Grant Thornton

Derby City Council

Annual report to those charged with governance

For the year ended 31 March 2012

Derby City Council

Contents

1 Executive summary

1.1 Introduction

This report has been prepared for Derby City Council (the Council) to meet the objectives of the Audit Commission's Code of Audit Practice and the mandatory requirements of International Standard on Auditing (UK & Ireland) 260. Further details on the background to this report are set out at Appendix A.

1.2 Acknowledgements

Whilst some errors and misstatements have been identified through the course of the audit, we recognise the professionalism of the finance team in meeting the Council's earlier deadline for the preparation of the financial statements and for the quality of the statements themselves.

1.3 Key audit and financial reporting issues

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of its financial position.

Our audit is substantially complete with, following completion of the items listed in paragraph 2.1, only the completion of our assurance work for the National Audit Office on the Council's Whole of Government Accounts return remaining.

Financial statements opinion

We anticipate issuing an unqualified opinion on the Council's accounts, following completion of our audit. We identified two audit adjustments that impacted on the Council's reported reserve balances, which have increased the balance on the HRA reserve by £1,160k. There is no impact on the Council's General Fund balance.

Adjustments were made to the balance sheet (statement of financial position) to reclassify balances between different categories.

Further adjustments were made to figures presented in disclosure notes, but were not significant in isolation or in aggregate.

Value for money

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).

Following formal consideration by our national consistency panel, we are pleased to report that, based on our review of the Council's arrangements, we propose to give an unqualified opinion.

Further details are set out in section 5.

1.4 Controls

Roles and responsibilities

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

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

Findings
Our work has not identified any further significant weaknesses that we wish to highlight for your attention.

Whilst we have made one recommendation to strengthen controls over journal entries, and two recommendations to further improve the quality of the statement of accounts, these do not represent a significant control risk to the Council.

1.5 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 Strategic Director of Resources and the Director of Finance & Procurement.

We have made a small number of recommendations, which are set out in the action plan at Appendix D. Recommendations have been discussed and agreed with the Strategic Director of Resources, the Director of Finance & Procurement and the finance team.

Actions required

1 The Audit and Accounts Committee is required to review the proposed management representation letter (Appendix C) and formally record whether, to the best of the Members' knowledge, it is satisfied that the letter may be signed in good faith.

2 Subsequently, the Audit and Accounts Committee is required to use the findings and recommendations arising from our work to inform its opinion on the overall effectiveness of the Council's financial reporting arrangements and consider whether there are specific matters that prevent the formal adoption of the financial statements.

Once the Audit and Accounts Committee has formally minuted its conclusions on the above, we will be able to confirm our proposed audit opinion.

Grant Thornton UK LLP
September 2012

2 Key audit issues

2.1 Status of audit

Our audit is substantially complete, with only the following areas outstanding:

- receipt and review of information for some outstanding queries in relation to the Council's reserves balances
- receipt and review of the final version of the financial statements
- obtaining and reviewing the Council's letter of representation
- reviewing post balance sheet events up to the signing of the accounts.

2.2 Qualitative aspects of financial reporting

The qualitative aspects of our audit of your financial statements includes the selection of appropriate accounting policies and the appropriateness of significant estimates and judgments made by officers in compiling the accounts.

Accounting policies

The Council's accounting policies are in accordance with International Financial Reporting Standards, as adapted through the Code of Practice on Local Authority Accounting for 2011/12. We are also able to confirm the accounting policies were consistently applied to the material transactions in the Council's financial statements.

Significant estimates and judgements

We evaluated the underlying assumptions and reasonableness of the significant estimates and judgements made by your finance team in preparing the financial statements. These mainly affected the accounting for property, plant and equipment assets and the uncertainty over future government funding. We are satisfied that a reasonable approach was taken and that these balances are free from material misstatement.

Accounting for schools

This is an area of emerging guidance and CIPFA is carrying out a consultation exercise to bring consistency to local government accounting and a clearer view is expected later this year. In addition, in our view, accounting for schools will be subject to close scrutiny in the near future.

The two key areas for our 2011/12 audit were:

1. The key judgement regarding the classes of schools that are controlled by the Council and therefore held on the balance sheet
2. Accounting for PFI schools converting to academy status.

In reviewing these issues, we considered the Council's approach to accounting for schools, focusing on the key judgment for which schools should be on and off balance sheet. We are satisfied that the Council's current arrangements are clearly and satisfactorily explained in Note 12 to the Statement of Accounts.

Impact of PFI

When a school, previously controlled by the Council, converts to academy status, the asset is written off the balance sheet. For PFI schools, the Council must continue to recognise the PFI liability on its balance sheet. Whilst the Council will continue to receive PFI credits to help service the debt, there is an immediate and visible impact to the financial position and ratio of assets:liabilities.

As above, this has been clearly explained in Note 12 to the Statement of Accounts. However, as more PFI schools, both locally and nationally, convert to academy status, we expect greater public scrutiny and discourse on this topic. The Council should be prepared for such queries, questions and debate, and the Audit and Accounts Committee should consider and agree its position on the matter.

Going concern

Introduction

Going concern is a fundamental principle in the preparation of financial statements. Under the going concern assumption, a council is viewed as continuing in operation for the foreseeable future with no necessity of liquidation or ceasing trading. Accordingly, the Council's assets and liabilities are recorded on the basis that assets will be realised and liabilities discharged in the normal course of business. A key consideration of going concern is that the Council has the cash resources and reserves to meet its obligations as they fall due in the foreseeable future.

International Financial Reporting Standards (IFRS) require an organisation's directors to assess and satisfy themselves that it is appropriate to prepare financial statements on a going concern basis.

The Code of Practice on Local Authority Accounting for 2011/12 sets out the following interpretation of going concern in the public sector context:

"An authority shall prepare its financial statements on a going concern basis unless there is an intention by government that the services provided by the authority will no longer be provided. An intention by government to transfer services from one authority to another (for example, as part of local government reorganisation) does not negate the presumption that the authority is a going concern"

The auditor's responsibility is to consider the appropriateness of the use of the going concern assumption in preparing the financial statements and to consider if there are material uncertainties about Derby City Council's ability to continue as a going concern that need to be disclosed in the financial statements.

Our conclusion

Overall, we believe there are no matters that cast significant doubt to the going concern assertion. Further consideration on the Council's financial resilience is considered through our value for money conclusion.

2.3 Resolution of audit and accounting issues

We have not had to alter or change our audit plan, which we communicated to you in our Annual Audit Plan dated January 2012.

Our responses to the matters identified at the different stages of our audit are detailed in the following table.

Audit and accounting issues identified at the planning stage

Issue	Audit areas affected	Work completed	Assurances gained and issues arising
Accounting for schools	Property, plant and equipment	• We have reviewed the Council's accounting treatment of its schools against available guidance, including those schools in the process of converting to academy status.	• We identified one error: the Council incorrectly showed the transfer of £17,053,000 of property, plant and equipment assets to the Woodlands Academy as an impairment instead of a loss on disposal, despite the transfer occurring before 31 March 2012. • Following adjustments, we are satisfied that the entries recorded in the financial statements for schools assets appear reasonable and are not materially misstated.
Accounting for heritage assets	Property, plant and equipment	• We have considered the Council's treatment of heritage assets in the 2011/12 financial statements, including the prior year comparatives, against the Code of Practice.	• We have reviewed the Council's treatment of heritage assets and we are satisfied that the Council has followed the accounting guidance set out in the Code for the treatment of this class of assets.
Revaluation of fixed assets and valuation of Council dwellings	Property, plant and equipment	• We have inspected the valuations undertaken by the Council against the requirements of International Financial Reporting Standards and the requirements of the Code of Practice. • We have considered the key judgements that have a significant influence on the valuation for reasonableness.	• We are satisfied that the Council has reflected the valuations performed during the year in the financial statements and that, following the presentational changes proposed as a result of our review, appropriate disclosures have been made.

Issue	Audit areas affected	Work completed	Assurances gained and issues arising
Financial performance pressures	All areas of the financial statements	• We have reviewed the Council's financial performance for the financial year against its agreed budget. • We have considered the use of general reserves and the adequacy of these for the future.	• The Council's performance against budget and adequacy of reserves has been considered as part of our Value for Money review and used to inform the opinion proposed.
Income recognition	Housing benefit and council tax subsidy	• We have considered the adequacy of the provision included in the accounts relating to the unresolved issues from the 2009/10 claim. • We reviewed the findings from the 2010/11 claim and early work on the 2011/12 claim for their impact on the financial statements.	• We are satisfied that the provisions included in the accounts for the potential clawback of subsidy by the Department for Work and Pensions are based on the current estimate of the likely amount due.
Follow up of 2010/11 findings	All areas of the financial statements	• We have reviewed the Council's progress in implementing the recommendations from our 2010/11 audit.	• We are satisfied that all recommendations made have either been implemented or are in progress.

Update on issues identified during our 2011/12 audit programme

Issue	Audit areas affected	Work completed	Assurances gained
Reasonably possible risks	HRA rental revenue, property, plant and equipment, employee remunerati on and operating expenses	• We identified four systems where we believed there was a risk of material misstatement arising. • For each system, we performed walkthroughs to identify and verify activity level controls. We also tested key controls within the property, plant and equipment and operating expenses cycles. • We performed further testing on the significant balances and transactions resulting from these financial systems.	• Our work in these areas has not identified any control weaknesses not previously reporting to you by internal or external audit. • Our further work during the substantive testing stage of our audit concluded that there were no material misstatements in these areas. • Details of our main audit adjustments are recorded in section 3 of this report.

3 Audit adjustments

3.1 Introduction

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

A detailed schedule of adjusted misstatements is set out at Appendix B.

3.2 Impact of adjusted misstatements

The impact of the adjusted misstatements on reserves are set out below. There are a number of additional accounting entries required by the Code in order to process the adjustments set out at Appendix B, however these do not impact on reserves.

The impact of the adjusted misstatements is to increase the balance on the HRA by £1,160k. There is no impact on the general fund balance.

HRA balance	**Increase/ (Decrease)**
	£'000
HRA balance in draft accounts	13,929
Auditor-proposed adjustments posted	
• Correction to calculation of HRA negative subsidy	968
• Correction of accounting treatment of loan to Derby Homes	192
Final surplus/(deficit) on provision of services	**15,089**

3.3 Adjusted misstatements

Adjustments identified through our audit work

The most significant audit adjustments that have been made to the financial statements are:

- the correction of the accounting treatment for the Woodlands school assets from an impairment to a disposal (£17,053k)
- the inclusion of an accrual for capital work at the Council House omitted in error (£956k)
- the inclusion of the write-down of the Merrill College deferred capital receipt, a transaction which had been incorrectly reversed (£700k)
- the classification of accrued interest on the face of the balance sheet (£2,632k).

Disclosure omissions

We identified several changes to disclosures presented in the accounts, which have been discussed with, and processed by, management. The most significant of these were:

- the addition of disclosures explaining the reason for the restatement of prior year figures
- the classification of an impairment within the fixed asset note
- changes and additions to the pensions disclosures included within the accounts.

3.4 Unadjusted misstatements

There were no adjustments identified through our audit work that have not been processed by the Council.

4 Design effectiveness of internal controls

4.1 Accounting system and internal control

Our audit is not designed to identify all significant weaknesses in the Council's internal controls but is designed primarily for the purpose of expressing our opinion on the financial statements of the Council. However, where, as part of our testing, we identify control weaknesses, we report these to you.

In consequence, our work did not encompass a detailed review of all aspects of the internal controls and cannot be relied upon necessarily to disclose all defalcations or other irregularities, or to include all possible improvements in internal control.

We have identified an unreconciled difference between accounting records held by the Council and those held by Derby Homes, which has been outstanding for a number of years, and have made a recommendation to resolve this discrepancy.

We have also recommended that the Council reviews the assumed collection rates applied to its outstanding debt, as these have not been updated since 2010/11. Both of these recommendations are reported at Appendix D.

See Appendix A for further details of our approach in respect of internal controls.

4.2 Management of the risk of fraud

We have considered the processes in place to identify and respond to the risk of fraud at the Council. The Council considers that there are adequate processes in place to mitigate against the risk of fraud and that those charged with governance have sufficient oversight over these processes to give them the assurances they require in this area.

There are no issues noted by the Council's internal audit service that present a material risk to the accuracy of the financial statements.

4.3 Review of information technology controls

Our information systems specialist performed a high level review of the general IT control environment, as part of our overall review of the internal controls system.

The results of this work will be reported to management separately as part of our controls report. There were no material weaknesses to report.

4.4 Review of journal postings

The Council's general ledger system permits certain users to both input and authorise journals. In response to a previous audit recommendation, the Council has strengthened procedures in this area and introduced a quarterly report of these self-authorised journals for retrospective review. Our discussions with management have confirmed that this is not regularly run and therefore a recommendation has been included at Appendix D.

5 Value for money conclusion

5.1 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.

5.2 Key findings

Securing financial resilience
To support our conclusion against this criterion we have completed a detailed risk assessment which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- strategic financial planning
- financial governance, and
- financial control.

We concluded that the Council has proper arrangements in place for each of the three characteristics.

The detailed findings of our review were reported separately to the Council in our report on the Council's arrangements for securing financial resilience.

Challenging economy, efficiency and effectiveness
We have completed a detailed risk assessment of whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

We concluded that the Council has proper arrangements in place for each of these characteristics.

5.3 Overall conclusion

Respective responsibilities of the audited body and auditor

The Council 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 Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council 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 Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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 Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, 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 ending 31 March 2012.

6 Other reporting matters

6.1 Annual governance statement

Councils are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA and SOLACE. The AGS is published alongside the financial statements.

We have reviewed the Council's arrangements and processes for compiling the AGS and considered whether it is either misleading or inconsistent with other information known to us from our audit work. We have identified a small number of areas for improvement and have shared these with the Council. We will review the final document before concluding our 2011/12 audit.

6.2 Whole of Government Accounts

We are required to report on the Council's consolidation schedules to provide assurance to the National Audit Office (NAO) for its work on the Whole of Government Accounts.

The deadline for the completion of our work on the consolidation schedules is 5 October 2012 and we will complete this review upon receipt of the final amended financial statements.

6.3 Public questions and objections

We did not receive any questions or objections from the public or other interested parties in respect of the financial statements for the year ended 31 March 2012.

A Background to the report

ISAUK 260 requires communication of:
- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit

Purpose of report
This report has been prepared for the benefit of discussions between Grant Thornton, the Audit and Accounts Committee of Derby City Council.

The purpose of this report is to highlight the key issues affecting the results of the Council and the preparation of the Council's financial statements for the year ended 31 March 2012.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Council.

Although this report has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Council arising under the terms of our audit engagement.

The contents of this report should not be disclosed to third parties without our prior written consent.

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

Clarification of roles and responsibilities with respect to internal controls
The Council's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Council that it has done so.

The Audit and Accounts Committee is required to review the Council's internal financial controls. In addition, the Audit and Accounts Committee is required to review wider internal controls and the management of risk.

The Audit and Accounts Committee should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

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

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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

Independence
Ethical standards require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:
- the appointed engagement lead and audit manager are subject to rotation every five years, although this may be extended by two further years with the Audit Commission's agreement;

- Grant Thornton, its partners and directors and the audit team have no family, financial employment, investment or business relationship with the Council; and
- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual engagement lead.

In accordance with best practice, we analyse our fees below:

	£
Code of Practice Audit Fee	315,000
Certification of Claims and Returns (estimate)	104,000
Other fees	0
Total	**419,000**

Audit quality assurance

Grant Thornton's audit and assurance practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council, which has responsibility for monitoring the firm's public interest audit engagements and its Audit Commission audit appointments.

The audit and assurance practice is also monitored by the Quality Assurance Directorate of the ICAEW and Grant Thornton conducts internal quality reviews of engagements.

B Audit adjustments

The table below lists all significant audit adjustments which have been processed and agreed with the Head of Corporate Finance. The overall impact of these adjustments is a £1,160k increase in the reported HRA balance at 31 March 2012 (items 1 and 8), with no impact on the general fund balance.

Adjustment Type:
Misstatement - A change to the value of a balance presented in the financial statements.
Classification - The movement of a balance from one location in the accounts to another.
Disclosure - A change to the way in which a balance is disclosed or presented in an explanatory note.

Adjustments identified through our audit work

	Type	Detail	Net assets £'000	Usable reserves £'000
1	Misstatement	The Council has incorrectly included balances relating to the Council's PFI schemes when determining the interest rate used to calculate the charge for capital. This forms part of the negative subsidy due back to Communities and Local Government (CLG) and is shown as a cost within the HRA line of the Comprehensive Income and Expenditure account. Adjusting for the correct calculation of the charge for capital reduces the amount due back to CLG by £968k, which reduces the Council's total comprehensive expenditure for the year by the same amount.	968 Creditors	(968) HRA balance
2	Misstatement	An interim valuation of the refurbishment work being performed at the Council House were obtained during March 2012, however no accrual was included for the work done between the date of this valuation and the end of the financial year. Capital additions and capital creditors are both understated by £956k.	956 Capital additions (956) Capital creditors	-

	Type	Detail	Net assets £'000	Usable reserves £'000
3	Misstatement	Municipal Mutual Insurance Limited (MMI) was the predominant insurer of public sector bodies prior to ceasing its underwriting operations in September 1992 having suffered substantial losses. Although MMI directors are committed to run-off with full payments of agreed claims, the company's liabilities have increased in recent years. It is now considered probable that the scheme of arrangements, in which the Council participates, will require organisations to pay back part of all claims for which they have received settlements since 1993. The Council has previously set an amount aside in an earmarked reserve to cover this eventuality and an amount of £325k should now be transferred to a provision to reflect the current position.	(325) Provisions	325 Earmarked reserves
4	Classification	The Council correctly recognised the need to transfer the assets relating to the Woodlands school off the Council balance sheet, following the school's achievement of Academy status. The Council initially expected this transfer to occur in 2012/13, therefore processed the reduction in asset valuation as an impairment in line with current guidance. The transfer to Academy status actually occurred before the year end, on 1 March 2012, requiring the transaction to be treated as a disposal, rather than an impairment. The impairment charge to the Education and Children's Services line has been reduced by £17,053k and the 'Loss on disposal' line in the income and expenditure account increased by this amount. There is no impact on the final outturn position.	(17,053) Impairment charge 17,053 Loss on disposal	
5	Classification	The Council was due to write down the capital receipts and long-term debtor relating to Merrill College by £700k in 2011/12. This journal has been incorrectly reversed prior to the preparation of the accounts however, resulting in both the deferred liability and long-term debtor being overstated by £700k	(700) Long term debtor	700 Capital receipts
6	Classification	The Council has correctly included the accrued interest of £2,632k on its long-term borrowings as a liability on the balance sheet, but has shown this with the long-term borrowing balance. This interest is due to be paid within twelve months however, so should be reclassified as a current liability.	2,632 Long term borrowing (2,632) Short term borrowing	

	Type	Detail	Net assets £'000	Usable reserves £'000
7	Classification	The Council has shown gross the amounts due to and from the Department for Work and Pensions in relation to the Housing and Council Tax Benefit scheme. This has overstated both creditors and debtors by £391k	391 Creditors (391) Debtors	
8	Classification	A loan of £200k was made to Derby Homes by the Council during 2011/12 to contribute to the construction of new dwellings. This had been accounted for incorrectly, having been removed from the HRA reserve rather than being shown as a long-term debtor. The outstanding amount of £192k has been reclassified, resulting in an increase to the HRA reserve and the recognition of a long-term debtor.	192 Long term debtors	(192) HRA reserves
9	Disclosure	A number of minor disclosure changes have been agreed with management, as outlined in section 3.3 of this report. We do not consider it necessary to individually list these.		
		Overall value of adjustments processed	**135**	**(135)**

C Letter of representation

Dear Sirs

Derby City Council
Financial Statements for the Year Ended 31 March 2012

This representation letter is provided in connection with the audit of the financial statements of Derby City Council for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12, both issued by CIPFA / LASAAC.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i We acknowledge, as Senior Officers / Council Members our responsibilities for preparing financial statements which give a true and fair view and for making accurate representations to you

ii We have fulfilled our responsibilities for the preparation of 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 (the Code); in particular the financial statements give a true and fair view in accordance therewith.

iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

v Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

vi All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

vii There are no unadjusted misstatements that were brought to our attention through the course of the audit, and the financial statements are free of material misstatements, including omissions.

Information Provided

viii We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
b. additional information that you have requested from us for the purpose of your audit; and
c. unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

ix All transactions have been recorded in the accounting records and are reflected in the financial statements.

x We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:

a. management;
b. employees who have significant roles in internal control; or
c. others where the fraud could have a material effect on the financial statements.

xii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

xiii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xiv We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Annual governance statement

i The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

ii We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Accounts Committee at its meeting on 5 September 2012.

D Recommendations and action plan

Report reference	Recommendation	Responsibility and due date
Section 1.5	The Audit and Accounts Committee is required to review the proposed management representation letter (Appendix C) and formally record whether, to the best of the Members' knowledge, it is satisfied that the letter may be signed in good faith.	Audit and Accounts Committee, 2 September 2012
Section 1.5	Subsequently, the Audit and Accounts Committee is required to use the findings and recommendations arising from our work to inform its opinion on the overall effectiveness of the Council's financial reporting arrangements and consider whether there are specific matters that prevent the formal adoption of the financial statements.	Audit and Accounts Committee, 2 September 2012
Section 2.2	The Audit and Accounts Committee should receive a report on the Council's accounting for school assets once CIPFA have finalised their position.	Chloe Kenny, following receipt of formal guidance from CIPFA
Section 4.1	At 31 March 2012, there was a £207,000 unreconciled difference between the Council's record of housing rent arrears and that provided by Derby Homes. The Council should review and resolve this discrepancy prior to the preparation of the 2012/13 accounts.	Peter Shillcock, March 2013
Section 4.1	IAS39 requires the Council to calculate its provision for doubtful debts based on a review of individual debtors or on previous experience of collection rates. The Council has not updated the percentage collection rate it applies to each class of debtor since 2010-11 and these should be reviewed prior to the preparation of the 2012-13 accounts.	Mark Nash / John Massey, April 2013
Section 4.4	The Council's ledger system permits certain users to both input and authorise journal entries. In response to a previous audit recommendation, the Council's IT systems team have created a report to identify these journals for retrospective review. The Council should ensure that this report is run on a regular basis to allow these journals to be reviewed for evidence of impropriety.	Mark Nash, September 2012