

**DERBYSHIRE COUNTY COUNCIL**

**COUNCIL**

**1 October 2014**

**Report of the Director of Finance**

**STATEMENT OF ACCOUNTS 2013/14**

**1 Purpose of the Report**

This report presents the external auditor's Report to those charged with governance (ISA 260) 2013/14 and the approved Statement of Accounts 2013/14.

**2 Information and Analysis**

The Accounts and Audit (England) Regulations 2011 require the Director of Finance to certify the pre-audit Statement of Accounts by 30 June and require the Audit Committee to approve the post-audit version before 30 September.

At the planning stage of the audit, it was agreed with the external auditors, KPMG, that this timetable would be accelerated; the Statement of Accounts would be certified and available for audit two weeks earlier than the statutory deadline and Audit Committee approval would also be scheduled to take place two weeks earlier than the previous year. Both these deadlines were achieved, with the external auditors acknowledging the high standard of working papers and the excellent support provided by finance teams during their audit.

At the time of agreeing an earlier closedown, the Council was unaware of proposals to amend the Accounts and Audit Regulations which will see an earlier timetable for the preparation and publication of the statement of accounts for the financial year 2017/18. The proposals are to bring forward the certification and approval deadlines to 31 May and 31 July, respectively. Achievement of the accelerated timetable this year means that the Council is well-placed to meet the proposed earlier statutory deadlines.

The Statement of Accounts were made available for public inspection for four weeks from 16 June 2014 and no queries were raised.

## **RESTRICTED**

The core financial statements are as follows:

- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement
- Pension Fund Accounts
- Annual Governance Statement

In addition to the full Statement of Accounts being approved at the meeting of the Audit Committee on 2 September 2014, the Pension Fund Accounts will also be reported to the Pensions and Investment Committee.

The audit of the Statement of Accounts was completed within the planned timescale and the external auditors presented their Report to those charged with governance (ISA 260) 2013/14 (ISA 260 report) and audit opinion to the members of the Audit Committee on 2 September 2014. There were no material changes to the Statement of Accounts and two recommendations of improvement from that audit.

The ISA 260 report is attached at Appendix A. Copies of the full Statement of Accounts are available on the Council's website [http://www.derbyshire.gov.uk/council/council\\_tax/statement\\_of\\_accounts/default.asp](http://www.derbyshire.gov.uk/council/council_tax/statement_of_accounts/default.asp).

A presentation was made to members of the Audit Committee on 16 September 2014 which explained the Statement of Accounts 2013/14 in more detail.

### **3 Considerations**

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

### **4 Background Papers**

Copies of the Statement of Accounts and ISA 260 report will be made available at the meeting.

**5 OFFICER'S RECOMMENDATION**

It is recommended that Members note the report, the external auditor's Report to those charged with governance (ISA 260) 2013/14 and the approved Statement of Accounts 2013/14.

**PETER HANDFORD**

Director of Finance

15 September 2014

**Report to those charged with governance (ISA 260) 2013/14**



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# Report to those charged with governance (ISA 260) 2013/14

Derbyshire County Council

August 2014



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 0303 4448 330.



## This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for both the Authority and its pension fund; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

## Scope of this report

This report summarises the key findings arising from:

- our audit work at Derbyshire County Council ('the Authority') in relation to the Authority's 2013/14 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- our work to support our 2013/14 value for money (VFM) conclusion.

## Financial statements

Our *External Audit Plan 2013/14*, presented to you in March 2014, set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during February/March 2014 (interim audit) and June/July 2014 (year end audit).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

## VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;

- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work.

## Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements of the Authority and the Fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

Proposed audit opinion	<p>We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.</p> <p>We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2014.</p>
Audit adjustments	Our audit has not identified any adjustments to the financial statements presented for audit.
Key financial statements audit risks	We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.
Accounts production and audit process	<p>The finance team have put considerable effort into preparing the accounts earlier than in previous years, and into improving the quality of the supporting working paper.</p> <p>We were provided with the draft statement of accounts on 13 June 2014, in advance of the 30 June deadline as set by the Accounts and Audit Regulations. A full set of working papers was also made available to us on 13 June. The working papers provided were of a high standard.</p> <p>We commenced our on site visit on 23 June. The finance team have provided excellent support during our audit, with prompt responses to our queries throughout.</p>
Control environment	The Authority's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems.
Completion	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> <li>■ <i>Whole of Government Accounts</i></li> </ul> <p>Before we can issue our opinion we require a signed management representation letter, which covers the financial statements of both the Authority and the Fund.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's and the Fund's financial statements.</p>



**This table summarises the headline messages. The remainder of this report provides further details on each area.**

### VFM conclusion and risk areas

We have concluded that the Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2014.

**We have identified no issues in the course of the audit of the Authority's financial statements that are considered to be material.**

**Proposed audit opinion**

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 2 September 2014.

**Audit differences**

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements.

There was one unadjusted non material error that the authority declined to alter due to its complex nature and the time involved in clarifying the nature of the issue. The impairment figure shown in note 13, Adjustments between accounting basis and funding basis is £54.874m, but is shown as £46.961m in notes 14 (PPE) and 16 (Heritage assets). The authority has identified the cause of the error and the Director of Finance has agreed to correct the accounting treatment in 2014-15.

**We have identified no issues in the course of the audit of the Fund that are considered to be material.**

**We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2014.**

**The wording of your Annual Governance Statement accords with our understanding.**

#### **Pension fund audit**

We identified one presentational adjustment required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 ('the Code'). The amendment related to the disclosure of cash, to ensure that there was an element of operational cash disclosed under current assets; rather than all cash disclosed under investment assets.

We have reviewed the Pension Fund Annual Report and confirmed that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts.

#### **Annual Governance Statement**

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of its format and content which the Authority has agreed to amend.

## Section three

# Key financial statements audit risks


**We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.**

In our External Audit Plan 2013/14, presented to you in March 2014, we identified the key risks affecting the Authority's and the Fund's 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority. We have indicated in each case whether these relate to the audit of the Authority's financial statements or those of the Fund.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any issues.

Key audit risk	Issue	Findings
	<p>During the year, the Local Government Pension Scheme for Derbyshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts</p>	<p>As part of our audit, we agreed the data provided to the actuary back to the systems and reports from which it was derived, and tested the accuracy of this data.</p> <p>We worked closely with the Pension Fund audit team to obtain assurance over the data.</p>

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

## Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	The Authority has good financial reporting arrangements in place.  We consider that accounting practices are appropriate.
<b>Completeness of draft accounts</b>	We received a complete set of draft accounts on 13 June 2014. No significant amendments were required to the financial statements presented for audit.
<b>Quality of supporting working papers</b>	Our <i>Accounts Audit Protocol</i> , which we issued on 24 February 2014 and discussed with your officers, set out our working paper requirements for the audit.  The quality of working papers provided were of a high standard and met the standards specified in our <i>Accounts Audit Protocol</i> .
<b>Response to audit queries</b>	Officers resolved audit queries promptly

Element	Commentary
<b>Pension fund audit</b>	The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

## Section three

# Organisational control environment

Your organisational control environment is effective overall.

### Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

### Key findings

We consider that your organisational controls are effective overall.

Aspect	Assessment
<b>Organisational controls:</b>	
<b>Management's philosophy and operating style</b>	3
<b>Culture of honesty and ethical behaviour</b>	3
<b>Oversight by those charged with governance</b>	3
<b>Risk assessment process</b>	3
<b>Communications</b>	3
<b>Monitoring of controls</b>	3

- Key:
- 1 Significant gaps in the control environment.
  - 2 Deficiencies in respect of individual controls.
  - 3 Generally sound control environment.



## Section three

# Controls over key financial systems

The controls over all of the key financial systems are sound.

### Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

We also work with your internal auditors to update our understanding of some of the Authority's key financial processes where these are relevant to our final accounts audit. We used the work of internal audit to inform our understanding of the payroll system.

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

### Key findings

Based on the work of your internal auditors and our own testing, the controls over all of the key financial systems are sound.

Financial system	Controls Assessment
Property, Plant & Equipment	3
Cash	3
Payroll	3
Pensions Liabilities	3
Pensions Fund Investments	3

Key:

- 1 Significant gaps in the control environment.
- 2 Deficiencies in respect of individual controls.
- 3 Generally sound control environment.

### Work on behalf of admitted body auditors

The auditors of admitted bodies requested us to complete specific work on controls operated by the Fund on behalf of the admitted bodies over certain data used by actuaries in order to determine the pensions liabilities and related disclosures for the admitted bodies.

Our work did not identify any specific issues.

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's and the Fund's financial statements.**

**Before we can issue our opinion we require a signed management representation letter.**

**Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.**

### Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Derbyshire County Council and Derbyshire Pension Fund for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Derbyshire County Council and Derbyshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

### Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Director of Finance for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;

- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There is one matter we wish to draw to your attention to in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

There is a lack of clarity of communication between the Finance Team and the in-house valuer. The Finance Team should consider their approach to the valuation of PPE, this includes:

- the arrangements for instructing your valuer of the asset valuation process
- ensuring changes in approach to valuations are communicated by the valuer in a timely manner

**Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.**

**We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

### Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

### Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

The following pages includes further details of our VFM risk assessment and our specific risk-based work.

### Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



**We have identified two specific VFM risks.**

**In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.**

### Work completed


In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, other inspectorates and review agencies in relation to these risk areas; and
- completed specific local risk based work.


### Key findings


Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority, other inspectorates and review agencies in relation to these risk areas.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>At the time we issued our audit plan, the Council was undergoing a corporate Ofsted inspection. This was one of the first inspections of this type under the new Ofsted approach.</p> <p>The Audit Commission specifies that in undertaking work to support the value for money conclusion, auditors should draw assurances from the work of other inspectorates and review agencies, including Ofsted.</p> <p>We reviewed the findings of the Ofsted report to determine whether additional work is necessary to support our value for money conclusion.</p>	<p>We reviewed the findings of the Ofsted report and concluded that no additional audit work was necessary to support our value for money conclusion.</p> <p>The Ofsted inspection ranked the Authority as good.</p>

## Specific VFM risks

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>Savings Plan – In order to maintain an adequate level of balances and sustain service delivery, the Council estimates that it will need to save £157 million over the five year period 2013/14 to 2017/18. Delivery of savings in Adult Care represents a significant challenge.</p> <p>We reviewed the Council's approach to monitoring progress against the budget and Savings Plan to support the financial resilience criterion of our VFM opinion.</p>	<p>The Council's five year financial plan was updated in July 2013 and identified that budget reductions of £157million were required over the period 2013/14 to 2017/18. The Council has done well to achieve the level of savings to date, and has a good understanding of its current and future financial challenges. The Council's five year financial plan has been updated, and now shows that savings of £159 million are needed over the coming five year period. Work on updating the five year financial plan has taken into account demographic trends, changes to the grant funding regime and inflationary pressures.</p> <p>The Council has successfully achieved savings levels similar to those required in 2014/15 in previous years but the level of savings required in 2015/16 and 2016/17 will be particularly challenging, as they increase to £48.2m, or 9.41% base budget in 2015/16.</p> <p>The Council needs to use 2014/15 to ensure that its governance arrangements for monitoring expenditure against budget and savings achieved against savings planned are clear and robust, and that members have appropriate opportunity to scrutinise and challenge financial performance effectively.</p> <p>The Council will need to ensure that:</p> <p>Capacity is created for members to scrutinise and challenge financial performance effectively</p> <p>Ensure roles and responsibilities for monitoring financial performance at member level are clearly defined. There may be scope for the Audit Committee to assess the assurances in place at in relation to budget monitoring, in addition to, or in place of, its periodic review of budget monitoring reports.</p> <p>The Council will also need to ensure that budget reports to members provide sufficient information to allow scrutiny and challenge, for example:</p>

Key VFM risk	Risk description and link to VFM conclusion	Assessment
		<p>Ensuring that budget monitoring reports are presented on a frequent and regular basis</p> <p>Ensuring that the budget monitoring reports separately show performance against the savings plan</p> <p>Profiling savings across the financial year, and ensuring that monitoring performance of savings plan take account of the risk to achieving items</p> <p>Ensuring that budget monitoring include risk assessment and focus on areas of uncertainty and risk to achieving budget and maintaining the planned level of overall reserves.</p>



We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
<b>1</b> <b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	<b>2</b> <b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	<b>3</b> <b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	1	<b>PPE</b> Issues were identified regarding the lack of clarity of communication between the Finance Team and the in-house valuer. The Finance Team should consider their approach to the valuation of PPE, this includes: <ul style="list-style-type: none"> <li>the arrangements for instructing your valuer of the asset valuation process</li> <li>ensuring changes in approach to valuations are communicated by the valuer in a timely manner</li> </ul>	Discussions have already commenced with colleagues to improve communication and decision making in the property valuation process

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations					
1	<b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	<b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3	<b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	2	<b>Financial resilience</b> The Council will also need to ensure that budget reports to members provide sufficient information to allow scrutiny and challenge, for example: Ensuring that budget monitoring reports are presented on a frequent and regular basis Ensuring that the budget monitoring reports separately show performance against the savings plan Profiling savings across the financial year, and ensuring that monitoring performance of savings plan take account of the risk to achieving items Ensuring that budget monitoring include risk assessment and focus on areas of uncertainty and risk to achieving budget and maintaining the planned level of overall reserves.	The budget monitoring report template has been amended so that progress in achieving budget reductions will also be included.

**The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.**

### Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the 'Code') which states that:

*"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's *Standing Guidance for Local Government Auditors* ('Audit Commission Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.

- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

### General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

## Appendix 2: Declaration of independence and objectivity (continued)

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

### Auditor declaration

In relation to the audit of the financial statements of Derbyshire County Council and Derbyshire Pension Fund for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Derbyshire County Council and Derbyshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.



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