

Agenda Item No 8b

DERBYSHIRE COUNTY COUNCIL

COUNCIL

14 September 2016

Report of the Director of Finance

STATEMENT OF ACCOUNTS 2015-16

1 Purpose of the Report

This report presents the external auditor's 'Report to those charged with governance (ISA260) 2015-16' and the approved Statement of Accounts 2015-16.

2 Information and Analysis

The Accounts and Audit Regulations 2015 require the Director of Finance to certify the pre-audit Statement of Accounts by 30 June and 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, like the previous year, the timetable for completion of the accounts would be accelerated; the Statement of Accounts would be certified and available for audit on 3 June, which is 27 days earlier than the statutory deadline and Audit Committee approval would also be scheduled to take place earlier than the previous year. Both these deadlines were achieved, with the auditors acknowledging the well-established strong accounts production process, the high standard of accounts and supporting working papers and the excellent support provided by the finance teams during their audit, with officers dealing promptly and efficiently with audit queries.

The Accounts and Audit Regulations 2015 require an earlier timetable for the preparation and publication of the Statement of Accounts for the financial year 2017-18. Local authorities must bring forward the certification and approval deadlines to 31 May and 31 July, respectively. The Council has achieved the accelerated timetable for three consecutive years, without having a negative impact on the quality of supporting working papers. Therefore, the Council is well placed to ensure that it will meet the revised statutory deadlines.

Under the Local Audit and Accountability Act 2014 (Sections 25 to 28) and the Accounts and Audit Regulations 2015 (Regulations 10, 14 and 15), the Council's accounts for the year ended 31 March 2016 and certain related documents (comprising books, deeds, contracts, bills, vouchers and receipts)

were made available for public inspection from 6 June 2016 to 15 July 2016 between 9am and 5pm Monday to Friday. No queries were raised.

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 21 July 2016, 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 2015-16' and audit opinion to members of the Audit Committee on 21 July 2016. There were no material changes to the Statement of Accounts and only three recommendations of improvement.

Two audit disclosure adjustments were required. Neither of these disclosure adjustments impacted on the Council's overall financial position as set out in the accounts that were presented for audit. The impact of these disclosure adjustments was to adjust two notes to the Statement of Accounts as follows:

- Amend the Capital Adjustment Account and Revaluation Reserve movements in Note 14 (Adjustments Between Accounting Basis and Funding Basis) to reflect the disposal of fixed assets, previously included under the depreciation of fixed assets heading; and
- Separately detail Private Finance Initiative ("PFI") assets in the Nature of Asset Holding section of Note 15 (Property, Plant and Equipment), as being distinct from owned assets.

In response to the recommendations made, the Council proposes the following actions:

1. Related Party Disclosures

The review of the Related Party Transactions note in the Statement of Accounts will be documented in greater depth in 2016-17, to provide additional clarity as to whether matters detailed in member/officer declarations should be included.

2. Adjustments Between Accounting Basis and Funding Basis

The approach to preparation of the Adjustments Between Accounting Basis and Funding Basis note in the Statement of Accounts will be updated in

2016-17, with a new template working paper designed to ensure that movements are appropriately categorised under the correct headings.

3. Pension Fund Change of System (Prior Year reiteration)

The only outstanding issue in respect of the change in Pension Fund Administration System in 2014-15 relates to all records on the new Pension Fund Administration System being fully updated to be complete and accurate. Whilst good progress has been made, further action is required to fully address the issues involved to ensure all relevant information is held on the new system. The external auditors did not find evidence of incorrect pensions being paid but further work is needed and the Council will continue to implement its Plan to ensure that accurate data is being produced.

The ISA 260 report is attached at Appendix One. Copies of the full Statement of Accounts are available on the Council's website

https://www.derbyshire.gov.uk/council/council_tax/statement_of_accounts/default.asp

3 **Considerations**

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property, transport and social value 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**

That Council notes the report, the external auditor's 'Report to those charged with governance 2015-16' and the approved Statement of Accounts 2015-16.

PETER HANDFORD

Director of Finance



Report to those charged with governance (ISA 260) 2015/16

Derbyshire County Council
Derbyshire Local Government Pension Fund
July 2016



Contents

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Page

Report sections

— Introduction	3
— Headlines	4
— Financial statements	6
— VFM Conclusion	13

Appendices

1. Key issues and recommendations	16
2. Follow up of prior year recommendations	18
3. Audit differences	19
4. Declaration of independence and objectivity	20
5. Materiality and reporting of audit differences	22
6. KPMG Audit quality framework	23

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 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 John Cornett, 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 (on 0207 6948981, or by email to 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, Third Floor, Local Government House, Smith Square, London, SW1P 3HZ.



Section one

Introduction

This document summarises:

- The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the Authority and its pension fund; and
- Our assessment of the Authority's arrangements to secure value for money.

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 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in February 2016, set out the four stages of our financial statements audit process.



We previously reported on our work on the first two stages in our Interim Audit Report/Letter 2015/16 issued in April 2016.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during June 2016.

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 2015/16 explained our risk-based approach to VFM work and we included early findings in our *Interim Audit Report/Letter 2015/16*. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

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 2015/16 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.

Section two

Headlines

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.

This table summarises the headline messages. 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 the end of July 2016 before the deadline of 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.</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 the end of July 2016 before the deadline of 30 September 2016.</p>
Audit adjustments	<p>Our audit has identified a total of two audit adjustments to the disclosures in notes 14 and 15 to the accounts with a total value of £264 million. The impact of these adjustments is to:</p> <ul style="list-style-type: none"> — Amend the Capital Adjustment Account and Revaluation Reserve movements in Note 14 to reflect disposals of £196 million previously included under the depreciation heading; and — Increase the PFI assets detailed in Note 15 by £68 million with a corresponding reduction in the Owned assets detailed. <p>It is important to note that neither of these disclosure adjustments impact on the Authority's overall financial position as set out in its main financial statements. We have included these audit disclosure adjustments in the audit differences set out in Appendix 3. All of the audit differences identified were adjusted by the Authority.</p> <p>We have raised a recommendation in relation to the Note 14 issue highlighted above, which is detailed in Appendix 1.</p>
Key financial statements audit risks	<p>We identified the following key financial statements audit risk in our 15/16 External audit plan issued in February 2016.</p> <ul style="list-style-type: none"> — Asset Valuation and IFRS 13 <p>We have worked with officers throughout the year to discuss this key risk and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in this key risk area.</p>

Section two

Headlines (cont.)

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.

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

Accounts production and audit process	The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The accounts were presented for audit at the beginning of June (earlier than in previous years) without having a negative impact on the quality of supporting working papers. This places the Authority in a good position to address the requirements associated with earlier reporting in future years.
Completion	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following area:</p> <ul style="list-style-type: none">— Whole of Government Accounts <p>Before we can issue our opinion we require a signed management representation letter.</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 financial statements.</p>
VFM conclusion and risk areas	<p>We identified the following VFM risks in our External audit plan 2015/16 issued in February 2016.</p> <ul style="list-style-type: none">— Delivery of savings plans— Better Care Fund <p>We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in these VFM risk areas.</p> <p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by the end of July 2016 before the deadline of 30 September 2016.</p>

Section three – Financial statements

Proposed opinion and audit differences

Our audit has identified a total of two audit disclosure adjustments.

The impact of these adjustments is to:

- Amend the Capital Adjustment Account and Revaluation Reserve movements in Note 14 to reflect disposals of £196 million previously included under the depreciation heading; and
- Increase the PFI assets detailed in Note 15 by £68 million with a corresponding reduction in the Owned assets detailed.

Proposed audit opinion

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 19 July 2016.

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.

The final materiality (see Appendix 5 for more information on materiality) level for this year's audit was set at £16 million. Audit differences below £0.8 million are not considered significant.

Our audit identified a total of two significant audit disclosure differences, which we set out in Appendix 3. It is our understanding that these will be adjusted in the final version of the financial statements.

The impact of these disclosure adjustments is to:

- Amend the Capital Adjustment Account and Revaluation Reserve movements in Note 14 to reflect disposals of £196 million previously included under the depreciation heading; and
- Increase the PFI assets detailed in Note 15 by £68 million with a corresponding reduction in the Owned assets detailed.

It is important to note that neither of these disclosure adjustments impact on the Authority's overall financial position as set out in its main financial statements.

Section three – Financial statements

Proposed opinion and audit differences (cont.)

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 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Of the other audit adjustments we have identified, none are considered to be significant.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Pension fund audit

Our audit of the Fund did not identify any material misstatements.

For the audit of the Fund we used a materiality level of £36 million. Audit differences below £1.6 million are not considered significant.

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 19 July 2016.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Pension Fund will be addressing these where significant.

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.

Pension fund annual report

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.

Section three – Financial statements


Significant risks and key areas of audit focus

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, presented to you in February 2016, we identified the significant risks affecting the Authority and the Fund's 2015/16 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 the risk that is specific to the Authority.

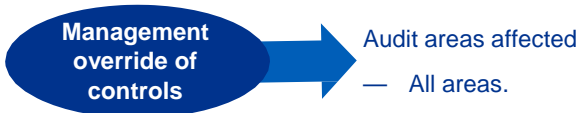
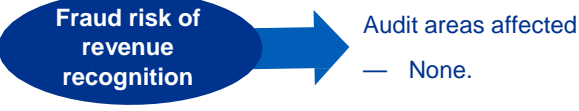
Significant audit risk	Issue	Findings
	Due to the inherent risk associated with the estimation of assets and the implementation of IFRS 13 which require surplus assets to be measured at fair value for 2015/16, we considered this to be a significant risk.	<p>We undertook the following procedures over this significant risk:</p> <ul style="list-style-type: none">— We reviewed the terms of engagement with the valuer to ensure compliance with the Authority's accounting policies.— We reviewed the revaluation basis and considered its appropriateness with the CIPFA Code of Practice and the underlying IFRS accounting standards.— We undertook appropriate work to understand the basis upon which any impairments had been calculated. <p>We have no concerns to report as a result of this testing.</p>

Section three – Financial statements

Significant risks and key areas of audit focus (cont.)

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk	Summary of findings
	<p>Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.</p> <p>In line with our methodology, we carried out appropriate 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.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>
	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>In our <i>External Audit Plan 2015/16</i> we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.</p> <p>Nothing has arisen from our audit work to lead to us altering our decision and as such this is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.</p>

Section three – Financial statements

Significant risks and key areas of audit focus (cont.)

In our External Audit Plan 2015/16, presented to you in February 2016, we identified three areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each of such areas of audit focus.

Areas of audit focus	Issue	Findings
Accounting for Schools →	The Authority has used an estimation technique to apply the changes to schools accounting which came into force in 2014/15 and has refreshed this approach during 2015/16. This risk affects only the Authority	We reviewed the proposed approach to schools accounting for 2015/16 and asked for wording to be added to the accounts to clarify the approach taken. There are no other matters arising from this work that we need to bring to your attention.
2014/15 findings →	A recommendation was made in our 2014/15 audit findings report in relation to the implementation of the Pensions Administration system. This recommended that a plan should be implemented to ensure the new Pension Fund administration system is producing accurate data. This risk affects only the Fund	We followed up this prior year recommendation with the finance team and can report that good progress has been made in relation to the implementation of this recommendation. We did however identify one instance in which the appropriate information was not available in the new Pension Fund administration system so further action is required to fully address the issues involved. We have therefore reiterated this recommendation in Appendix 2.
MRP policy →	The Authority is considering updating its MRP policy. This risk affects only the Authority	We reviewed compliance with the existing policy and confirmed that the existing policy was followed for 2015/16. There are no matters arising from this work that we need to bring to your attention. The Authority is considering updating its MRP policy during 2016/17 and we will review any changes made during our 2016/17 audit.

Section three – Financial statements

Accounts production and audit process (cont.)

The Authority has a well established and strong accounts production process. This operated well in 2015/16, and the standard of accounts and supporting working papers was high.

Officers dealt promptly and efficiently with audit queries and the audit process was 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
Accounting practices and financial reporting	The Authority continues to maintain a strong financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 3 June 2016. The Authority has made a small number of presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	We issued our <i>Accounts Audit Protocol</i> including our required working papers for the audit on 15 February 2016. The quality of working papers provided was high and fully met the standards specified in our <i>Accounts Audit Protocol</i> .
Response to audit queries	Officers resolved all audit queries in a timely manner.

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

Additional findings in respect of the control environment for key financial systems

We reported in our Interim Audit Report 2015/16 that we were yet to complete our testing of controls operated during the closedown process. We made recommendations in relation to:

- Section 75 agreements
- Accounting for Schools
- Journals
- Accounts Payable

We will formally follow up these recommendations next year. During the course of our testing of controls operated during the closedown process we identified the following additional matters on which we have made recommendations in Appendix 1 of this report:

- Related party disclosures
- Adjustments between accounting basis and funding basis

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last year's ISA 260 report.

The Authority has implemented the majority of the recommendations in our ISA 260 Report 2014/15. The only outstanding issue relates to the new Pension Fund administration system where whilst good progress has been made further action is required to fully address the issues involved. Appendix 2 provides further details.

Section three – Financial statements

Completion

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.

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 2016, 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 Public Sector Audit Appointments Ltd 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 Section 151 Officer 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:

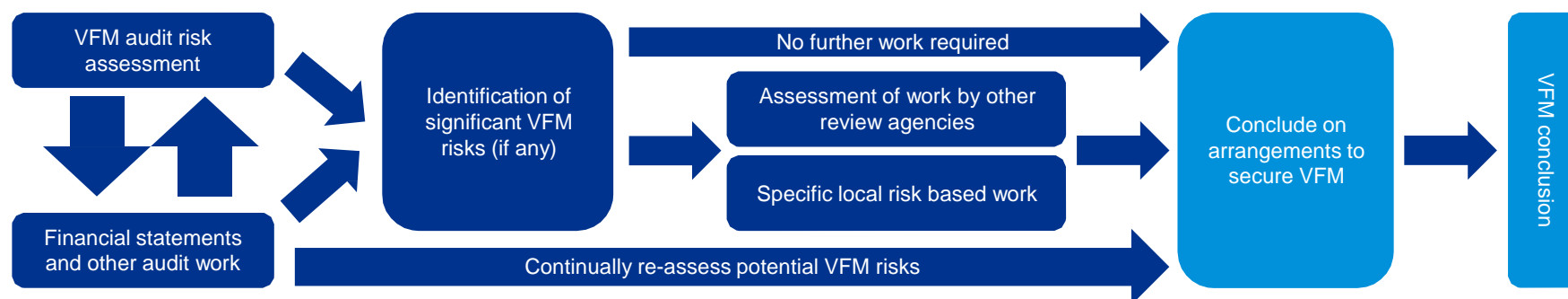
- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial 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 are no other matters which we wish to draw to your attention in addition to those highlighted in this report, or our previous reports relating to the audit of the Authority's 2015/16 financial statements.

Section four

VFM Conclusion

From 2015/16 our value for money (VFM) work follows the NAO's new guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We identified two significant VFM risks which are reported overleaf and we provide a summary below of the routine work required to issue our VFM conclusion, which is that we are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.



AGS review	Regulatory review	Other matters considered in risk assessment
<p>We reviewed the 2015/16 AGS and took into consideration the work of internal audit.</p> <p>We confirm that the AGS reflects our understanding of the Authority's operations and risk management arrangements.</p>	<p>We considered the outcomes of relevant regulatory reviews and we have also undertaken our own review work in reaching our conclusion.</p>	<p>As part of our risk assessment we reviewed various sources of information, including:</p> <ul style="list-style-type: none"> the Authority's financial position. core assumptions in the five year financial plan and financial strategy. savings plan schemes identified and delivered current operational performance / contractual risks. planned vs actual outturn. management's assessment of the Authority's ability to continue as a going concern. partnership arrangements / relationships with key third parties.

Section four

Specific VFM Risks

Value for money risks	Why this risk is significant	Our audit response and findings
Delivery of savings plans	<p>The Authority's budgets over recent years have delivered significant planned savings, but further strong financial challenges lie ahead. The Authority forecasts predict that over the forthcoming years, additional savings will need to be found as the Authority faces further expenditure pressures and a continued reduction in resources. The Authority identified saving proposals for 2015/16, but may require further savings in 2016/17 and future years to meet the potential impact of reduced resources on the financial standing of the Authority. Therefore we consider this as a significant risk.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>We undertook the following procedures over this significant risk:</p> <p>We reviewed the delivery of the Authority's 2015/16 savings programme including any actions taken by the Authority where savings were not achieved in line with the plan.</p> <p>We evaluated the arrangements the Authority has in place in identifying further savings for future years.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>
Better Care Fund	<p>In 2015/16 the Authority entered into Section 75 agreements with Clinical Commissioning Groups to pool funds to implement the local Better Care Fund. The implementation of the Better Care Fund drives integration of services to improve outcomes for the patient and public as well as delivery efficiencies and effectively manages limited resources during challenging times. We consider this a significant risk as the Better Care Fund is in its early stages and therefore there are risks associated with the delivery of improved health and social care in Derbyshire and achieving significant savings.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>We undertook the following procedures over this significant risk:</p> <p>We reviewed the Better Care Plans and progress made against the plans.</p> <p>We reviewed the delivery of the services against targets and considered any actions taken by the Authority where delivery was under performing significantly.</p> <p>We reviewed the savings achieved to see these are in line with those planned and considered how the Authority will fund any savings which are not achieved.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>



Appendices

Appendix 1: Key issues and recommendations

Appendix 2: Follow up of prior year recommendations

Appendix 3: Audit differences

Appendix 4: Declaration of independence and objectivity

Appendix 5: Materiality and reporting of audit differences

Appendix 6: KPMG Audit Quality Framework

Appendix 1

Key issues and recommendations

It is recommended that a written exercise is undertaken to review the matters detailed in the declarations made by individual members/officers to evidence if corresponding related party disclosures need to be made in the accounts.

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	Priority one: 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	Priority two: 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	Priority three: 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	②	Related party disclosures At the present time the Authority does not document a review of the matters detailed in the declarations made by individual members/officers to evidence if corresponding related party disclosures need to be made in the accounts. This will help to avoid any oversights. Recommendation It is recommended that a written exercise is undertaken to review the matters detailed in the declarations made by individual members/officers to evidence if corresponding related party disclosures need to be made in the accounts.	Response We will put in place a more in depth review of the RPT note in 2016/17. Responsible Officer Paul Stone Due Date March 2017

Appendix 1

Key issues and recommendations

It is recommended that for 2016/17 the Authority considers changing its approach to the preparation of Note 14 and the inclusion of additional explanatory text.

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	Priority one: 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	Priority two: 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	Priority three: 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	③	<p>Adjustments between accounting basis and funding basis</p> <p>The Authority currently uses a spreadsheet to prepare the entries for Note 14 on adjustments between accounting basis and funding basis. As noted in our report this has led to some aggregation of entries which required adjustment this year. We also noted that the adjustments in Note 14 may benefit from additional explanatory text.</p> <p>Recommendation</p> <p>It is recommended that for 2016/17 the Authority considers changing its approach to the preparation of Note 14 and the inclusion of additional explanatory text.</p>	<p>Response</p> <p>Our approach for preparing this note will be updated for 2016/17 and a new template working paper has been designed for this purpose.</p> <p>Responsible Officer</p> <p>Paul Stone</p> <p>Due Date</p> <p>Complete</p>

Appendix 2

Follow up of prior year recommendations

The Authority has not yet fully implemented one of the recommendations in our *ISA 260 Report 2014/15*.

We have therefore re-iterated the outstanding element of the recommendation.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:

Included in original report	3
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2016
1	2	<p>Pension Fund change of system</p> <p>The Authority has changed its Pension Fund administration system during 2014-15, and we have confirmed that the data migration process has taken place.</p> <p>Further discussions with the Pension Fund team has shown that that they system is still not providing accurate information and additional reconciliations are required in some areas. Whilst we have confirmed that this has not had a material impact on the Financial Statements, but the Authority needs to ensure that the system is producing accurate information in the future.</p> <p>Recommendation</p> <p>A plan should be implemented to ensure the new Pension Fund administration system is producing accurate data</p>	<p>Agreed. The Pension Fund Administration system was implemented during 2014-15 and went live in January 2015. As part of the migration to the new system, data was thoroughly checked, cleansed and reconciled.</p> <p>Some pension processes have taken longer than anticipated to be fully operational in the new system and have been performed manually instead. We are working closely with our supplier to ensure the system works as intended.</p> <p>Action: Richard Appleby (Deputy Director of Finance)</p>	<p>Pension Fund change of system</p> <p>The only outstanding issue relates to all records on the new Pension Fund administration system being fully updated to be complete and accurate.</p> <p>Whilst good progress has been made further action is required to fully address the issues involved to ensure all relevant information is held on the new system. Our testing did not find evidence of incorrect pensions being paid.</p> <p>Recommendation</p> <p>The Authority should continue to implement its plan to ensure the new Pension Fund administration system is producing accurate data.</p> <p>Response</p> <p>The Council agree that further work is needed.</p>

Appendix 3

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

There is no net impact on the General Fund and HRA as a result of the amendments.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

Material misstatements/disclosure issues

Our audit has identified a total of two audit disclosure adjustments relating to notes 14 and 15 to the accounts with a total value of £264 million. A Note 14 CAA adjustment in relation to the Revaluation Reserve had been shown net of depreciation when correctly it should have been shown net of disposals. The disclosed current and historical costs for Owned assets in Note 15 included PFI balances which should be disclosed separately. The impact of these adjustments to the disclosures is to:

- Amend the Capital Adjustment Account and Revaluation Reserve movements in Note 14 to reflect disposals of £196 million previously included under the depreciation heading; and
- Increase the PFI assets detailed in Note 15 by £68 million with a corresponding reduction in the Owned assets detailed.

It is important to note that neither of these disclosure adjustments impact on the Authority's overall financial position as set out in its main financial statements. Both of the audit disclosure issues identified were adjusted by the Authority in the final version of its accounts.

Non material audit differences

Our audit identified a small number of non material errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them.

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements. The Finance Department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Appendix 4

Declaration of independence and objectivity

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd 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 Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd 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. Public Sector Audit Appointments Ltd 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 4

Declaration of independence and objectivity (cont.)

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 2016, 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Materiality and reporting of audit differences

For 2015/16 our materiality is £16 million for the Authority's accounts. For the Pension Fund it is £36 million.

We have reported all audit differences over £0.8 million for the Authority's accounts and £1.6 million for the Pension Fund, to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in February, 2016.

Materiality for the Authority's accounts was set at £16 million which equates to around one percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.8 million for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £36 million which is approximately one percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £27 million for 2015/16.

Appendix 6

KPMG Audit quality framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable.

Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice.

John Cornett as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudit application has significantly enhanced existing audit functionality. eAudit enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's Code of Audit Practice.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's Code of Audit Practice.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.



KPMG Audit quality framework (cont.)

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery:

Our professionals bring you up-the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- Timely Engagement Lead and manager involvement;
- Critical assessment of audit evidence;
- Exercise of professional judgment and professional scepticism;
- Ongoing mentoring and on the job coaching, supervision and review;
- Appropriately supported and documented conclusions;
- If relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);

- Clear reporting of significant findings;
- Insightful, open and honest two-way communication with those charged with governance; and
- Client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (<http://www.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/>).

The latest Annual Regulatory Compliance and Quality Report (for 2014/15) showed that we are meeting the overall audit quality and regulatory compliance requirements.

KPMG Audit quality framework (cont.)



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