with the budget. It has identified where the savings will be made in 2015/16 but not for subsequent years. The Council does not currently have a robust plan to deliver the savings required to balance the budget over the medium term.

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

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

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

### **Certificate**

We are not in a position to conclude the audit for the financial years 2013/14 and 2014/15 as it remains the case that, as we stated in our Audit Findings Report for 2013/14, we were awaiting the outcome of the Council's investigation into failures of governance highlighted in the Council's Annual Governance Statement (AGS) for 2013/14. Whilst the Council has taken action to address a number of the weaknesses outlined in the AGS, the failings which led to the governance breakdown, and the actions that have been taken to address these failings, have not been put into the public domain.

Given the significance of these failings, we have concluded that it is proper for us as auditors to investigate the background to these events to establish whether there are any matters which would require the auditor to produce a report under section 8 of the Audit Commission Act 1998 (public interest report). In addition, a series of additional allegations have been made which we have determined that we should investigate.

### **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**

We draw your attention in particular to control issues identified in relation to ICT. As was noted last year, we have identified a number of ICT control weaknesses.

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.

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 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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# 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 and Accounts Committee on 25 March 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 25 March 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 Derby City 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 Derby City 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> <li>• reviewed and tested the data migration to the new payroll system</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
<b>Property, Plant and Equipment (valuation gross)</b>	PPE activity not valid	We have undertaken the following work in relation to this risk: <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>• carried out testing on a sample of PPE transactions throughout the year</li> </ul>	There were a number of issues arising as detailed in the sections below: <ul style="list-style-type: none"> <li>• Significant matters discussed with management</li> <li>• Accounting policies, estimates and judgements – review of issues raised in prior year</li> <li>• Adjusted misstatements</li> <li>• Misclassification and disclosure changes.</li> </ul>

# Group audit scope risk assessment and findings

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Derby Homes Ltd	No	Analytical	N/A	Desktop review performed by GT UK	Our audit work has not identified any significant issues.

# Significant matters discussed with management

	Significant matter	Commentary
1.	Discussions with management regarding the valuation of property, plant and equipment.	<p>We have reviewed the Council's valuation of property, plant and equipment and discussed with management the following:</p> <ul style="list-style-type: none"> <li>The Council has used indices to adjust the carrying value of property, plant and equipment assets. This practice is not allowed by the Code and indices should only be used to support market based evidence that valuations are kept up to date, rather than be used to update the valuations. However, we are content that this is unlikely to have resulted in a material error.</li> <li>Initially there was limited consideration of the outcome of the Council's 20% rolling revaluation programme on the remaining 80% of assets not revalued as at 1 April 2014, and demonstrating that the carrying value of assets was not materially different to their fair value.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>The Council acknowledges the change to the code and subsequent clarification from Cipfa. The Council will amend its process for future valuations.</li> </ul>
2.	Discussions with management regarding the accounting for schools.	<p>We have reviewed the Council's accounting for schools and discussed with management the following:</p> <ul style="list-style-type: none"> <li>The critical judgement around the accounting for Voluntary Aided and Voluntary Controlled Schools land and buildings, the decision not to assess schools on a case by case basis and disclosures as noted in the section misclassification and disclosure changes below.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>When informing the accounting decision the Council established that the most important evidence that could vary between cases was not present. Therefore the Council continued its assessment considering the most relevant evidence that was common to all cases. The Council believes sufficient evidence exists, common to all cases, to enable a clear accounting treatment to be determined on a group basis. The Council believes its accounting treatment to be appropriate and that the final result would not vary if a different approach had been taken.</li> </ul>
3.	Discussions with management regarding the disclosures within the Annual Governance Statement	<p>We reviewed the Annual Governance Statement and discussed the following with management:</p> <ul style="list-style-type: none"> <li>There was no reference to job evaluation. This was an issue last year and continues to be an issue in 2014/15, and therefore should be included in the section 'Update on outstanding issues from previous years'.</li> <li>Internal Audit issued five limited assurance opinions, covering job evaluation, conflicts of interest, regeneration, CIS payments and asset management and estates. Reference to these should be included in the section 'Significant governance issues'.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>These points have now been included within the revised Annual Governance Statement.</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>	<p>Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser, it is probable that economic benefits or service potential associated with the transaction will flow to the Council; and the amount of revenue can be measured reliably.</p> <p>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.</p> <p>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 assurance that:</p> <ul style="list-style-type: none"> <li>• the Council will comply with the conditions attached to the payments; and</li> <li>• the grants or contributions will be received.</li> </ul> <p>Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.</p>	<p>The accounting policy is appropriate and has been adequately disclosed. However, the accounting policy note was enhanced for revenue recognition in respect of Council Tax and Business Rates.</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
	<p>Revenue from non-exchange transactions shall be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the authority, and the amount of the revenue can be measured reliably.</p>		
<b>Estimates and judgements</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>• Componentisation and useful life of capital equipment</li> <li>• pension fund liability</li> <li>• Provisions</li> <li>• Impairments</li> <li>• PPE valuations</li> <li>• PFI schemes</li> <li>• Accounting for schools</li> <li>• Group accounts</li> </ul>	<p>There were a number of issues arising as detailed in the sections:</p> <ul style="list-style-type: none"> <li>• Significant matters discussed with management</li> <li>• Accounting policies, estimates and judgements – review of issues raised in prior year</li> <li>• Adjusted misstatements</li> <li>• Unadjusted misstatements</li> <li>• Misclassification and disclosure changes</li> </ul>	<p style="text-align: center;"> (amber)</p>
<b>Going concern</b>	<p>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.</p>	<p>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.</p>	<p style="text-align: center;"> (green)</p>
<b>Other accounting policies</b>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	<p style="text-align: center;"> (green)</p>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# 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 and Accounts 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>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> <li>In particular, representations will be requested from management in respect of the significant assumptions used in making accounting estimates for the equal pay provision and 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 omissions in the financial statements (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 confirmations from the PWLB and four local authorities for loans. We also requested confirmation from a bank for two Lender Option Borrowers Option loans. Confirmations from the bank were not received so we undertook alternative procedures.</li> <li>We requested from management permission to send confirmation requests to 15 banks for bank and investment balances. This permission was granted and the requests were sent. Of these requests 13 were returned with positive confirmation, however two requests were not received so we undertook alternative procedures.</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 Property, Plant and Equipment as set out on pages 11 and 12 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	 (amber)	Our review of the Council's ICT arrangements identified the following weaknesses: <ul style="list-style-type: none"> <li>• Oracle EBS audit trails are not formally monitored</li> <li>• Administrative access within Oracle EBS was granted to those performing financial reporting processes or controls</li> <li>• Excessive privileges granted to Oracle users</li> <li>• Weak logical access controls for Oracle EBS</li> <li>• Termination of Oracle leavers access rights</li> <li>• Oracle EBS users with greater than read-only access to production database</li> <li>• No evidence of user access rights review being performed</li> </ul>	<ul style="list-style-type: none"> <li>• The Council should ensure that the ICT weaknesses identified are addressed as a priority.</li> </ul>

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

## Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	Internal Audit has reported a number of weaknesses in its review of payroll and gave only limited assurance. In common with Internal Audit we had long delays in receiving information from the payroll department and in a number of instances the information provided was incomplete. This resulted in significant delays to the audit of payroll expenditure.	<ul style="list-style-type: none"> <li>Internal Audit gave reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks were well managed, but some systems required the introduction or improvement of internal controls to ensure the achievement of objectives.</li> <li>We reported on our interim work in the Audit Plan. Our work did not identify any issues with the calculation and classification of payroll expenditure. However, as was noted last year, we experienced delays in obtaining supporting HR records.</li> </ul>
2.	✓	We identified a control weakness from our testing of welfare expenditure. The Academy System allows claims to be set up with the same national insurance number as a claim already in progress. The weakness could lead to fraudulent activity.	<ul style="list-style-type: none"> <li>System changes have been made to address this weakness.</li> </ul>
3.	✓	<p>Our review of the Council's ICT arrangements identified the following weaknesses:</p> <ul style="list-style-type: none"> <li>Lack of updated information security policies – network</li> <li>Lack of user access rights review – network and payroll</li> <li>Lack of robust password controls – network and payroll</li> <li>No automatic notification of leavers – all applications</li> <li>Back-up testing/restoration is not routinely performed – payroll</li> <li>Lack of robust change management processes – network</li> <li>Lack of proactive review of audit logs – all applications</li> </ul>	<ul style="list-style-type: none"> <li>A number of ICT weaknesses remain as noted above.</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 non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

## Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 <b>The Equal Pay provision was adjusted to take account of the latest information on job evaluation. This was not available when the draft accounts were produced.</b>	4,678	(4,678)	4,678
2 <b>There were errors relating to the accounting for land of voluntary aided schools. The Council initially recognised these on Balance Sheet but after further consideration concluded that they should not be recognised. Not all the transactions initially recoded in the ledger were subsequently removed.</b>	(1,138)	1,138	(1,138)
3 <b>The valuation of Mickleover Primary School was incorrectly entered into the asset register resulting in a net overstatement of the asset.</b>	1,478	(1,478)	1,478
4 <b>The term for one short term investment was less than three months and therefore this was reclassified as Cash and Cash Equivalents.</b>		5,002 (5,002)	
<b>Overall impact</b>	<b>£5,018</b>	<b>£(5,018)</b>	<b>£5,018</b>

## 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 and Accounts 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>Provision for repayment of successful NDR appeals</b>	918	(918)	Not considered to be material
<b>Overall impact</b>	<b>£918</b>	<b>£(918)</b>	

## Impact of uncorrected misstatements in the prior year

There are no unadjusted misstatements in the prior year.

# 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 Disclosure		Accounting for Schools	<p>The following disclosure changes have been made:</p> <ul style="list-style-type: none"> <li>the Explanatory Foreword was amended to refer to the change in accounting for schools as entities and the impact with reference to the critical judgement. Reference was also made to the prior period adjustment.</li> <li>the accounting policies were enhanced to include an accounting policy on general accounting for schools which includes reference to the change in the Code.</li> <li>the prior period adjustment note disclosure was enhanced to put the adjustment in the context of the change in accounting for schools as entities and then the judgement around school buildings.</li> <li>the property, plant and equipment accounting policies and critical judgements were amended to make clear the distinction between buildings and land.</li> <li>the critical judgement was expanded to describe the basis for the judgement and how the authority has considered rights and obligations in its assessment and the assumptions made. The decision not to assess schools on a case by case basis, along with the Council's justification was disclosed. The judgement around voluntary aided schools land and academy schools was included.</li> <li>the reference to Revenue Expenditure Funded by Capital under Statute for voluntary aided schools was removed as it is no longer relevant now that they are included on the balance sheet.</li> <li>Additional disclosures were made of the consequences of transfers of schools to academy status during the reporting period.</li> </ul>

## Misclassifications & disclosure changes continued

Adjustment type	Value £'000	Account balance	Impact on the financial statements
2 Disclosure		Prior Period Adjustments - Third Balance Sheet	The Council has made a retrospective restatement in the accounts following a change in accounting for schools. As a result the Council has now included a Balance Sheet as at the beginning of the preceding period.
3 Disclosure		Defined Benefit Pension Schemes	To provide an indication of the effect of the defined benefit plan on future cash flows, the disclosure note was enhanced to include information about the maturity profile of the defined benefit obligation.
4 Disclosure	52,064	Defined Benefit Pension Schemes	The total post employment benefit charged to the Comprehensive Income and Expenditure Statement changed from £37,102k to £89,166k. The group accounts disclosure note changed from £47,445k to £99,509k.
5 Disclosure		Group Movement in Reserves Statement	The Statement was amended to show the Authority's share of the reserves of subsidiaries separately.
6 Disclosure		Property, Plant and Equipment	The disclosure note on the valuation property, plant and equipment was changed to more accurately and clearly explain the valuation process. In particular, the note originally stated 'the Council has physically valued 20% of assets as at 1.4.2014 as per the code and believes this value will not be materially different to the fair value at the year-end due to the current prevailing low levels of volatility in both land and building values and building costs being insignificant in terms of materially changing the values within year'. In fact an adjustment of £32.4m had been made by the Council to reflect in-year price movements.

## Misclassifications & disclosure changes continued

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
7	Disclosure		Provisions	The disclosure note was enhanced to include the expected timing of outflows and an indication of uncertainties around the amount and timing of outflows.
8	Disclosure	40,433	Financial Instruments	The fair value of long term financial liabilities was amended from £451,306k to £491,739k.
9	Disclosure		Financial Instruments	The fair value disclosures were amended to include the debtor/creditor and loan balances with Derby Homes Ltd.
10	Disclosure		Group Accounts	The disclosure was enhanced to explain that other disclosures have not been produced on the basis that they are not materially different to the single entity notes.
11	Disclosure		Related Parties	The disclosure was amended as follows: <ul style="list-style-type: none"> <li>the contribution to Joint Committees and Joint Bodies was expanded to show the value of transactions and amounts outstanding</li> <li>to include the transactions with a related party in which an officer had an interest.</li> </ul>
12	Disclosure		External Audit Costs	The 2013/14 disclosure was restated to include subsequent bills and refunds from the Audit Commission. The 2014/15 disclosure was also amended for misclassifications.
13	Disclosure	2,951	Leases – Authority as Lessor	The disclosure note was amended because the future minimum lease payments receivable for one lease was overstated.
14	Disclosure	1,014	Capital Expenditure and Capital Financing	For assets acquired under PFI contracts, the disclosure note was amended to remove an inconsistency between the Capital Expenditure and Capital Financing note £4,939k, Property, Plant and Equipment note £4,939k and PFI note £3,925k.

## Misclassifications & disclosure changes continued

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
15	Disclosure	5,078	Capital Commitments	The disclosure note was amended to remove capital commitments that had been included in error.
16	Disclosure	1,007	Property, Plant and Equipment	The PFI assets included in the property, plant and equipment note was amended because the cost brought forward as at 1 April 2014 of £117,992k was not consistent with the asset register of £118,999k.
17	Disclosure		Termination Benefits	The costs of the redundancy programme was changed from £821,504 to £778,187 and the pension shortfall costs was changed from £355,775 to £270,686.
18	Disclosure		Officers Remuneration	The number of employees by remuneration band disclosure note was amended as follows: <ul style="list-style-type: none"> <li>• Senior officers were incorrectly included within this table</li> <li>• A number of the remuneration bands were changed to be required bands of £5k.</li> </ul>
19	Disclosure	8,517	Capital Adjustment Account	The charges for impairment of non-current assets and revaluation gains matched to prior year impairments were amended because they incorrectly included the Existing Use Value Social Housing adjustment. A similar adjustment was made to the disclosure note adjustments between accounting basis and funding basis under regulations.
20	Disclosure		Contingent Liability	The contingent liability note was amended to disclose the fact that the Council continues to underwrite the pension liability relating to Derby Homes Ltd. The value of Derby Homes' reported pension deficit was £22.744m as at 31 March 2015.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Certifying the audit closed

05. Fees, non-audit services and independence

06. Communication of audit matters

# Value for Money

## Value for money conclusion

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

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; 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 faces a significant financial challenge to identify savings in order to keep the financial position sustainable over the medium term. The Council has outlined permanent cuts requirements of £69m over three years to address the impact of funding requirements, meeting rising costs and to maintain priority services. These cuts total £20m in 2015/16, £30m in 2016/17 and £19m in 2017/18. The Council does not have a full three to five year medium term financial plan. It has identified where the savings will be made in 2015/16 but not for subsequent years.

### 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's processes for reviewing efficiency and developing cost improvement programmes are effective. It has a good track record in delivering savings. The management team is updating the Medium Term Financial Plan to ensure that it takes account of changing national funding, assesses the impact of these changes on the Council's strategic priorities and financial targets. The Council challenges the way activities are delivered and explores innovative and new ways of delivering activities.

## 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 anticipate providing a qualified 'except for' VfM conclusion for the following reason.

There are weaknesses in the Authority's medium-to long-term financial planning, specifically the absence of a sustainable medium-term financial plan for the three year period from 1 April 2015 and a lack of robust plans to deliver the savings required to balance the budget over this period. This matter is evidence of weaknesses in arrangements of financial planning.

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 monitors its financial performance on a regular basis. The Council's target range for the General Fund balance is between £7,063k and £10,585k and the projected value at 31 March 2016 and 31 March 2017 of £7,143k sits within the lower end of this target range. There is also a budget risk reserve of £20.5m to support future budget planning and unforeseen in-year pressures. The Council will need to keep its level of balances and reserves under constant review and ensure that they remain sufficient. There are workforce issues to address including implementing job evaluation. As a result of concerns about its strategic partner for the job evaluation project, the Council appointed new consultants, Hay Group, at a cost of £1.1m to complete the job evaluation process. This is still on-going with a planned implementation date of 1 January 2016.	<b>Amber</b>
<b>Strategic financial planning</b>	The Council has outlined permanent cuts requirements of £69m over three years to address the impact of funding requirements, meeting rising costs and to maintain priority services. These cuts total £20m in 2015/16, £30m in 2016/17 and £19m in 2017/18. The Council does not have a full three to five year medium term financial plan. The last plan was issued in February 2015 with the budget. It has identified where the savings will be made in 2015/16 but not for subsequent years. The Council does not currently have a robust plan to deliver the savings required to balance the budget over the medium term. We are however satisfied that action is being taken to develop a medium term financial plan and note that Members and officers have met with the Minister for Communities and Local Government to discuss the Council's financial challenges.	<b>Red</b>
<b>Financial governance</b>	The leadership team, including senior members, are aware of the current financial position and potential future implications. There is clear evidence that the Council is addressing the governance issues identified in 2013/14. In particular, the corporate management team has been restructured and there is a governance action plan in place. However, there has been poor communication by the leadership team to the public of the medium- to long-term financial strategy, current financial position and likely financial challenges. The new leadership team recognise this is not a sustainable approach and that there should be greater transparency.	<b>Amber</b>

Theme	Summary findings	RAG rating
<b>Financial control</b>	Internal audit gave a 'reasonable assurance' opinion as most of the areas reviewed were found to be adequately controlled. In arriving at this opinion it was noted that the level of coverage provided by Internal Audit was considered minimal. Weaknesses in the accounts preparation as detailed in the Audit Findings section have led to a number of significant changes to the accounts. We have also identified scope to improve controls in relation to ICT arrangements. The Council will need to address these issues going forward to strengthen financial control.	<b>Amber</b>
<b>Prioritising resources</b>	<p>The management team is updating Medium Term Financial Plan to ensure that it takes account of changing national funding, assesses the impact of these changes on the Council's strategic priorities and financial targets.</p> <p>The Council challenges the way activities are delivered and explores innovative and new ways of delivering activities. It is working with other councils to create a Combined Authority. This will create a statutory organisation to enable authorities within the area to work together with a view to developing new and more efficient approaches to regeneration and economic development and transport. The proposed Derby and Derbyshire Combined Authority will include Derbyshire CC, Derby CC, Amber Valley BC, Bolsover DC, Chesterfield BC, Derbyshire Dales DC, Erewash BC, High Peak BC, NE Derbyshire DC and South Derbyshire DC. Consultation has taken place with local residents, businesses and partners. The review concluded that the establishment of a Derby and Derbyshire Combine Authority would be a positive move forward for Derby and Derbyshire and a submission has been made to DCLG.</p> <p>The Derby Better Care Fund Plan was 'fully' approved by NHS England on 6 February 2015, and was put into practice from 1 April 2015. The Council has therefore achieved the timescale and assurance requirements set by NHS England.</p>	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	<p>The Council's processes for reviewing efficiency and developing cost improvement programmes are effective. Specific savings targets are included within the budget at the beginning of the year for each directorate. The Council has a good track record in delivering savings.</p> <p>There were two external service reviews undertaken during 2014/15:</p> <p>LGA peer challenge of social care. The outcome of the review was generally positive with a conclusion that on the whole Derby City Council adult social care does deliver best value in the vast majority of services. However, it was noted that there was room for improvement in governance arrangements.</p> <p>Ofsted review of childrens centres concluded that they were 'Grade 3 - requires improvement'. To address the recommendations from the inspections of children's centres a consolidated improvements plan has been put into place that pulls together all the findings.</p>	<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 issues</b>	The Council's job evaluation project is still on-going. As a result of concerns about its strategic partner, the Council appointed new consultants, Hay Group, to complete the job evaluation process. Until this project is completed there remains uncertainty for staff and around the additional costs to the Council. The Council should continue to closely monitor progress with the job evaluation project to ensure that the planned implementation date of 1 January 2016 can be achieved.	<b>Amber</b>
<b>Strategic financial planning</b>	The Council does not have a full three to five year medium term financial plan. The last plan was issued in February 2015 with the budget. Significant saving are required in the medium term but the Council has not identified in any detail how these savings will be achieved in the years after 2015/16. This is a major risk to the financial resilience of the Council. As a priority, the Council should develop a robust medium term financial plan to deliver the savings required to balance the budget over the medium term.	<b>Red</b>
<b>Financial governance</b>	There has been poor communication by the leadership team to the public of the medium- to long-term financial strategy, current financial position and likely financial challenges. The new leadership team should ensure that there is greater transparency in the communication of financial strategy to the public.	<b>Amber</b>
<b>Financial control</b>	Internal audit gave a 'reasonable assurance' opinion as most of the areas reviewed were found to be adequately controlled. In arriving at this opinion it was noted that the level of coverage provided by Internal Audit was considered minimal. In view of the governance issues identified over the last couple of years and the challenges facing the Council, minimal Internal Audit coverage poses a risk to the financial control of the Council. The Council should ensure that it has an appropriate level of Internal Audit coverage. Weaknesses in the accounts preparation have led to a significant number of changes to the accounts. As recommended last year, the Council should review its quality assurance arrangements and level of resources for producing the financial statements and responding to audit queries. We have also identified scope to improve controls in relation to ICT arrangements. The Council should ensure that the ICT weaknesses identified are appropriately addressed.	<b>Amber</b>
<b>Effectiveness of key services</b>	The Council has been subject to an Ofsted review of childrens centres and a LGA peer challenge of social care. A number of areas have been noted for improvement and improvement plans have been produced. The Council should monitor progress against the improvement plans and ensure that the recommendations are being addressed.	<b>Amber</b>

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## Section 4: Certifying the audit closed

01. Executive summary

02. Audit findings

03. Value for Money

**04. Certifying the audit closed**

05. Fees, non-audit services and independence

06. Communication of audit matters

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## Section 4 Certifying the audit closed

### **The audit certificate**

The Code of Audit Practice 2010 (the Code) requires auditors to formally certify at the end of the audit that they have undertaken the audit in accordance with the requirements of the Code. This includes all of the work required to issue an opinion on the Council's financial statements and the value for money conclusion. It also includes consideration of any matters that might require formal audit action.

We are not in a position to conclude the audit for the financial years 2013/14 and 2014/15 as it remains the case that, as we stated in our Audit Findings Report for 2013/14, we were awaiting the outcome of the Council's investigation into failures of governance highlighted in the Council's Annual Governance Statement (AGS) for 2013/14. Whilst the Council has taken action to address a number of the weaknesses outlined in the AGS, the failings which led to the governance breakdown, and the actions that have been taken to address these failings, have not been put into the public domain. This has been due to legal constraints.

Given the significance of these failings, we have concluded that it is proper for us as auditors to investigate the background to these events to establish whether there are any matters which would require the auditor to produce a report under section 8 of the Audit Commission Act 1998 (public interest report). In addition, a series of additional allegations have been made which we have determined that we should investigate.

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## Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

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**05. Fees, non-audit services and independence**

06. 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	190,070	190,070
Grant certification on behalf of Audit Commission	26,770	26,770
<b>Total audit fees</b>	<b>216,840</b>	<b>216,840</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>	
Teachers pension certification	4,500
Regional growth fund certification	7,000
<b>Non audit related services</b>	
Service review	18,016
Corporate restructure	15,432

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## Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Certifying the audit closed

05. Fees, non-audit services and independence

06. 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		✓
Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

# Appendices

# Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	The Council should develop a robust medium term financial plan to deliver the savings required to balance the budget over the medium term.	High	The CFO and CE have set out the arrangements to present a three year MTFP. Proposals to address the three year forecast savings requirement have been shared with Cabinet, with plans to close the forecast gap of £17m by 2018/19 still in development. The MTFS for 2016-19 will recognise the importance of addressing the MTFP for all three years. A series of consultation exercises across a range of service areas are in the process of commencing and will support the MTFP	Responsibility Director of Finance, March 2016
2.	The Council should ensure that there is greater transparency in the communication of the financial strategy to the public.	High	The financial position for 2016-19 has already been communicated at Council meetings, in the press and with Ministers in DCLG. The extent of savings required to balance the budget and the gaps currently arising have been communicated. A budget simulator is currently live for members of the public and other interested groups to input into the budget process. The budget report for 2016/17 will clearly explain the extent to which the balance of the MTFP for 2016-19 has been firmly addressed.	Responsibility Director of Finance, On-going

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

# Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3.	The Council should continue to closely monitor progress with the job evaluation project to ensure that the planned implementation date of 1 January 2016 can be achieved.	High	<p>The implementation of Job Evaluation is being overseen by the Chief Executive and the Director of Governance. Strategy Board Meetings, chaired by the Leader of the Council and supported by members of the Cabinet, occur on a fortnightly basis. Project meetings take place at least weekly, with the Manager of the Pay and Reward Team to monitor progress against the project timeline and ensure steps are in place to enable robust decision making in a timely manner. In addition, the Personnel Committee meets frequently to offer challenge and monitoring of the delivery of the project.</p> <p>Ability to meet the implementation date of 1st January 2016 may be impacted depending on the outcome of a potential trade union ballot with staff.</p>	1st January 2016, subject to the outcomes of a potential trade union ballot. Responsibility: Chief Executive and Director of Governance
4.	The Council should monitor progress against the Ofsted and LGA improvement plans and ensure that the recommendations are being addressed.	High	The Council monitors progress against recommendations arising from all Ofsted inspections at an Improvement Board chaired by the Strategic Director for Children; this ensures that all recommendations are addressed and impact identified.	Key actions arising specifically from the inspection of children's centres have either already been implemented or are in the process of being implemented. It is common practice to implement recommendations and learning from children centre inspections across the entire children's centre network in Derby.
5.	The Council should review its quality assurance arrangements and level of resources for producing the financial statements and responding to audit queries.	High	As for all previous years the Council will conduct a post audit review of our arrangements for preparing the Councils accounts. Quality assurance and response times will be key consideration and will be shared across relevant parties within Directorates. The level of resources assigned to the closure of the accounts will be subject to overall resource levels across the service and the Council. In addition the Council will investigate best practice used in other authorities.	Corporate Head Finance March 2016

## Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
6.	The Council should review its valuation of property, plant and equipment to ensure that it complies with the Code.	High	The Council will review its valuation policy to ensure it complies with the code of practice.	Corporate Head Finance March 2016
7.	The Council should ensure that it has an appropriate level of Internal Audit coverage taking account of the governance issues identified over the last couple of years and the challenges facing the Council.	High	<p>The Council is addressing the identified governance issues via the Governance Working Group chaired by the Director of Governance and the Governance Board chaired by a Cabinet Member. The Head of Governance and Assurance is a member of the Working Group. As the strategies to deliver robust governance arrangements are formulated, consideration will be actively given to the future monitoring of their implementation and adherence.</p> <p>The Director of Governance will work closely with the Head of Governance and Assurance, the Chief Executive and colleagues from CMAP to determine a satisfactory level of internal audit for the Council.</p> <p>The Director of Governance will, as part of the monitoring process, seek the independent views from External Audit, where appropriate and would also actively monitor the progress of the internal audit plan and levels of assurance as they are reported on a quarterly basis.</p> <p>The Director of Governance will also closely consult and actively seek views from the Director of Finance and the Chair of Audit &amp; Accounts Committee. The Audit and Accounts Committee will continue to receive reports on the work of Internal Audit and this will also act as a monitor and challenge in respect of the level of internal audit coverage being provided to the Council.</p>	Implementation date: this will be under on-going review but with formal monitoring occurring at pre-scheduled Audit and Account Committee meetings. Responsibility: Director of Governance

# Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
8.	The Council should ensure that the ICT weaknesses identified are addressed as a priority.	High	<p>1) A full review of the Oracle related issues has been undertaken and</p> <ul style="list-style-type: none"> <li>• The processes around checking of bank account details entered onto the Finance system will be reviewed</li> <li>• Access to the system have been restricted</li> <li>• The termination of leavers process is being reviewed to ensure that all leavers from the Council’s employment are removed from the system</li> </ul> <p>2) The Academy system weakness has been addressed by raising a call with the supplier and is in the latest release of the software. This provides a warning message should a new claim be set up with the same NI number.</p> <p>3) The general weaknesses have been addressed by :</p> <ul style="list-style-type: none"> <li>• a full review of information security policies is being undertaken jointly between IT and information governance teams</li> <li>• Access rights reviews will be undertaken for network access and for application systems twice a year</li> <li>• The network password has been set to meet recommended security with a combination of different characters, a minimum length, forced periodic change and maximum number of attempts all set. The same rules are applied within application systems where the system password management utilities allow for such.</li> </ul>	<p>Head of Procurement December 2015</p> <p>Principal Information Software Support Officer – Complete. Review of the leaver process is being undertaken jointly with the information governance team. Review by December 2015, changes by March 2016.</p> <p>Information Software Support Manager December 2015</p> <p>Director of Digital Services and Head of Information Governance. Dec 2015</p> <p>Head of ICT – network access Application System Owners – applications. From Oct 2015 For network access this is in place and has been since 2013</p> <p>For applications this is in place where the application software has the required password management tools.</p>

## Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
8.			<ul style="list-style-type: none"> <li>The leaver process requires line managers to complete an on line form, this is supplemented by a regular leaver list from payroll. All temporary/agency staff with access have accounts set up with expiry dates that suspend the user and require them to be re-authorised.</li> <li>Back up testing and restoration is a task carried out regularly by Serco for systems and servers they host. The payroll system is hosted by Midland Software and we have instructed them to demonstrate regular back-up and restoration (as we do not have admin rights on the servers).</li> <li>There is a robust change management process with change control forms and with a daily change log and a weekly change board. Major changes are individually reviewed, standard changes follow ITIL change management procedures.</li> </ul>	<p>A review of the leaver process is being undertaken jointly with the information governance team appropriate changes will be made. Review by December 2015, changes by March 2016.</p> <p>The payroll manager to receive regular (at least monthly) evidence of a test back-up and test restore. October 2015</p> <p>These procedures have been in place for some considerable time. These will be reviewed and amended as we end the contract with Serco and implement the new Information Systems operating model. Head of ICT responsible by January 2016.</p>

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

# Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
8.			<ul style="list-style-type: none"> <li>Audit logs are reviewed based on a combination of alerts and triggers that notify a potential issue and/or when concerns come to light. This is supplemented by random checks of audit logs but we do not have the time or capacity to undertake a full pro-active review of audit logs for all applications.</li> </ul>	<p>ICT service reviews alerts and triggers on an on-going basis. System administrators and system owners can request audit log review. Head of ICT.</p> <p>Each application owner will be asked to review and provide a new risk assessment regarding audit logging. Head of Information Software Support – December 2015.</p>

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

# Appendix B: Audit opinion

**We anticipate we will provide the Council with a modified audit report**

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DERBY CITY COUNCIL

We have audited the financial statements of Derby City Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group 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 Derby City 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 auditor

As explained more fully in the Statement of the Responsibilities, the Director of Finance 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 and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; 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 Derby City Council as at 31 March 2015 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group 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.

#### **Basis for qualified conclusion**

In considering the Authority's arrangements for financial resilience we identified the following matter:

- There are weaknesses in the Authority's medium-to long-term financial planning, specifically the absence of a sustainable medium-term financial plan for the three year period from 1 April 2015 and a lack of robust plans to deliver the savings required to balance the budget over this period.

This matter is evidence of weaknesses in arrangements of financial planning.

#### **Qualified conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects, Derby City 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 cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of the Authority's work to investigate issues relating to failures of governance highlighted in the Authority's 2013/14 Annual Governance Statement. We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

Phil Jones

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

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Date



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