





Private and Confidential 23 October 2020

Derby City Council Council House Corporation Street Derby DE1 2FS

Dear Audit and Accounts Committee Members

We are pleased to attach our updated audit results report for the forthcoming meeting of the Audit and Accounts Committee. This report summarises our preliminary audit conclusion in relation to the audit of Derby City Council. The report updates our findings within the draft audit results report which was presented at the previous Audit Committee meeting dated 30 September 2020.

We have substantially completed our audit of Derby City Council for the year ended 31st March 2020. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements before the revised accounts publication date of 30 November 2020. We are reporting by exception about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit and Accounts Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Accounts Committee meeting on 4 November 2020.

Yours faithfully

Stephen Clark
For and on behalf of Ernst & Young LLP
Encl

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



Executive Summary

Status of the audit

We have substantially completed our audit of Derby City Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit planning report and updated scope as reported within the draft audit results report dated 30 September 2020.

Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements:

- Conclude on the pensions disclosures (IAS 19) including the review of adjustments made to pension liabilities for McCloud, pending IAS 19 assurances from the pension fund auditor.
- Receipt of a signed letter of management representation on conclusion of the audit
- ► Completion of subsequent event review procedures
- ► Conclude on managements going concern assessment and disclosures.
- Final review of the narrative report, annual governance statement and financial statements
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission. It should be noted that we cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's WGA consolidation pack.

Until work is complete, further amendments may arise.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Derby City Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ► There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- ► There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Accounts Committee.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified 4 significant risks to our value for money conclusion.

We performed the work set out in our audit plan in response to these risks and have concluded that the Authority's arrangements for 3 of the 4 significant risks are now in place and embedded.

We note there is evidence of weaknesses during the year in proper arrangements for partnership working in the local area and the ability of organisations to work together to effectively deliver strategic priorities, improving the health and experiences of the local population as described below:

During June 2019, a joint Ofsted and CQC inspection of the local Derby area was carried out to judge the effectiveness of implementation of special educational needs reforms following the Children and Families Act 2014. This inspection identified a number of significant areas of weakness in practice, resulting in the requirement for the City Council and CCG to issue a Written Statement of Action. The findings of the report identify that the City Council is not working effectively with partners to deliver required services and outcomes to the local population. We acknowledge the action taken to address the findings of the report and positive relationships with the schools sector across maintained and academies, to support transformational change to improve outcomes for children and young people in the City.

We concluded a qualified 'except for' VFM conclusion to be appropriate for the 2019/20 financial year. Details of our findings can be found in section 4 of this report.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

We have set out our observations at section 6 of the report.

Audit differences

We have identified 3 audit differences arising from our audit to date which has been adjusted for by the Authority. The material adjustments relate to:

- Incorrect classification of Revenue Expenditure Funded by capital under stature as capital expenditure (£1m)
- Reclassification of receipts in advance from short term to long term creditors (£0.3m)
- Reduction of the pensions liability following the conclusion of the McCloud judgement. (£2.9m)

We have further identified material adjustments to the disclosure pertaining to:

- Understatement of Internal Recharges (£4m)
- Incorrect Classification of revaluation losses as revaluation gains (£5m)

Details of this can be found in section 3. Currently we have no unadjusted errors. We will update Audit and Accounts Committee if there are any further issues arising from our incomplete audit procedures.

Other reporting issues

We received the Annual Governance Statement on 21 September 2020, we have carried out our review for consistency with our knowledge of the Authority and have not matters to report.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

We have no other matters to report.

Independence

Please refer to Section 7 for our update on Independence.



Significant risk

Risk of fraud in revenue and expenditure recognition for year end accruals and capitalisation of revenue expenditure.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Having considered the factors for expenditure recognition, we believe the risk is focused on year-end balance sheet and in particular the completeness and valuation of creditors and the existence and valuation of debtors. There is also a risk of incorrect cut-off in relation to revenue and or expenditure leading to transactions being reported in the wrong period.

We also believe the risk is linked to the existence of capital expenditure arising from the potential to incorrectly capitalise revenue expenditure.

What did we do?

- Documented our understanding of the processes and controls in place to mitigate the risks identified, and walked through the processes and controls to confirm our understanding
- Reviewed and tested expenditure recognition policies.
- Reviewed and discussed with management any accounting estimates on expenditure recognition for evidence of bias.
- Sample tested material revenue streams and operating expenditure
- Sample tested additions to property, plant and equipment to test whether the Authority has inappropriately capitalised revenue expenditure.
- Tested the cut-off of income and expenditure to ensure transactions are recorded within the correct period to which they relate
- Developed a testing strategy to test material receivables and payables; and
- Performed a search for unrecorded trade payables at period year.



What are our conclusions?

We have identified:

- Revenue expenditure funded by capital under statute (REFCUS) had been incorrectly classified as capital expenditure by £1m. Overstating capital expenditure and understating REFCUS.
- The income and expenditure internal recharges disclosed at Note 8 expenditure and Income analysed by nature, were understated by £4m, We further identified, £2.2m of recharges had also been omitted in prior year, as the value is not material, the accounts have not been adjusted for the error. There is no impact to the net income and expenditure disclosed on the comprehensive income and expenditure statement
- Receipts in advance were incorrectly classified as short term creditors. £348k has been reclassified as long term creditors.

The accounts have been adjusted for the current year findings and we are satisfied that the level of undetected misstatements is sufficiently low to enable us to conclude that no material misstatement has arisen as a result of fraud in revenue and expenditure recognition.



Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What did we do?

- ► Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewed and discussed with management any changes the methodologies of existing and new accounting estimates for evidence of bias;
- Enquired of management about risks of fraud and the controls put in place to address those risks;
- ► Evaluated the business rationale for significant unusual transactions; and
- ► Understood the oversight given by those charged with governance of management's processes over fraud.

What are our conclusions?

- ▶ We have not identified any material weaknesses in controls or evidence of material management override.
- Errors noted have been summarised at section 3, we have no further instances of inappropriate judgements being applied.
- We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business





Significant risk

Valuation of land and buildings

What is the risk?

Management is required to make material judgemental inputs and apply estimation techniques to calculate the yearend balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The fair value of other land and buildings represents a significant balance in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

The Authority has rolling valuation process, which annually values 20% of the land and building assets, is subject to a number of assumptions and judgements, which if inappropriate could result in a material impact on the financial statements. There is a potential risk of material misstatement that the remaining 80% of unvalued assets may have experienced a material change in value which has not been identified and accounted for correctly.

What judgements are we focused on?

We focused on the following:

- The adequacy of the scope of the work performed by the valuer including their professional capabilities
- The reasonableness of the underlying assumptions used by the Authority's expert valuer

What did we do?

- Documented our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding
- Evaluated the competence, capabilities and objectivity of management's specialist.
- Reviewed any terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards. And assess if the instruction includes a specific instruction from the Authority to the valuer relating to an assessment on the unvalued population;
- Engaged our valuation specialists to support our testing strategy and help evaluate the work of the Authority's valuer specifically to assess if the movement on the unvalued population has been addressed appropriately
- Engaged our valuation specialists to support our testing strategy and help evaluate the work of the Authority's valuer.
- ► Performed appropriate tests over the completeness and appropriateness of information provided to the valuer
- Reviewed the classification of assets and ensure the correct valuation methodology has been applied.
- Ensured the valuer's conclusions have been appropriately recorded in the accounts

Considered how the Authority's valuer has addressed the impact of Covid-19 in the year-end valuation of assets and assessment of impairments.



Significant risk

What are our conclusions?

- The Authority's PPE is valued by the District Valuation Office (DVO)).
- We have reviewed the instructions and data provided to the valuer by the Authority. We identified no issues.
- Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position.
- We have obtained input from EY's own valuation experts to review the work of the DVO and their qualifications.
- Our valuation specialist has reviewed the covid 19 discloures made by the DVS and confirmed that approach undertaken is consistent with valuations adopted across the public sector. They have confirmed that that the impact of Covid 19 has been factored into all assets held for sale and investment property valuations.
- The Authority's valuer included a material uncertainty sentence in their valuation report. We have reviewed the the asset classes, valuation methods and potential uncertainty impact of Covid 19 to the valuations. The assessment concluded the material uncertainly is specific to the assets valued using fair value, these are the surplus assets, assets held for sale and investment properties held by the council, totalling £21m, out of £1,164m. The council has updated note 6, Assumptions made about the future and other major sources of estimation uncertainty, highlighting the 'material valuation uncertainty' declaration and that it does not mean that the valuations cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that - in the current extraordinary circumstances - less certainty can be attached to the valuation than would otherwise be the case. Further the material uncertainty clause is to serve as a precaution and does not invalidate the valuation. Given the unknown future impact that COVID-19 might have on the real estate market and the difficulty in differentiating between short term impacts and long-term structural changes. The Council are keeping the valuations under review.
- Our valuation specialist has reviewed the valuation methods used by management's specialist valuer. We draw to your attention the Industrial Museum Silk Mill, the asset is undergoing enhancements with circa £16 million being spent over 2 years, The cost of enhancements to the property have not been recognised as at 31 March, Normally, our expectation would be that a specialized asset such as this which is effectively undergoing redevelopment would be categorized as Assets Under Construction and held at cost incurred, subject to testing for impairment through the redevelopment period. We noted, in this case, whilst some of the grants are being routed through the Council, the Council is not paying for the refurbishment - nor are they in control of the project which is being managed by the Trust and therefore it would be inappropriate to recognise any enhancement prior to completion of the project.
- The agreed approach therefore is to recognize the property at a value which reflects its unimproved state prior to the works in effect, a large, listed building which could be put to a range of uses but which would most likely attract a secondary rent. As a way of establishing a base value for the asset (i.e. land value plus some value for the existing, unimproved buildings). The resultant value reflects a significant discount from more standard commercial buildings and reflects the bespoke nature and unimproved condition of the property prior to the works. Clearly as at 31 March 2020, this building was undergoing refurbishment and was not capable of being let. Our review confirms the value included as at 31 March 2020 reflects its unimproved state prior to the works, and does not capture the value of the improvement works undertaken and this should be fully appreciated.
- Upon completion, a DRC valuation of the museum will be undertaken and the Council will recognize the property on its balance sheet at the resultant value. The Council has included a disclosure within their PPE note, to explain this and that an uplift in value for this asset will occur in the year ending 31 March 2021. Once the building is completed and operational then a Depreciated Replacement Cost (DRC) valuation should be undertaken.





Other areas of audit focus

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Derbyshire County Council.

The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2019 this totalled £466.5 million.

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

We focused on the following:

- ► The reasonableness of the underlying assumptions used by Hymans Robertson
- Ensuring the information supplied to the actuary in relation to Derby City Council was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Hyman's Robertson.

What did we do?

- We performed appropriate tests to obtain assurance over the information provided to the actuary.
- Wrote to the Pension Fund auditor to ascertain whether there are material concerns we need to be aware of for our audit.
- ► Ensured accounting entries and disclosures are consistent with the actuaries report.
- Assessed the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed the Actuary's report in conjunction with a review and testing of the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19

Our work has not been concluded, from the procedures carried out, our work has not identified any material misstatements of the Authority's liability or related disclosures in this regard.

- ▶ We have assessed and are satisfied with the competency and objectivity of the Authority's actuaries: Hymans Robertson LLP.
- ► EY pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate.
- Our review of accounting entries at period end and those journals made in processing estimate did not reveal any instances of management intention to misreport the financial position.





Other areas of audit focus

Pension Liability Valuation (Continued)

- Last year the government's appeal in relation to the age discrimination present in public sector schemes was ruled against in the High Court. Consequently, some members of the schemes need to be compensated with higher benefits. Some schemes made an allowance for this impact as past service cost in their accounts last year. As no guidance had been provided in how new members would be compensated, the adjustment made was an estimate. On the 21 July 2020 a consultation document was released which provided further details on how benefits would be changed to remove the age discrimination.
- Consequently, following the conclusion of the McCloud judgement, the Authority requested an update to the Actuary report to take into consideration the impact of the judgement, the revised actuary report indicated the pension liability had been overstated by £2.9m, the Authority have updated their accounts.
- We are awaiting the IAS19 assurance letter from the Pensions fund auditor to conclude on our work.





areas of audit focus continued

PFI Financing

The Authority has a number of assets held under PFI arrangements. Four of these are recorded on the Authority's balance sheet, one is not. Such arrangements are complex and substantial in value.

Our approach focussed on:

- Obtaining and documenting an understanding of the schemes
- Considering whether the scheme falls within IFRIC 12 and should be accounted for on balance sheet
- Ensuring the outputs from the accounting model are correctly reflected in the financial statements, and relevant disclosures have been made
- ► Considered the impact of Covid-19 on the financial stability of providers

We have confirmed that there have been no significant new PFI contracts or contract variations in the year. There were no material misstatements identified as a result of our procedures. In terms of CoVID 19, we have undertaken procedures to determine the stability of provides.

Accounting for SinFIn Waste Plant

Derby City Council and Derbyshire County Council contracted with Resource Recovery Solutions Derbyshire (RRS) to manage the Sinfin Waste Plant. The waste treatment centre was due to open in Sinfin in 2017, but RRS has been unable to resolve ongoing issues that would allow the facility to pass the certified performance tests required to bring it into full service. In April, the two councils issued a formal notice to the project's funders to take action under the contract to progress the project. The agreement with RRS to manage the Sinfin Waste Plant was cancelled in August 2019 when the banks funding the project issued a legal notice. There is a risk that any associated transactions are not accurately accounted for in the financial statements.

We reviewed the transactions associated with SinFIn and noted, £2.9m has been spent to date to secure the site and carry out viability assessment, these costs have been capaillised, however there is a risk, should the Authority not progress with the waste plant, the expenditure will need to be written of to revenue. We have recommended the Authority disclose the costs to date, and its impact, to the fair value of the asset and risk should the asset not be purchased. In addition we will request management representation from the Audit Committee and management confirming the costs incurred to date should be capitalised.

Recognition of grant income

The Authority has received additional funding in the form of grants as a result of the Covid-19. There is the potential for the recognition and treatment of these grants to be manipulated to improve the reported position

We have tested the grant income received as a result of Covid -19, and have assurance the grant income has been accurately recorded and recognized in the correct period.





Other matters continued

Going Concern

Covid-19 has created a number of financial pressures throughout Local Government. Dependent on the circumstances of the individual body it is creating financial stress in either or a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.

There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 *Going Concern*, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Authority's assessment will also need to cover this period.

We note the Authority has updated their financial plans for 2020/21 and is in the process of refreshing the medium term financial plan, as a result of Covid-19, see section 4 for further details. The Authority has provided EY with the going concern assessment, and concluded the Authority has appropriate level of reserves and access to funds, over the 12 month period from the audit report.

The Authority has updated the going concern disclosures, to disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance. Given the significance of the pandemic we acknowledge that the Authority faces finance challenges due to COVID-19, based on the management assessment there is headroom within the general fund to absorb the estimated financial impact of the outbreak in the short to medium term.

We have not concluded our work in this area. However, from the work carried out to date, we do not consider an Emphasis of Matter paragraph in respect of impact of CoVID 19 on the operations and finances of the Authority will be required within our audit report, to draw a lay reader of the financial statements to this key disclosure note of the Authority, and to demonstrate that there is no material uncertainty on Going Concern.

The Council are working through our queries, specifically over the cash flow forecast, where we are unable reconcile the inflows and outflows to the final cash position disclosed within the forecast between April 2020 to March 2021. We note the cash position includes £20m, £15m relating to Derby Homes Limited and £5m held on behalf of Trust funds and third parties. In addition the Council were able to reconcile the period April 2021 to December 2021 and this resulted in the cash position to worsen by £5m.

We will require consultation before we are able to conclude.





Other matters continued

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Skype to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £0.33m which have been corrected by management that were identified during the course of our

- The Authority had incorrectly classified £1.03m Revenue Expenditure Funded by Capital Under Stature (REFCUS) as capital spend, understating REFCUS and overstating capital expenditure.
- The Authority has reclassified an amount of £348k from short term to long term creditors.
- The pensions liability has been reduced by £2.9m following conclusion of the McCloud judgement in relation to pension liabilities. This judgement was confirmed after the preparation of the draft financial statements. An additional actuarial valuation was obtained to reach a more precise impact than the initial estimate. This has a corresponding impact on the cost of services in the comprehensive income and expenditure statement.

There were no uncorrected misstatements.

Disclosure amendments

In addition we identified a number of disclosure differences during the course of our audit procedures which were corrected by management in the final statement of accounts, as follows:

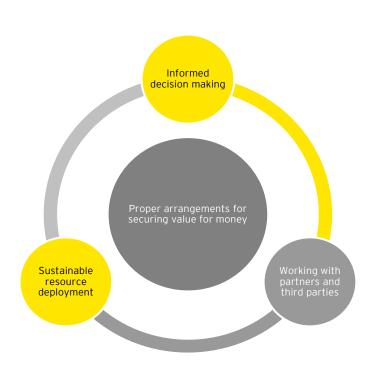
- In the exit packages disclosure note was understated by £9k due to the erroneous omission of an employee from the supporting employee listing. In addition the disclosures were updated to align to the requirements of CiPFA's code of practice.
- An adjustment has been made to the related parties disclosure note as a difference of £69k was noted.
- We have identified that there was an error in the treatment of revaluation losses for 2019/20 amounting to £5m. These revaluation losses have been incorrectly classified as revaluation gains matched to prior year accounts in Note 7. This does not have an impact on the income statement and is a presentation and disclosure issue within note 7, management have made above adjustments. (This error was identified and corrected prior to publishing the draft version of accounts)
- The Authority increased the income and expenditure internal recharges disclosed at Note 8 expenditure and Income analysed by nature, by £4m, from £19m to £23m, there is no impact to the net income and expenditure disclosed on the comprehensive income and expenditure statement. We further identified, £2.2m of recharges had also been omitted in prior year, as the value is not material, the accounts disclosures have not been adjusted for the error. There is no impact to the net income and expenditure disclosed on the comprehensive income and expenditure statement for the current year.

The are other minor disclosure amendments we noted were not corrected in the latest version of the statement of accounts.



V F M

Value for Money



Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion. Our review has not identified further risks.

Overall conclusion

We identified 4 significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention. As a result of our procedures, we conclude that a qualified 'except-for' conclusion with respect to your arrangements over working with third parties effectively to deliver strategic priorities in relation to implementing the disability and special educational needs (SEND) reforms.



₹ Value for Money

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?

arrangements did the risk affect?

What

What are our findings?

Results of regulatory reviews and commentary

During June 2019, Ofsted and the Care Quality Commission (CQC) conducted a joint inspection of the local Derby area to judge the effectiveness of the area in implementing the disability and special educational needs (SEND) reforms. The inspection raised significant concerns about the effectiveness of the local area and a written statement of action to Ofsted that explains how the local area will tackle the following areas of significant weakness is to be submitted:

- ► the failure of the local area to take the joint commissioning actions required to implement the reforms across education, health and social care;
- the lack of an overarching coproduced strategy for improving provision for and outcomes of children and young people with SEND;
- the number of significant weaknesses in the EHC processes, timeliness, quality and outcomes of plans;
- the long-standing systemic issues with waiting times to access a large number of key services;
- poor parental engagement with plans for local area SEND provision and high levels of parental dissatisfaction.

The joint report of OFSTED and the CQC issued 19 August 2019 highlight significant weaknesses which indicates a significant risk to the VFM conclusion in terms of working with third parties effectively to deliver strategic priorities.

Working with partners and other third parties

Working with third parties effectively to deliver strategic priorities.

Nationally the looked after children and SEND service provision has seen increased pressures, specifically for SEND.

We have obtained the written statement of action to the inspectorate, which details plans to address the significant weaknesses highlighted. We note the Authority has a clear action plan with dates to complete implementation. The inspectorate reviewed the action plan and wrote to the Authority in December 2019, and concluded the statement of action is deemed to be fit for purpose in setting out how the local area will tackle the significant areas of weakness identified in the published report letter. However, some minor improvements are required noting many actions have guite short time frames for completion, therefore these timescales may require further review to ensure they are fully achievable.

It is clear from discussions with officers, the significant weaknesses highlighted by the report have been understood by the Authority and addressing the weaknesses was a key priority for 2019/20.

On review of the significant weaknesses highlighted by the report we have concluded that the Authority's arrangement, to work effectively with partners to deliver required services and outcomes to the local population specifically over SEND, were not in place throughout 2019/20 and a qualified 'except-for' conclusion will be issued.



Value for Money

Value for Money Risks

What is the significant value for money risk?

From the medium term financial strategy (MTFS), updated in February 2020, the Council has identified it will experience budget gaps across the next three years ranging from £3.1m in 2021/22 and decreasing to £2.9m in 2022/23.

The proposed saving planned over the three years total £8.8m, with £4.7m planned in 2020/21.

A one off £2.7m use of reserves is to be utilised to fund the collection fund deficit in 2020/21.

Going forward the Council will need to reassess its financial strategy in light of Covid-19 and the impact to its financial plans, to achieve budget savings in order maintain delivery of Council services, and to enable it to hold an adequate level of useable reserves.

What arrangements did the risk affect?

Sustainable resource deployment

Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

What are our findings?

We have performed the work as set out in our Audit Plan and are satisfied that based on the evidence reviewed, the Authority has put in place adequate arrangements to address this significant risk. In forming this view we noted that;

The Authority set a budget of £224.6m and a £7.813m savings target for 2019/20, our work confirmed the savings target was delivered, however the balanced position was acheived after use of the Budget Risk reserve of £6.195m.

The 2020/21 budget set of £238m in February showed the Authority will be using reserves of £2.77m, to balance the budget, and a savings requirement of £4.746m. At Quarter 1, the forecast was an overspend of £8.3m and the expectation that £2.970m savings will be delivered. The Authority's current full year potential forecast pressure is £28.7m as a result of Covid-19 and have received £17.3m in government funding. The Authority expect to receive further funding in the form of income guarantee allocation, if no further funding is made available, the Authority will require £11.9m reserves funding to meet the pressure.

In 2020/21 the council had planned to use of reserves of £2.772m however £2.580m of this is to the fund collection fund deficit, the £11.9m is in addition to the planned use of balances of £2.7 million from the General reserve which are unmarked funds. By way of context, the General Fund balance as at 31 March 2020 is £215.5 million (subject to year-end adjustments and audit). The revenue earmarked reserves held by the Council total £84.827m, plus £10.933 general fund. The revenue reserves include a £13m Budget Risk Reserve and a £7m Covid 19 Reserve. Therefore the use of revenue reserves of £11.9million would not leave the Council exposed in 2021/22. It would reduce the earmarked reserves from £84.8m by £11.9m, the latest monitoring report shows there are other pressures over and above Covid-19, which would also require use of reserves, this would reduce the earmarked reserves to £53.6m, plus £10.933 general fund, a total of £64.533m revenue reserves,

The latest medium term finance plan, forecasts, a further £20.1m of reserves are to be used in 2021/22, the use reduces to £1.6m in 2022/23 and £0.4m in 2023/24. No use of reserves is required in 2023/24.

We note that the MTFP and the process of identifying achievable savings and quantifiable pressures is sufficiently robust. Adequate plans and reporting is in place to deliver and monitor the identified savings.

We conclude that the robustness of the MTFP has no impact on our VFM conclusion.



Value for Money Value for Money

Value for Money Risks

| What is the significant value for money risk | What is | the sign | ificant va | lue for mone | y risk? |
|--|---------|----------|------------|--------------|---------|
|--|---------|----------|------------|--------------|---------|

Sinfin Waste Management

Derby City Council and Derbyshire County Council contracted with Resource Recovery Solutions Derbyshire (RRS) to manage the Sinfin Waste Plant. The waste treatment centre was due to open in Sinfin in 2017, but RRS has been unable to resolve ongoing issues that would allow the facility to pass the certified performance tests required to bring it into full service.

In April, the two councils issued a formal notice to the project's funders to take action under the contract to progress the project. The agreement with RRS to manage the Sinfin Waste Plant was cancelled in August 2019 when the banks funding the project issued a legal notice.

The Councils are currently in a 6 stage process to assess the options available

What arrangements did the risk affect?

Informed Decision Making

Managing and utilising assets effectively to support the delivery of strategic priorities

What are our findings?

We have held discussions with the Council Officers to understand the assessment undertaken and planned course of action.

The key decisions were communicated to the Authority in a timely manner, the meetings held were as follows:

Cabinet - 20 September 2018 Cabinet - 12 December 2018 Cabinet - 28 February 2019

Urgent Leaders report - 2 August 2019

There has also been an Audit and Accounts Risk Surgery on 11 June 2020.

The Authority is currently at stage 2 of the decision making process and we will continue to monitor this as the Authority progresses to each stage of the process.

We have not noted any weakness in arrangement arrangements for informed decision making and therefore there is no impact on our VFM conclusion.



🙀 Value for Money

Value for Money Risks

What is the significant value for money risk?

Significant overspend on capital projects

The A52 improvement project is a significant capital project, which is still ongoing. In 2018/19, we reported the project had been subject to substantial overspend, which highlighted reporting and control issues. This provided evidence of weaknesses in proper arrangements for informed decision making, sustainable resource deployment and working with partners and other third parties.

Assembly rooms - The latest projections show that the project will now cost £30 million, £6 million more than the £24 million budget, calling into question the sustainability and viability of the business case for a renewed Assembly Rooms. Work on the project has now been stopped while an in-depth evaluation takes place and consideration is given to the appropriate next steps and the options going forward.

We will continue to monitor progress of the A52 improvement project and the assembly rooms in 2019/20.

What arrangements did the risk affect?

Informed Decision Making

Managing and utilising assets effectively to support the delivery of strategic priorities

What are our findings?

The Authority created the Project Management Office (PMO) in September 2018, aimed at improving the oversight, monitoring and reporting of capital projects. The Authority has continued with the reporting by project teams to ensure project risks and issues are reported and considered by the senior leadership team. We have not noted any weakness in arrangement arrangements for informed decision making. The progress of the A52 Transport Improvement scheme and Assembly rooms followed the process set up by the Authority and are summarised below:

A52 Transport Improvement scheme - we note slippage of (£1.036m) and was reported as part of the capital outrun report, This is due to the February works (£0.928m) which were less than forecast because of a delay in surfacing caused by wet and cold weather and a delay in the works to install the attenuation tanks due to protracted design certification. The budget for the speed cameras (£0.108m) has been slipped because the installation programme has been rearranged around other site activities.

Assembly rooms - the Authority reported to the Cabinet on 15 July 2020, of the options available, with a recommendation to be demolish the existing building and have the performance venue in Becketwell.

It is anticipated that £10.750 million of the existing budget approved for the refurbishment of the Assembly Rooms will be available to be redirected into the Becketwell Performance Arena business. This is net of abortive costs on the Assembly Rooms, estimated demolition costs and the refunding of external funding previously secured from the LEP. New External Funding is being sought for the new Performance Venue at Becketwell which if secured would reduce the net borrowing costs.

We have not noted any weakness in arrangement arrangements for informed decision making and therefore there is no impact on our VFM conclusion.



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements

Financial information in the Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We received the Annual Governance Statement on 21 September 2020, we have carried out our review for consistency with our knowledge of the Authority and have not matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are yet to conclude our work in this area.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process.

Impact of CoVID 19 our audit opinion will emphasise the followings:

We are currently concluding on our going concern assessment, we anticipate the following:

➤ Going Concern

Subject to satisfactory conclusion of our outstanding queries, we do not anticipate including an emphasis of matter paragraph in our audit report in respect of the impact of CoVID 19 on the operations and finances of the Authority.





Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

As a result of the work undertaken, we have identified some deficiencies in internal control as follows:

- 1) The audit differences noted at section 3 of our report, highlight improvements which can be made to the closedown process over:
- a) Recognition of Revenue Expenditure Funded by Capital Under Stature (REFCUS)
- b) Classification of creditors
- c) Recognition of internal recharges this is the second year, our audit procedures have identified material adjustments to the accounts.
- d) Treatment of revaluation losses
- e) Completeness of exit packages and related parties disclosure note

We recommend as part of the closedown process the finance team work with departments, to ensure similar errors are not repeated as follows:

- a) A thorough review should be undertaken to ensure the completeness and accuracy of expenditure funded by capital.
- b) Review processes for receipts in advance to identify split between long term and short term creditors.
- c) Directorates should have clear guidelines pertaining to the recharge transactions that fall within their ambit for reporting.
- d) Processes should be implemented to ensure that valuation movements are correctly classified.
- e) Additionally, during the closedown process the supporting listings and reports that feed into the disclosures are checked for accuracy and completeness of information.
- 2) The annual governance statement has not been made available alongside the draft accounts for the inspection period.

The matters reported here are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.





Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report presented on 29 July 2020. We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 30 September 2020.

As part of our reporting on our independence, we set out a summary of the fees you have paid us in the year ended 31 March 2020

We confirm that we have not yet undertaken non-audit work, our planned work is summarised. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017

| | Final Fee 2019/20 | Planned Fee 2019/20 |
|--|--------------------|---------------------|
| Description | £ | £ |
| Audit Fee - Code work* | 109,766 | 109,766 |
| Increase in scale fee/scale fee Variation | 155,177 *Note 1 | 155,177 |
| Housing Benefit Subsidy Claim | 20,846 | 20,846 |
| Teacher's Pension Audit | 6,500 | 6,500 |
| Pooling of Housing Capital Receipts | 5.000 | 5.000 |
| Total other non-audit services | 31,346 | 31,346 |
| TOTAL | ТВС | 264,883 |

Note 1: The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform once we have quantified the impact on our audit fee, we will discuss with the Strategic Director of Corporate Resources and report the final agreed fee in our annual audit letter.



Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The audit fee table includes a summary of the fees that we have agreed to undertake, for the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute. We confirm that none of the services listed in the audit fee table on the previous page has been provided on a contingent fee basis.



New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services
 - Remuneration advisory services
 - Internal audit services
 - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.



Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf





Audit approach

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Our approach to the audit of the balance sheet has not change from the prior year audit.



Appendix B

Summary of communications

| Date | Nature Nature | Summary |
|----------------------|--------------------|--|
| 14 January 2020 | Meeting | The Senior manager along with other senior members of the audit team, met with the management team and head of internal audit to discuss the matters identified as part of the first quarter review. |
| 05 February 2020 | Meeting | The partner in charge of the engagement, along with the senior manager, met with the s151 officer to discuss matters affecting the audit this year. |
| 16 July 2020 | Meeting | The partner along with senior members of the team met with S151 Officer and the Finance team to discuss audit progress and matters identified for $19/20$. |
| 29 July 2020 | Report and meeting | The audit planning report, including confirmation of independence, was issued to the Audit and Accounts Committee. |
| 10 August 2020 | Meeting | The partner in charge of the engagement along with senior members of the audit team met with relevant directors to discuss matters affecting the Value for money conclusion |
| 30 September 2020 | Report | The audit results report, including confirmation of independence, to be issued to the Audit and Accounts Committee. |
| | | |

In addition to the above specific meetings and letters the audit team met with the management team weekly throughout the audit to discuss audit findings.



Appendix C

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

| | | Our Reporting to you |
|-------------------------------------|---|--|
| Required communications | What is reported? | When and where |
| Terms of engagement | Confirmation by the <u>audit committee</u> of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the form engagement between the al terms of PSAA's appointed auditors and audited bodies |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter. | July 2020 -Audit planning report |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | July 2020 -Audit planning report |
| Significant findings from the audit | Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures Significant difficulties, if any, encountered during the audit Significant matters, if any, arising from the audit that were discussed with management Written representations that we are seeking Expected modifications to the audit report Other matters if any, significant to the oversight of the financial reporting process | September and November 2020 - Audit Results Report |



| | | Our Reporting to you |
|--------------------------|--|--|
| Required communications | What is reported? | When and where |
| Public Interest Entities | For the audits of financial statements of public interest entities our written communications to the audit committee include: A declaration of independence The identity of each key audit partner The use of non-member firms or external specialists and confirmation of their independence The nature and frequency of communications A description of the scope and timing of the audit Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits Materiality Any going concern issues identified Any significant deficiencies in internal control identified and whether they have been resolved by management Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof The valuation methods used and any changes to these including first year audits The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework The identification of any non-EY component teams used in the group audit The completeness of documentation and explanations received Any significant difficulties encountered in the course of the audit Any other matters discussed with management Any other matters considered significant | July 2020 - Audit planning report September and November 2020 - Audit results report |



| | | Our Reporting to you |
|-------------------------|--|---|
| Required communications | What is reported? | When and where |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ► Whether the events or conditions constitute a material uncertainty ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ► The adequacy of related disclosures in the financial statements | September and November 2020 - Audit Results Report |
| Misstatements | Uncorrected misstatements and their effect on our audit opinion The effect of uncorrected misstatements related to prior periods A request that any uncorrected misstatement be corrected Material misstatements corrected by management | September and November 2020 - Audit Results Report |
| Subsequent events | ► Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | September and November 2020 - Audit Results Report |
| Fraud | Enquiries of the Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority Any fraud that we have identified or information we have obtained that indicates that a fraud may exist Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: Management; Employees who have significant roles in internal control; or Others where the fraud results in a material misstatement in the financial statements. The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected Any other matters related to fraud, relevant to Audit and Accounts Committee responsibility. | September and November 2020 - Audit Results Report |



| | | Our Reporting to you |
|-------------------------|---|---|
| Required communications | What is reported? | When and where |
| Related parties | Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: Non-disclosure by management Inappropriate authorisation and approval of transactions Disagreement over disclosures Non-compliance with laws and regulations Difficulty in identifying the party that ultimately controls the Authority | September and November 2020 - Audit Results Report |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: The principal threats Safeguards adopted and their effectiveness An overall assessment of threats and safeguards Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. | July 2020 -Audit planning report September and November 2020 - Audit results report |



| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| External confirmations | Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures. | September and November 2020 - Audit Results Report |
| Consideration of laws and regulations | Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of | September and November 2020 - Audit Results Report |
| Significant deficiencies in internal controls identified during the audit | ► Significant deficiencies in internal controls identified during the audit. | September and November 2020 - Audit Results Report |



| | | Our Reporting to you |
|---|--|--|
| Required communications | What is reported? | When and where |
| Group Audits | An overview of the type of work to be performed on the financial information of the components An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. | September and November 2020 - Audit Results Report |
| Written representations we are requesting from management and/or those charged with governance | ► Written representations we are requesting from management and/or those charged with governance | September and November 2020 - Audit Results Report |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | ► Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | September and November 2020 - Audit Results Report |
| Auditors report | ► Any circumstances identified that affect the form and content of our auditor's report | September and November2020 - Audit Results Report |
| Fee Reporting | Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work | July 2020 - Audit planning report September and November 2020 - Audit results report |
| Certification work | ► Summary of certification work | N/A - No certification work carried out |



Management Rep Letter

To be prepared on the entity's letterhead] [Date]

Ernst & Young LLP

1 Colmore Square Birmingham B4 6HQ

This letter of representations is provided in connection with your audit of the financial statements of Derby City Council ("the Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Derby City Council as of 31 March 2020 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

- 1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
- 2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20. We have approved the financial statements.
- 3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
- 4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
- 5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.



Management Rep Letter

B. Non-compliance with law and regulations, including fraud

- 1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
- 2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
- 3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
- 4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

- 1. We have provided you with:
 - 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:
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- 2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic.
- 3. We have made available to you all minutes of the meetings of the County Council, Cabinet and Audit and Accounts Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 30 September 2020.
- 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
- 5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.



Management Rep Letter

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

- 1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
- 2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
- 3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed to you all guarantees that we have given to third parties.
- 4. No claims in connection with litigation have been or are expected to be received.

E. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Other information

- 1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement and Narrative Statement.
- 2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for



Management Rep Letter

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of non-current assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Accounting Estimates

Valuation of Pension Asset/Liabilities and Property, Plant and Equipment

- We believe that the measurement processes, including related assumptions and models, used to determine the above accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
- We confirm that the significant assumptions used in making the estimated valuations of Pension Asset/Liabilities and Property, Plant and Equipment appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council.
- 3. We confirm that the disclosures made in the council financial statements with respect to the accounting estimates are complete including the effects of the COVID-19 pandemic on 16 March 2020 and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
- 4. We confirm that no adjustments are required to the accounting estimates and disclosures in the council financial statements due to subsequent events, including due to the COVID-19 pandemic.
- 5. The costs incurred to date on the new waste management plant (SinFln) is of capital nature and we believe are appropriate to be capitalised.

| Yours faithfully, | |
|--|-----------|
| Simon Riley | |
| s151 Officer | |
| | _ |
| Cllr Willoughby Chair of the Audit and Accounts | Committee |

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ED None

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