

# Derby City Council

External Audit Progress Update Report  
for the year ended 31 March 2016

18 November 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies 2015-16". It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk))

The 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 from 1 April 2015' 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. This report is intended solely for the use of the Members of the audited body. 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.

## 1. Progress since our last report

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the progress made in performing the audit of the draft 2015/16 Derby City Council financial statements since the 28 September 2016 meeting of the Audit and Accounts Committee.

Asset valuations	<p>The Council's Estates team have continued to work through the substantial task of revisiting the asset valuations included in the rolling programme for 2015/16 as well as reviewing the remaining asset portfolio for items considered at greatest risk of inappropriate valuation, and also re-valuing those assets.</p> <p>Management anticipate being in a position to share the revised valuations with EY by 1 December 2016.</p> <p>During the month of December 2016, and into the early part of January 2017, the EY valuation specialists will review in detail a sample of the revised asset valuations.</p> <p>In addition, we will be performing the following procedures to address the concerns raised by our initial testing and reported to the Audit and Accounts Committee on 28 September 2016:</p> <ul style="list-style-type: none"> <li>• Reviewing the data mapping between the valuations prepared by the Estates team and the valuations included within the Council's fixed asset register (which drives the financial statements)</li> <li>• Reviewing the fixed asset register for significant unusual items</li> <li>• Auditing all other balances and disclosure notes in the revised financial statements which flow from the asset valuations.</li> </ul> <p>These procedures are currently scheduled to be performed in February 2016.</p>												
Tenants rents receivable	<p>Tenants rents receivable are recorded in the draft financial statements at £4.2mn.</p> <p>Officers have been working to obtain information from the Council's systems to support the existence and recoverability of this debt at 31 March 2016. This has been unsuccessful to date and we have therefore not been able to make any progress towards auditing this balance.</p>												
Pension scheme assets and liabilities	<p>We have concluded our procedures with respect to the Council's pension scheme asset and liabilities and have no significant matters to report.</p> <p>We note that the Council is carrying a £530k provision for pension obligations with respect to individuals who were employees of Derby City Transport at the time that it was sold to a consortium of its managers and employees, and Luton &amp; District in July 1989.</p> <p>Very little information concerning the extent of this liability is held by Derby City Council.</p> <p>The Council are awaiting information from Derbyshire County Council (who administer the payments to the scheme) to confirm the appropriateness of the value assigned to this provision.</p>												
Council tax and National Non-Domestic Rates (NNDR) doubtful debt provisions	<p>On 28 September 2016 we communicated to you our concern over the appropriateness of the collectability rates assumed by the Council in calculating the doubtful debt provisions for both Council Tax and NNDR.</p> <p>The collectability rates have now been reviewed and updated by management and the provisions will be adjusted as follows in the final financial statements:</p> <table border="1" data-bbox="582 1780 1460 2060"> <thead> <tr> <th></th> <th>Provision in draft accounts £'000</th> <th>Revised provision to be included in the final accounts £'000</th> <th>Adjusted audit difference £'000</th> </tr> </thead> <tbody> <tr> <td>Council Tax</td> <td>8,475</td> <td>9,303</td> <td>828</td> </tr> <tr> <td>NNDR</td> <td>3,355</td> <td>3,792</td> <td>437</td> </tr> </tbody> </table>		Provision in draft accounts £'000	Revised provision to be included in the final accounts £'000	Adjusted audit difference £'000	Council Tax	8,475	9,303	828	NNDR	3,355	3,792	437
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Council Tax	8,475	9,303	828										
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National Non-Domestic Rates appeals provision	<p>On 28 September 2016 we communicated to you our concern over the appropriateness of the success rates assumed by the Council in calculating its provision for NNDR appeals. The Council has reconsidered its method for calculating the NNDR appeals provision, to more closely link the assumptions made to historical appeals settlement rates. This has resulted in the following adjustment which will be recorded in the final accounts:</p>								
<table border="1"> <thead> <tr> <th data-bbox="584 477 805 640"></th> <th data-bbox="805 477 1027 640">Provision in draft accounts £'000</th> <th data-bbox="1027 477 1249 640">Revised provision to be included in the final accounts £'000</th> <th data-bbox="1249 477 1465 640">Adjusted audit difference £'000</th> </tr> </thead> <tbody> <tr> <td data-bbox="584 640 805 734">NNDR appeals provision</td> <td data-bbox="805 640 1027 734">7,587</td> <td data-bbox="1027 640 1249 734">8,011</td> <td data-bbox="1249 640 1465 734">424</td> </tr> </tbody> </table>		Provision in draft accounts £'000	Revised provision to be included in the final accounts £'000	Adjusted audit difference £'000	NNDR appeals provision	7,587	8,011	424	
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NNDR appeals provision	7,587	8,011	424						
Assets held under Private Finance Initiative (PFI) schemes	<p>The Council has 5 PFI schemes (4 are recorded on the balance sheet, 1 is not). We agree with the Council's assessment of whether the schemes should be on/off balance sheet.</p> <p>We have engaged the assistance of our PFI specialist in auditing the significant balances within the Council's financial statements that are derived from these schemes. In drawing this work to a close, we have noted that the assumptions used by the Council in the application of the PFI models (which were drawn up many years ago) are not in line with industry norms. This results in significant differences in the expenditure recorded in the Council's financial statements than would be expected. The lack of corporate memory referred to in our progress report presented to the 28 September 2016 Audit and Accounts Committee means that the rationale for why these assumptions were originally made by the Council is unclear.</p> <p>We are currently in discussions with Management about how best to take this issue forward in the final financial statements.</p>								
Reporting of balances with respect to Derby Homes Limited	<p>We have received all required reporting from BDP LLP as auditor of Derby Homes Limited and have reviewed the consolidation into Derby City Council group accounts. No significant issues have been noted as a result of this work.</p>								
Income and expenditure testing	<p>We have now completed our substantive testing of the Council's operating expenditure and have no matters of significance to report.</p> <p>Our substantive testing of the Council's income from fees, charges and other service income is ongoing. We anticipate being in a position to conclude this work by early December.</p>								
Testing of debtor and creditor balances at 31 March 2016	<p>Our sample testing of debtor and creditor balances at 31 March 2016 discovered a number of errors, caused by a variety of factors. In order to form a conclusion as to whether the errors found in our sample testing were truly indicative of errors throughout the entire debtor and creditor balances within the draft financial statements, we requested that management perform some further work to quantify the extent of these errors.</p> <p>The finance team have performed the requested work, which we are in the process of corroborating. This will result in a number of reclassification adjustments to the draft financial statements which we are in the process of finalising and agreeing with management.</p>								
Follow up of actions being taken in response to the Grant Thornton Public Interest Report	<p>We have met with both the Senior Management team at the Council, and the Cabinet Member with responsibility for Governance to review the Council's progress against the action plan which was put in place following the publication of Grant Thornton's Public Interest Report.</p> <p>It is important that the progress being achieved continues to be monitored and challenged to ensure that the matters raised in the Public Interest Report are unable to recur. In our view, the Audit and Accounts Committee plays a particularly important role and have a significant responsibility in this regard.</p>								

At the conclusion of our audit, we will issue a full Audit Results Report to the Audit and Accounts Committee setting out in full the work that we have performed and the conclusions reached.

We continue to work closely with the Council's Management team and staff and thank them for their continued assistance during the course of our work.

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

## 2. The path to audit conclusion

### The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council must, in addition, submit to Central Government a 'Whole of Government Accounts Return'.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Purpose of our work

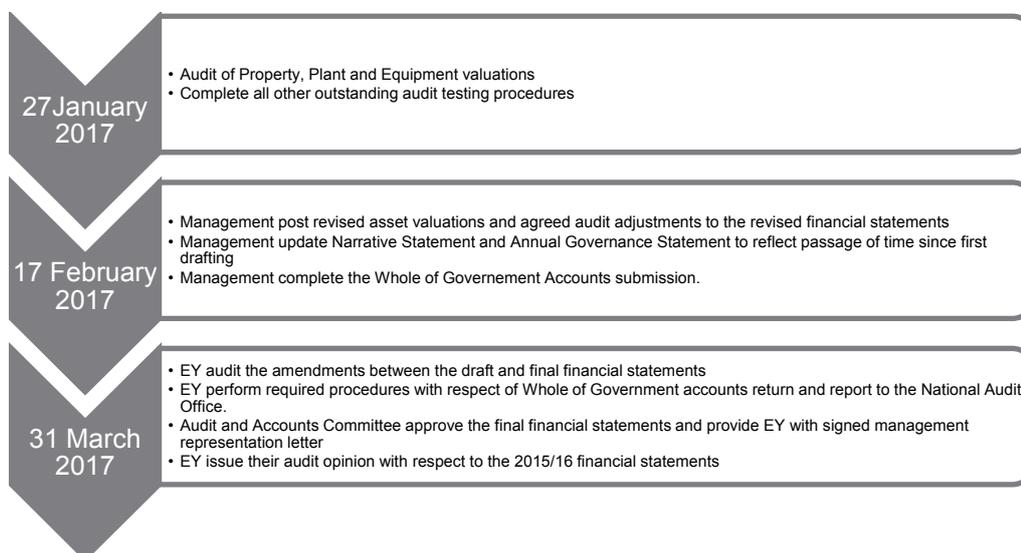
Our audit is designed to:

- ▶ Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- ▶ Report on an exception basis on the Annual Governance Statement;
- ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- ▶ Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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 are specified by the National Audit Office.

There remains a significant amount of work to be done.

The diagram below sets out at a high level the steps that need to be taken to complete the 2015/16 external audit and the anticipated timelines.



## Appendix A Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 23 March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. 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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

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 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 November 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 23 March 2016.

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