

Agenda Item No 4(d)

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

22 November 2017

Report of the Director of Finance & ICT

ANNUAL AUDIT LETTER 2016-17

1 Purpose of the Report

To provide Members with details of the external auditors' Annual Audit Letter for 2016-17.

2 Information and Analysis

The Council's external auditors, KPMG, are required to present an Annual Audit Letter to Members and officers of the Council. The letter describes the scope of the audit work for the financial year and reports on matters of significance arising from that work. It is a summary of their conclusions and provides an external assessment of the Council's overall financial position.

The letter is a means by which KPMG, as appointed auditors, fulfils its statutory requirements, which are derived from the Audit Commission Act 1998 and the Audit Commission's Code of Audit Practice. KPMG are required to provide an opinion on the Council's financial statements and a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

The issuing of the letter marks the end of the audit process for 2016-17. The Council published on its website that the audit has been concluded in accordance with the Accounts and Audit Regulations 2015.

A copy of the letter is shown at Appendix One. The details contained within the letter represent a positive outcome for the Council and have been reported to the Committee previously.

3 Considerations

In preparing this report the relevance of the following factors has been considered:- financial, human resources, legal and human rights, equality of opportunity, health, environmental, transport, property, crime and disorder and social value considerations.

4 Background Papers

Papers held in Room 137, Technical Section, Corporate Finance.

5 Officer's Recommendation

That Audit Committee notes the details of the Annual Audit Letter 2016-17.

PETER HANDFORD

Director of Finance & ICT



Annual Audit Letter 2016/17

Derbyshire County Council & Pension Fund

October 2017

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This report is addressed to the Derbyshire County Council (the Authority) and Derbyshire County Council Pension Fund (the Fund) and has been prepared for the sole use of the Authority and the Fund. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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Section one

Summary

This Annual Audit Letter summarises the outcome from our audit work at Derbyshire County Council & Pension Fund in relation to the 2016/17 audit year. Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.



VFM conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM) for 2016/17 on 28 September 2017. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

To arrive at our conclusion we looked at the Authority's arrangements in regard to informed decision making, sustainable resource deployment and working with partners and third parties.

VFM risk areas

To inform the above conclusion we undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our work identified the following VFM risk as highlighted in our External Audit Plan 2016/17:

Delivery of Financial and Savings Plans - Along with the rest of Local Government, the Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan.

In February 2017, the Authority approved a balanced 2017-18 budget. The budget included the required S.15 1 Officer assurances relating to the robustness of the budget and the adequacy of the level of reserves, but acknowledged the risks around the delivery and timing of savings initiatives and the need to address the medium term budget shortfall from 2018-19 onwards.

We have reviewed the budgeting process, looked at the assumptions included within the calculations and reviewed how savings plans have been identified. We have also looked at the information presented to members as part of this process and have confirmed that detailed supporting document is made available as part of this process. Overall we do not have concerns with the arrangements in place.

The Authority has during 2017-18 been developing further its options for securing medium term financial sustainability. The overall financial planning framework reflects the Government's four year funding settlement with the Council. Under this multi-year settlement the level of general government grants was expected to fall from £44m in 2017-18 to £13.5m in 2019-20. Managers have also been confirming their assessment of the expected cost pressures due to demographic changes and other factors.

We have met with each Executive lead for the significant functions of the Council during the early part of 2017-18 who evidenced the progress being made, with the proposals due to inform the autumn 2017 2018-19 budget setting process. The emerging framework indicates a way forward for the Authority to balance 2018-20 budgets which includes a combination of use of reserves and additional savings. The planned use of reserves is set to reduce to £2m per annum from 2018-19 onwards. The current medium term position was reported to members in February 2017 and highlighted an underlying need for £80m of savings required by the end of 2021-22.

Section one

Summary (cont.)

This Annual Audit Letter summarises the outcome from our audit work at Derbyshire County Council & Pension Fund in relation to the 2016/17 audit year. Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.



Audit opinion

We issued an unqualified opinion on the Authority and Fund's financial statements on 28 September 2017. This means that we believe the financial statements give a true and fair view of the financial position of the Authority & the Fund and of its expenditure and income for the year.

Financial statements audit

During our audit work we found a series of errors relating to the process followed for the revaluation of PPE both for this year and the prior year. The full details of these issues are reported in our ISA 260 which was reported to the September Audit Committee. Overall these issues have led to errors of assets being overstated by £17m in the financial statements (£7.4m in the prior year). The current year figures have been amended for, the prior year not on the grounds of materiality.

Other than this issue we only identified a small number of presentational adjustments required to ensure that the accounts were compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which the Authority amended.

Overall the Authority has good processes in place for the production of the accounts and good quality working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales and are well placed to achieve the earlier closedown required next year.

Other information accompanying the financial statements

We review other information that accompanies the financial statements to consider its material consistency with the audited accounts. We reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding of the Authority.

Whole of Government Accounts

The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We have no concerns to report as a result of this work and have reported as such to the National Audit Office.

High priority recommendations

We raised one high risk recommendation in our ISA 260 report in regard to the asset valuation issue referred to above. This was agreed by the Authority and initial steps have been taken to address the issues noted. There are no outstanding agreed high priority audit recommendations from prior years.

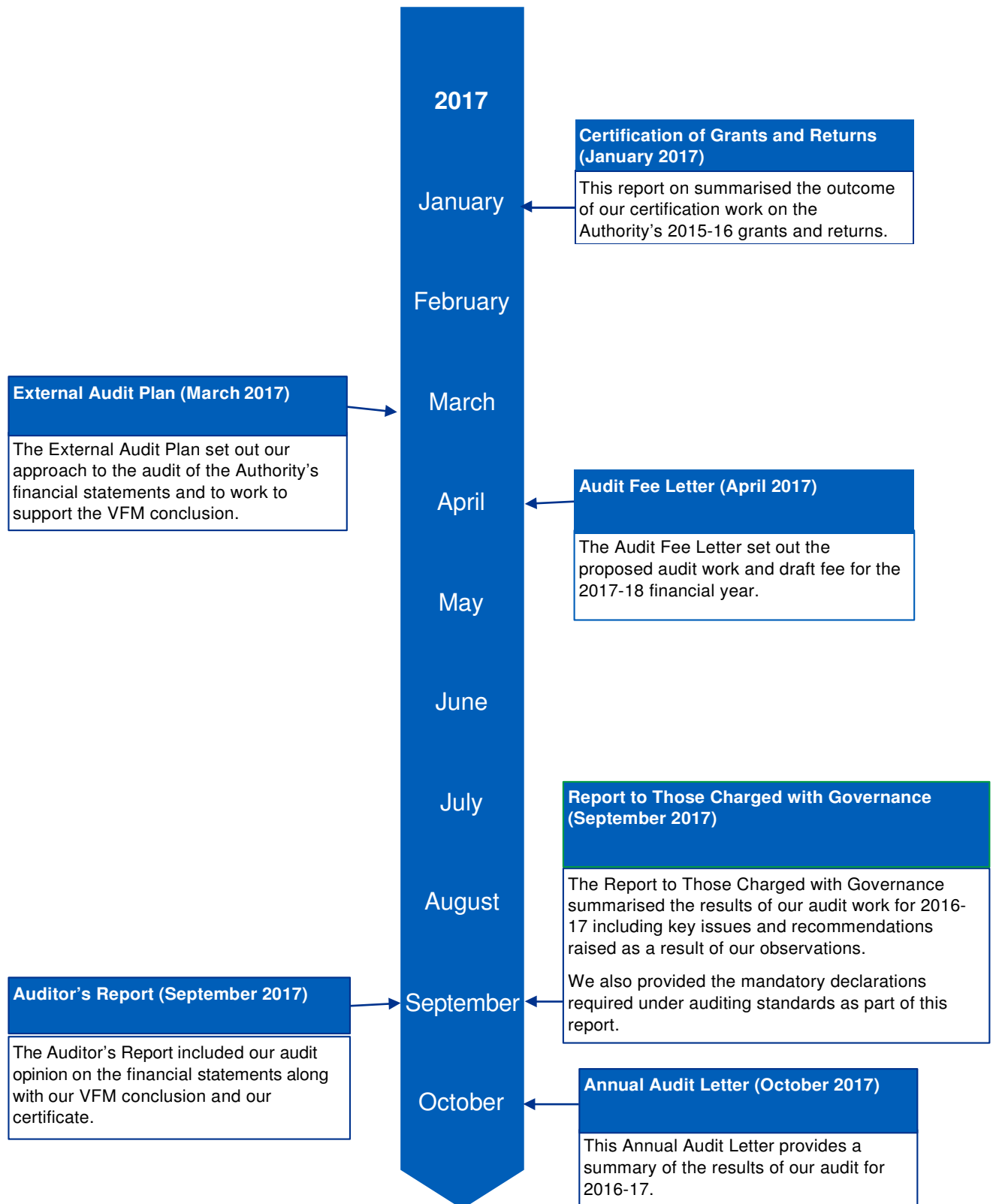
Certificate

We issued our certificate on 28 September 2017. The certificate confirms that we have concluded the audit for 2016/17 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Appendix 1

Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.



Appendix 2

Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2016/17 planned audit fee.

External audit

Our final fee for the 2016/17 audit of Derbyshire County Council was £135,353 which is £9,997 higher than the scale fee set by PSAA of £125,356 due to the extra work required in regard to the valuation of assets.

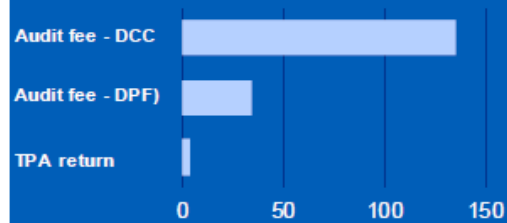
Our final fee for the 2016/17 audit of Derbyshire Pension Fund was £34,222, which is £5,550 higher than the scale fee set by PSAA of £28,672. This was due to £2,050 charged to perform extra work required by auditors of member bodies of the Fund and £3,500 for work in regard to the Triennial revaluation of the Fund.

The additional fees have been agreed with the Director of Finance but are subject to approval by the PSAA.

Other services

We reviewed the Teachers Pension claim for 2015/16 during this year. The fee for this work was £3,500.

External audit fees 2016/17
(£'000)



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