

# Derby City Council

Annual Audit Letter 2008/09

23 December 2009

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# 1 Introduction

## 1.1 Purpose of this letter

The purpose of this Annual Audit Letter ('letter') is to summarise the key issues arising from the work that we, Grant Thornton UK LLP, have carried out to the year end 31 March 2009 at Derby City Council (the Council).

This letter is intended to communicate the significant issues we have identified, in an accessible style, to the Council and key external stakeholders, including members of the public. The letter should be published on the Council's website.

## 1.2 The scope of our work

Our main responsibility as your external auditors is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice ('the Code'). Under the Code, we are required to review and report on:

- the Council's accounts; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider should be addressed by the Council.

## 1.3 Key audit outcomes for 2008/09

- we held a seminar on key accounting issues for 2008/09 at our Birmingham office;
- we provided a workshop and seminar explaining the implications of the new 'Use of Resources' assessment;
- we issued an unqualified opinion on the Council's accounts;
- we issued an unqualified value for money conclusion; and
- we recognised the Council was performing adequately in its use of resources.

## 1.4 Acknowledgements

We would also like to formally record our appreciation for the work carried out by the Council's finance team. Their efforts, and their assistance provided to us in completing our audit, are much appreciated.

## 1.5 Appendices

A list of all significant recommendations issued to the Council through the 2008/09 audit is provided at Appendix A. Our responsibilities, as your external auditor, are set out at Appendix B and we set out our budgeted and actual fees at Appendix C. We demonstrate, at Appendix D, how the significant risks raised in the Audit Plan, as presented to the Audit & Accounts Committee on 26 June 2008, have been concluded during 2008/09.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

## 2 Audit of accounts

### 2.1 Key issues arising from the audit of the accounts

We issued an unqualified audit opinion on the Council's accounts on 30 September 2009, thereby meeting the required deadline. Our opinion confirms that the accounts present fairly the financial affairs of the Council as at 31 March 2009 and its income and expenditure for the year then ended.

Prior to giving our opinion on the accounts, we reported the significant matters arising from the audit to the Council's Audit & Accounts Committee. A detailed report was presented to the Audit & Accounts Committee on 24 September 2009 and only the key issues are summarised here.

### 2.2 Key issues

The overall quality of the Council's working papers to support the 2008/09 accounts was markedly improved from that of 2007/08 and the Audit & Accounts Committee approved the accounts on 25 June, in advance of the 30 June 2009 deadline.

The quality of the accounts was much improved from 2007/08, although our audit identified the following significant matters. Whilst the amounts involved were significant, none of the adjustments impacted on the Council's General Fund and so there was no impact on future Council Tax requirements:

#### Impairment of Council Dwellings

Our audit procedures identified that an impairment review of Council Dwellings had not been undertaken to assess any material change in asset values from 1 April 2008 (the date of the latest valuation) to 31 March 2009. Such an exercise was particularly important this year, as it was a period during which asset values nationally have been widely reported to have fallen, as a result of the economic climate.

During the audit, the Council engaged its in-house valuer to assess whether the value of its Council Dwellings had been impaired at 31 March 2009 and the valuer concluded that values had fallen by 16%. This resulted in an adjustment to the 2008/09 Statement of Accounts, reducing asset values by £108m.

#### Impairment of Tangible Fixed Assets

During the course of our work we identified that assets last revalued at:

- 1 April 2008 had not been impaired, despite an impairment percentage having been determined; and
- 1 April 2007 had not been appropriately impaired, as percentages had been incorrectly applied or omitted for a proportion of the population.

The Council subsequently undertook a complete review of the impairment calculations processed through the Fixed Asset Register (FAR), the related depreciation calculation and the impact on Government grant deferred. Subsequent re-performance of our audit procedures on the revised FAR identified no further issues.

We discussed all accounts matters with the Audit and Accounts Committee on 24 September 2009. We confirmed that the adjusted misstatements had no overall impact on the General Fund deficit which remained unaltered

The amendments made to the Statement of Accounts, as a result of this issue, resulted in a reduction in the Fixed Assets balance of £12.6m.

#### **Fixed Asset Register (FAR)**

Procedures to confirm the FAR had been accurately updated for assets valued during 2008/09 identified the following matters:

- a number of valuation reports selected for testing could not be traced to the FAR, initially suggesting that the FAR may be incomplete; and
- input errors had occurred when the FAR was updated for the 2008/09 valuations.

Initial investigation of these matters determined that inconsistencies existed between the FAR and the asset register maintained by the Estates Section, and that the FAR did not accurately reflect in-year valuations. As a result, the Council undertook an exercise to match the FAR to the Estates Section register and to check all in-year valuations to valuers' certificates.

Matching of the FAR to Estates Section records identified that they were broadly consistent but in some cases had used differing levels of aggregation, descriptors and were allocated to different asset categories. The exercise did however identify a number of assets that required adding to or removing from the FAR, amounting to £0.8m and £2.7m respectively. The impact of these adjustments on Government grant deferred was also assessed.

Subsequent re-performance of our audit procedures on the revised FAR identified no further issues.

The net amendments made to the Statement of Accounts, as a result of FAR issues, resulted in a reduction in Fixed Assets of £20.3m.

#### **Non Enhancing Capital Expenditure**

Non-enhancing capital expenditure incorrectly included the following:

- any capital additions to assets that had been revalued during 2008/09, whether enhancing or otherwise; and
- impairment and revaluation of in-year new build assets.

An amendment was made to the accounts to reduce non-enhancing expenditure by £23.7m, with a corresponding adjustment to asset additions and impairments.

#### **Creditor Cut Off**

Testing of transactions around the year-end date, to confirm the correct allocation of liabilities between accounts year, identified a number of cut off errors resulting in a net adjustment of £1.3m.

#### **Unadjusted misstatements**

There was one unadjusted misstatement in the accounts relating to the Council's 50% shareholding in Connexions Derbyshire Ltd which was not consolidated in the group accounts. This was discussed with us prior to audit and agreed as being immaterial to the accounts for our opinion purposes.

### **2.3 National Fraud Initiative (NFI)**

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), an exercise that matches electronic data within and between audited bodies to prevent and detect fraud. This includes police authorities, local probation boards and fire and rescue authorities as well as local councils.

As part of the audit of accounts, we examined specific data matches produced by the Audit Commission that cross referenced Council data to matches at Companies House. We did not identify any significant issues in this area.

### **2.4 Members' expenses**

Due to the increased profile and news coverage surrounding elected politicians' expenses, we examined a sample of Members' and Officers' expenses as part of our work on the Council's 2008/09 Statement of Accounts.

A high level review of allowance/expense claims for ten members and ten officers identified no unusual transactions. Testing of disclosures in the Statement of Accounts identified that members' allowances and expenses had been misstated as the amounts paid for members' travel & subsistence and co-optee allowance had not been included. We are pleased to report that this was corrected by the Council.

### **2.5 Dealing with the public**

As part of audit, we have a responsibility to deal with issues that are brought to our attention by members of the public or other interested parties in relation to the financial activities or governance of the Council, or disclosures to the Audit Commission under the Public Interest Disclosure Act 1998.

There were no such issues that were brought to our attention during the course of our audit and no person exercised their rights to raise an objection on the Council's 2008/09 statement of accounts.

### **2.6 Certification of grant claims**

We are required, acting as agents of the Audit Commission, to certify the Council's grant claims and returns.

We have already completed the certification of a number of the Council's claims for 2008/09 and have met all government department deadlines set under these arrangements. Our certification work is expected to be completed by the end of December 2009 after which we will prepare a separate grants report, summarising issues from the 2008-09 work, to facilitate continuous improvement. At this stage, we consider that the key areas for officers' attention, arising from our claims certification work, are likely to relate to Housing and Council Tax Benefits and Derby's New Deal for Communities.

## 3 Use of resources

### 3.1 Value for money conclusion

We are required to issue a conclusion on whether we are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Use of Resources Conclusion and is generally informed by reference to relevant criteria under the Audit Commission Code of Audit Practice.

We can confirm that we were able to issue an unqualified Use of Resources Conclusion for the year end 31 March 2009. This means that we were satisfied that the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### 3.2 Use of resources (UoR)

In 2009, the Audit Commission introduced a new framework and methodology for Use of Resources (UoR) assessments across local government, police forces, fire authorities and primary care trusts. The new framework emphasises *outcomes* over *processes*, and brings new areas into the assessment such as environmental and workforce management. The new assessment presents a more robust challenge than the old framework, based on different scoring criteria.

Theme	2009
Managing finances	2
Governing the business	3
Managing resources	2
Overall	<b>Performing adequately - 2</b>

The provisional findings from our 2008/09 UoR assessment were reported to the Audit Committee in September 2009, as part of our report to those charged with governance (ISA260 report). Subsequent to our ISA260 report, these provisional scores were confirmed following the Audit Commission's national quality control discussions.

#### Managing finances

This theme focuses on assessing whether the Council has sound strategic and financial management, that is, whether it plans its finances to deliver its priorities, the extent to which it has a sound understanding of its costs and performance, and whether its financial reporting is timely, reliable and meets the needs of its population. We assessed the Council and awarded an overall theme score of two, concluding that it is performing adequately.

The Council has good arrangements in place to plan its finances effectively to deliver its priorities and secure sound financial health. However, the Council needs to develop further its arrangements: to understand its costs and performance and achieve efficiencies in its activities; and to ensure its financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people. The significance of the audit adjustments arising from our accounts audit, as set out in the previous section, did have a bearing on this element of UoR.

#### UoR Scores

- 1 - below minimum requirements - inadequate performance
- 2 - at minimum requirements - adequate performance
- 3 - consistently above minimum requirements - performing well
- 4 - well above minimum requirements - performing strongly

### **Governing the business**

This theme focuses on strategic commissioning and good governance, in particular how well the Council governs itself and commissions services that provide value for money and deliver better outcomes for local people. We assessed the Council as achieving an overall theme score of three, performing well.

In particular, the Council has good arrangements in place for the use of information and securing good data quality. The Council also has good partnership arrangements in place for securing good governance and risk management.

However, the Council needs to develop further its arrangements to commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money. For example, the Council needs to develop a clear vision of expected outcomes.

### **Managing resources**

This theme considers areas which have not, previously, been assessed on their own in detail. There are three elements to this theme, but workforce was not assessed in 2008/09. We considered the arrangements and outcomes in place to ensure the Council effectively manages resources as being adequate, level two.

The Council is performing adequately in making effective use of natural resources. However, it needs to be able to evidence reductions in the levels of CO2 emissions, water consumption and improvements in air quality, as a result of its actions, to demonstrate improvement in this area in the future.

In addition, the Council is also performing adequately in managing its assets to help deliver its strategic priorities and service needs. The implementation of a new fully integrated asset management system is being pursued to replace the existing system which is not fully integrated and therefore fit for purpose. The new system should provide a platform from which the Council will be able to further develop its strategic asset management approach in future years.

### **Next steps**

Key actions for the Council arising from our assessment include the following:

- the Council needs to demonstrate a broader set of outcomes of reductions in costs and / or improvements in services as a result of the decision-making process (e.g. benefits derived from the DECATS review); and
- the implementation of a fully integrated asset management system.

### **3.3 Looking ahead to 2009/10**

The focus of our work in 2009/10 will be to support the Council's transition to International Financial Reporting Standards and to develop further its Use of Resources.

We will present our 2009/10 Audit Plan to the Audit & Accounts Committee in due course, however, the following provides a short summary of the key risks we aim to address.

**Accounting for Private Finance Initiative (PFI)**

The 2009 SORP requires local authorities to adopt requirements for accounting for PFI schemes that are consistent with International Financial Reporting Standards and the adaptation of IFRIC 12 *Service Concessions* contained in the Government's 2009-10 Financial Reporting Manual (FREM). As the Council has a number of PFI contracts in place the 2009 SORP is particularly pertinent.

We expect this to conclude that the PFI assets should be recorded on the Council's balance sheet. There is a risk that these may be incorrectly accounted for, due to their complexity and nature.

We have already held two meetings with Council Officers, including a representative from our technical team, to discuss the proposed approach and the timing of our work in this area.

We will continue to involve our technical specialists, at appropriate stages in the Council's preparations, to review and discuss the proposed PFI accounting treatments and audit evidence requirements.

**Joint Waste project**

In partnership with Derbyshire County Council, Derby City Council is currently procuring a joint waste project with the commercial sector. The project is innovative and its procurement has taken longer than anticipated, due to the complexity of the scheme and the inherent financing constraints facing the sector nationally. We will undertake specific coverage of this project, as it progresses to ensure we are satisfied with legal, governance and reporting issues adopted.

**Accounting for National Non Domestic Rates and Council Tax**

The 2009 SORP has introduced a number of changes in the accounting for national non domestic rates and council tax in the Council's financial statements. It now requires local authorities to account for transactions on an agency basis. i.e. the Council only discloses its own share of debtors and creditors of the Collection Fund. There is a risk that the Council does not correctly account for these changes.

**International Financial Reporting Standards (IFRS)**

From 2010/11 the Council is required to produce its Statement of Accounts under IFRS based on an IFRS Code of Practice on Local Authority Accounting prepared by CIPFA. As part of our procedures, we have discussed with the relevant officers their readiness for conversion to IFRS and the preparation they have undertaken to date.

We are pleased to note that the Council are making positive steps towards conversion. Notably the Council have reported the potential implications of IFRS to the Audit & Accounts Committee and have assigned an officer to lead on the restatement exercise.

Our IFRS credentials ensure we are well prepared to assist the Council through this transition, and we will continue to work with your finance team to ensure the process is as smooth as possible.

## A High priority recommendations

We raised the following high priority recommendations in 2008/09:

<b>Report (and issue date)</b>	<b>Recommendation</b>
Audit Strategy Document (June 2009) Creditors - one-off payment authorisation	We recommend that a single record of authorised signatories be created and periodically reviewed. We also recommend that controls are enhanced to ensure that one-off payments are not made without appropriate authority.
Audit Strategy Document (June 2009) Council Tax - segregation of duties	Council Tax officers assist Derby Direct during busy periods. We noted from discussion that this could result in Council Tax officers who action discounts and exemptions on Academy also taking payments on the Derby Direct system.  We recommend that formal procedures are introduced to ensure segregation of duties is maintained between establishing the charge and collection/recovery.
ISA 260 (September 2009) Fixed Asset Register	The current practice of the Resources Department and the Estates Section maintaining separate registers will continue to increase the risk of material misstatement and ultimately the Council should strongly consider the introduction of an integrated asset management system.  In the meantime, closer working practices should be introduced between the Resources Department and Estates Section to ensure that the registers are consistent, in terms of monetary amounts and descriptors. We recommend that formal reconciliations are introduced between the two registers and that a standard asset referencing system is used.
ISA 260 (September 2009) Technical Review of the Statement of Accounts	Our audit procedures for 2008/09 identified fundamental misstatements and numerous disclosure issues, many of which might have been identified by the Council's review of the accounts prior to issue.  The Council should review its internal review procedures and strengthen these to improve the likelihood of errors being detected prior to audit.  In particular, we would suggest that the review undertaken by various officers within the Resources Department is formally documented, to increase evidence of the process.

## B Responsibilities of the external auditors and the Council

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas that involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

This report is part of a continuing dialogue between the Council and ourselves and is not, therefore, intended to cover every matter which came to our attention. For this reason we do not accept responsibility for any reliance that third parties may place on it. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and work practices. The Council is asked to note that our audit should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist.

## C Fees and audit reports

The table below compares the actual audit fees charged for out work in 2008/09 compared to the budgeted fees as set out in our revised Audit Plan. In addition, fees are charged for the certification of the Council's grant claims, which are charged on a per diem basis in accordance with the Audit Commission's hourly fee scales. Our grants work is still in progress and a detailed fee analysis will be reported to you at its conclusion.

	Budgeted (£)	Actual (£)
Audit of accounts	203,500	203,500
Use of resources	96,500	96,500
<b>Total audit fees</b>	<b>300,000</b>	<b>300,000</b>

We also set out the reports we have issued during 2008/09 in the table below.

Planned output	Planned delivery	Actual delivery
Annual Audit and Inspection plan	June 2008	June 2008
Audit Strategy Document	June 2009	June 2009
ISA260 Report to those charged with governance	September 2009	September 2009
Use of Resources Report	December 2009	December 2009
Annual Audit Letter	March 2010	December 2009
Grant Claims Report	January 2010	In progress

## D Completion of the Audit Plan

The table below sets out the key risks in our 2008/09 Audit and Inspection Plan (June 2008) and how these were addressed and reported through the course of our work.

Area as reported in the Audit Plan	Audit response and outcome
<p><b>Review and delivery of capital programme</b>            The Council continues to manage a number of significant and complex capital projects within its 3 year £280million capital programme. There is a risk that the Council fails to deliver these projects to budget, or that there is a lack of capacity to manage these projects effectively.</p>	<p>We have reviewed the Council's activity against its capital programme throughout the year.</p> <p>We have noted that the capital outturn for 2008/9 was £81.5m against the final capital budget position of £84.9m. The net programme variance of £3.4m amounts to 4.05% of the latest capital budget and we are pleased to report that this is a significant improvement on the 2007/08 variance of £14.3m, thereby suggesting that the Council is far more effectively delivering projects to budget and managing them. Furthermore, the Council continues to deliver the projects it sets out to deliver.</p> <p>The Council has a new forecast capital outturn of £111.4m for 2009/10 - the capital programme remains challenging and we will therefore continue to review outturn against this forecast over the forthcoming year.</p>
<p><b>Financial standing</b>            Financial health continues to be a key risk area for many councils. Nationally, social care pressures are particularly relevant. Locally, the latest medium term financial plans show financial pressures within Adult Social Services which contribute to unidentified saving requirements in 2010/11 approaching £3million. In addition, the Council has identified future revenue budget risks in relation to waste disposal costs and single status pay agreements.</p> <p>There is also a risk that the Council has not modelled the financial implications of key changes to services effectively.</p>	<p>We have monitored the Council's financial position during the year as part of our Use of Resources assessment.</p> <p>At 31 March 2009 the Council's General Fund and Housing Revenue Account balances both remained above minimum acceptable levels.</p> <p>However, the medium term financial plan shows a budget funding gap for 2010/11 of £0.64million rising to £7million in 2011/12 and £8million by 2012/13. The Council is still considering how to close this gap and we will continue to monitor how it responds to this and any additional financial pressures resulting from the Comprehensive Spending Review.</p>

Area as reported in the Audit Plan	Audit response and outcome
<p><b>Use of resources</b> Comprehensive Area Assessment (CAA) will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. The 2009 Use of Resources assessment will be aligned to CAA and the updated Key Lines of Enquiry (KLOEs) represent an enhanced challenge to the Council in terms of performance and evidence. This assessment will be funded from the 2009/10 audit fee.</p>	<p>We presented the changes in the regime to your officers at a training workshop in December 2008 and have been meeting regularly with our key contacts within the Council to ensure the new approach has become established as efficiently as possible. The UoR scores are taken into account by the Audit Commission in its organisational assessment of the Council under CAA and, as such, we have been working closely with the Audit Commission throughout the assessment period.</p> <p>Finally, as reported in Section 3 above, we completed the Use of Resources assessment under the new framework, where we judged the Council was performing adequately, scoring level 2.</p>
<p><b>Sustainability</b> The revised approach to Use of Resources includes the theme 'managing other resources' and a new KLOE within this relates to the audited body's arrangements to manage its use of natural resources. This increased emphasis on the need to make better use of natural resources reflects expectations set out for public bodies in the national Sustainable Development Strategy.</p> <p>Waste management represents a particular challenge to sustainability and will be a key area for consideration under this KLOE. Emerging evidence suggests that there are significant risks in this area associated with the establishment of very long term contracts at a time of uncertain technologies, uncertain financial mechanisms and changing public attitudes to waste disposal.</p>	<p>As reported in Section 3 above, we completed the Use of Resources assessment under the new framework, where we judged the Council was performing adequately in respect of 'Managing Resources', scoring level 2. Within the overall score of 2 for 'Managing Resources', a sub-score of 2 was also attained by the Council for 'Natural resources'. This is discussed in more detail in our Use of Resources report for 2008/09.</p> <p>We will endeavour to work with the Council in 2009/10 to improve the overall score for 'Managing Resources' and the sub-score for 'Natural resources'.</p>

Area as reported in the Audit Plan	Audit response and outcome
<p><b>Governance</b></p> <p>In previous years, auditors have considered corporate governance arrangements through their work on the Use of Resources. However, the Audit Commission has also identified some sector-based issues, in particular the implementation of the CIPFA / SOLACE framework for governance statements. To achieve good governance, the Council needs to be able to demonstrate that it is complying with the core and supporting governance principles contained in the Framework. There is a risk that these arrangements are not implemented effectively across the Council.</p>	<p>We have examined the Council's arrangements and process for compiling the Annual Governance Statement.</p> <p>We have read the Annual Governance Statement and we consider the statement to be in accordance with our knowledge of the Council. No significant issues were identified from the review performed and we concluded the statement complied with reporting requirements.</p>
<p><b>Internal Control</b></p> <p>The Council's Internal Audit Department continues to undertake fraud and special investigation work in a number of different areas. Specific control weaknesses have been identified from this work and, as highlighted in the 2006/07 Annual Audit and Inspection Letter, the number of fraud investigations during the year represents a shift in the antifraud culture of the Council.</p> <p>Given the number of ongoing issues, robust governance arrangements and adequate resourcing will be required in order to minimise the risk of failing to adequately manage existing and emerging areas of concern.</p>	<p>We have noted that the Council's Internal Audit Department has continued to actively participate in the Council's proactive anti-fraud and corruption work. In 2008/09 the department has further enhanced the anti-fraud work undertaken on the prevention and detection of fraud by continuing to develop automated data capture, analysis, testing, matching and storage processes for the Council's key systems, and, undertaking an NFI data extraction exercise.</p> <p>We have also noted that during 2008/09 the Internal Audit Department increased the number of days focused solely on investigations from 463.5 days to 493 days.</p> <p>We will continue to monitor the level of resource assigned to investigations from the Internal Audit pool in 2009/10.</p>

Area as reported in the Audit Plan	Audit response and outcome
<p><b>Building Schools for the Future (BSF)</b> Derby is part of the national Wave 5 of the BSF Programme. Under the initiative, it is expected that the Council will receive around £200million for investment in schools, part of which may be deliver as a PFI.</p> <p>The next major stage of the project is to develop the Outline Business Case (OBC), which will, crucially, consider affordability and how value for money is achieved.</p> <p>Affordability and demonstrating value for money will need to be managed alongside the risks associated with project management and contracting.</p>	<p>We have met and discussed issues relating to PFI, including BSF, with the Council throughout the year .</p> <p>The Council is now in competitive dialogue with two potential bidders and we will continue to track progress as the Council moves to preferred bidder stage. Our key focus will remain on how the Council monitors and assesses affordability particularly given potential funding deductions through the CSR, and how value for money is achieved as negotiations progress.</p> <p>We will continue to liaise with the Council in respect of all aspects of the development of this project.</p>
<p><b>2008 SORP</b> The 2008 SORP is currently under consultation and it is expected that there will be some presentational and disclosure adjustments that will impact on the 2008-09 accounts. There is a risk that the new requirements may not be met.</p>	<p>We held an accounts planning workshop with the Council that discussed the implications of the 2008 SORP and other local risk factors.</p> <p>Our review of the 2008/09 Statement of Accounts, despite identifying a number of amendments to disclosures to comply with the 2008 SORP, concluded that significant improvements had been made in the quality of the accounts presented for audit.</p>

Area as reported in the Audit Plan	Audit response and outcome
<p><b>Introduction of International Financial Reporting Standards</b> CIPFA has confirmed that Local Authorities will be required to follow International Financial Reporting Standards (IFRS) from 1 April 2010. 2009-10 financial data will require restatement, to provide comparative data for the financial statements, with the 2008-09 balance sheet providing the opening position. Whilst this will not have a direct impact on our audit of the 2008-09 accounts, the Council needs have plans in place to ensure that it is adequately prepared for the forthcoming changes. There is a risk that the Council does not identify the future impact of these requirements on its medium term financial plans.</p>	<p>We have discussed the Council's preparations for IFRS conversion during our regular update meetings throughout the year. To assist the Council in identifying areas of focus, we held an IFRS workshop to highlight the key differences in reporting requirements, critical dates in the conversion process and potential planning and resource implications.</p> <p>During November 2009, we discussed in detail the Council's preparations for conversion as part of an Audit Commission study on the implementation of IFRS in local government. We are pleased to note that the Council is making positive steps towards conversion. Notably the Council has reported the potential implications of IFRS to the Audit &amp; Accounts Committee and has assigned an officer to lead on the restatement exercise.</p> <p>We 'RAG' rated the Council as 'Amber' (i.e. the Council has minor issues with its IFRS implementation) from this review, as a result of the complex issues still facing the Council, particularly in respect of PFI and leases.</p> <p>We also note that the Council has appointed advisers to assist with the early conversion, in 2009/10, of PFI schemes to IFRS reporting. We are working closely with the Council to agree principles as this progresses.</p>
<p><b>Accounting for PFI Schemes</b> The Council continues to work on a PFI scheme in relation to affordable housing and is considering the PFI route for the planned waste disposal treatment plant, due to be built in 2010/11, in partnership with Derbyshire County Council. Additional, PFI may be used as part of the Building Schools for the Future programme.</p> <p>There is a risk that these are incorrectly accounted for, due to their complexity and nature, particularly in light of the impact of IFRS.</p>	<p>The Council has 3 projects in procurement (Housing, Waste Project and Building Schools for the Future).</p> <p>We have held discussions on all 3 projects throughout the course of the year. A particular focus has been the Waste Project, as the joint nature of this scheme with the County makes the accounting implications complex. Meetings for this project have been held with both the Council and also with the County and their appointed auditor, the Audit Commission. Discussions in this area have focused on both the legal definitions of the scheme expenditure and the accounting implications.</p> <p>We will continue to discuss this and the other schemes with the Council as they progress.</p>

Area as reported in the Audit Plan	Audit response and outcome
<b>Internal Audit</b> The Council's internal audit function is key to ensuring the Council operates a sound system of internal control.	We considered the work of Internal Audit as part of our assessment of the internal control environment and to assist in documenting the key financial controls in place. We did not identify any significant issues that we felt warranted reporting to the Council.



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