

Agenda Item No.7 (b)

DERBYSHIRE COUNTY COUNCIL

COUNCIL

23 September 2015

Report of the Director of Finance

STATEMENT OF ACCOUNTS 2014-15

1 Purpose of the Report

This report presents the external auditor's 'Report to those charged with governance (ISA260) 2014-15' and the approved Statement of Accounts 2014-15.

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, 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 three weeks earlier than the statutory deadline and Audit Committee approval would also be scheduled to take place a month earlier than the previous year. Both these deadlines were achieved, with no accounting adjustments required and the auditors acknowledging the high standard of working papers and the excellent support provided by the finance teams during their audit.

The Accounts and Audit Regulations have been amended which will result in an earlier timetable for the preparation and publication of the Statement of Accounts for the financial year 2017-18. Local authorities will need to bring forward the certification and approval deadlines to 31 May and 31 July, respectively. The Council has achieved the accelerated timetable for two consecutive years, whilst maintaining a high level of accuracy in preparing the accounts and is currently one of only a few local authorities who have achieved, to date. Therefore, the Council is well placed to ensure that it will meet the revised statutory deadlines.

The Statement of Accounts were made available for public inspection for four weeks from 8 June 2015 and 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 4 August 2015, 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 2014-15' and audit opinion to members of the Audit Committee on 4 August 2015. There were no material changes to the Statement of Accounts and only three recommendations of improvement.

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

1. Pension Fund Annual Report

The Annual Report has been provided to KPMG in order to complete the audit. The procedures and timetable used to produce the Statement of Accounts for 2015-16 will reflect the shorter timeframe needed to complete the Pension Fund Annual Report.

2. Pension Fund Change of System

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. 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.

3. Journals

Staff have been reminded of the benefits of maintaining on-line back-up information concerning journal transfers. In-year checks will be performed to ensure compliance.

A presentation was also made to members of the Audit Committee which explained the Statement of Accounts 2014-15 in more detail.

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, human resources, Legal and Human Rights, equality of opportunity, health, environmental, transport, property and 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

That Council note the report, the external auditor's 'Report to those charged with governance 2014-15' and the approved Statement of Accounts 2014-15.

PETER HANDFORD

Director of Finance

Report to those charged with governance (ISA 260) 2014-15



cutting through complexity

Report to those charged with governance (ISA 260) 2014/15

Derbyshire County Council
Derbyshire Local Government Pension Fund

July 2015

The contacts at KPMG in connection with this report are:

John Cornett

Director

KPMG LLP (UK)

Tel: 0116 256 6064

john.cornett@kpmg.co.uk

Richard Walton

Manager

KPMG LLP (UK)

Tel: 0115 945 4471

richard.walton@kpmg.co.uk

Cathie Clarke

Assistant Manager

KPMG LLP (UK)

Tel: 0115 945 4489

cathie.clarke@kpmg.co.uk

Report sections

■ Introduction	2
■ Headlines	3
■ Financial statements	5
■ VFM conclusion	14

Appendices

1. Key issues and recommendations	15
2. Follow-up of prior year recommendations	17
3. Audit differences	18
4. Declaration of independence and objectivity	19
5. Materiality and reporting of audit differences	21
6. KPMG Audit Quality Framework	22

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, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for both the Authority and the Pension Scheme it administers; 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 2014/15 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- the work to support our 2014/15 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 2014/15*, presented to you in March 2015, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during June/July 2015.

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

Acknowledgements

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

VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work.

We have now completed the work to support our 2014/15 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

Structure of this report

This report is structured as follows:

- Section Two summarises the headline messages.
- Section Three sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority and the fund.
- Section Four 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.

This table summarises the headline messages for the Authority and the Pension 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 2015. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE in June 2007.</p> <p>We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2015.</p>
Audit adjustments	<p>Our audit has identified some minor presentational adjustments to the financial statements presented for audit.</p>
Key financial statements audit risks	<p>We identified the following key financial statements audit risks in our 14/15 External audit plan issued in March 2015.</p> <ul style="list-style-type: none"> the accounting requirements for Local Authority maintained schools; and the transfer of banking services from the Co-Operative to Lloyds. <p>We have worked with officers throughout the year to discuss how the Council have responded to these key risks. Our detail findings are reported in section three of this report.</p>
Key financial statements audit risks for the Pension Fund	<p>Our initial risk assessment for the Pension Fund's financial statements audit has identified the following significant risk:</p> <ul style="list-style-type: none"> LGPS reform - From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. <p>We have described this in more detail in section four. We will assess the Authority's progress in addressing these risk areas as part of our interim work and conclude this work at year end.</p>

Accounts production and audit process	<p>We have noted a further improvement in the quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process, The accounts were presented for audit a week early without having a negative impact on the quality of supporting working papers.</p>
Completion	<p>At the date of this report our audit of the financial statements is complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> • Pension Fund Annual Report – this has not yet been presented for audit • WGA <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 did not identify any specific VFM risks in our External audit plan 2014/15 issued in March 2015.</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 30 September 2015.</p>

We have not identified any amendments in the course of the audit 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 21 July 2015.

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 £27 million. Audit differences below £1.35 million are not considered significant.

We did not identify any material misstatements.

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

We anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements by 30 September 2015.

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

We identified a small 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 2014/15* ('the Code'). We understand that the Authority will be addressing these where significant.

Pension fund audit

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

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 yet to receive the Pension Fund Annual Report. We are required to review this prior to issuing our opinion on the Pension Fund financial statements. We have raised a recommendation in Appendix 2 that the process for preparing this statement is reviewed in order to present the document for audit next year at a suitable time.

When we receive the report we will seek to confirm that:

- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.


The statutory deadline for publishing the document is 1 December 2015. We will need to complete additional work in respect of subsequent events to cover the period between signing our opinions on the Statement of Accounts and the Pension Fund Annual Report.

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 which relate to the Authority.


In our External Audit Plan 2014/15, presented to you in March 2015, we identified the significant risks affecting the Authority and the Fund's 2014/15 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.

Significant audit risk	Issue	Findings
	<p>During the year, the Authority transferred the banking services from the Co-Operative Bank to Lloyds.</p> <p>With a large number of accounts held for the main functions of the Authority there is risk relating to the transfer of balances and the recording of transactions post transfer.</p>	<p>We have reviewed the arrangements put in place for the transfer of the bank accounts and tested a sample of accounts to confirm they had closed by 31 March 2015.</p> <p>We have no concerns to report as a result of this testing.</p>


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 which relate to the Authority.

Significant audit risk	Issue	Findings
	<p>LAAP Bulletin 101 - Accounting for School Assets used by Local Authority Maintained Schools (issued in December 2014) has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools.</p> <p>Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. There is a risk that Authorities could omit school assets from, or include school assets in, their balance sheet.</p> <p>Particular risks surround the recognition of Foundation School assets which may or may not be held in Trust. Authorities should pay particular attention to the nature of the relationship between the Trustees and the school governing body to determine whether the school controls the Trust and the assets should therefore be consolidated into their balance sheet.</p>	<p>As part of our audit we have reviewed the treatment for accounting for Local Authority maintained schools. We have:</p> <ul style="list-style-type: none"> Reviewed the Councils application of LAAP Bulletin 101 and Appendix E of the Code to confirm the correct treatment of schools Had discussions with key members of the Authority finance team to discuss the appropriate treatment and processes to achieve this treatment Reviewed the amendments made to the Fixed Asset Register and confirmed that they were in accordance with the guidance and processes agreed. Carried out detailed testing on a sample of schools to ensure the changes made regarding these schools were materially correct Ensure all valuations were in accordance with information from the valuer


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 which relate to the Pension Fund.

Significant audit risk	Issue	Findings
 <p>LGPS Reform</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Contributions ■ Benefits 	<p>From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members.</p> <p>While any errors in the system are unlikely to result in material misstatements in 14/15, the possible cumulative effect in future years means that specific audit work is needed on ensuring that the changes required to the system have been accurately reflected.</p>	<p>We have confirmed that the LGPS reform has not had a material impact on the 2014/15 financial statements.</p> <p>Our recommended improvements to the new pensions system are noted on the next page.</p>

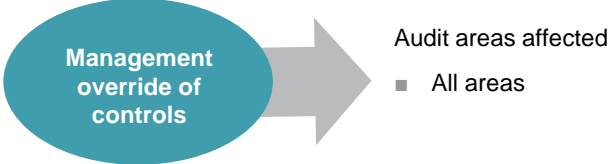
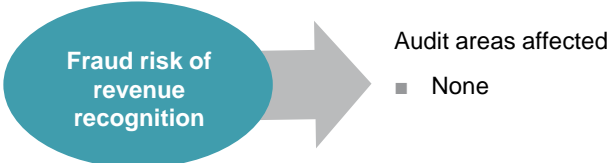
We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on those risks which relate to the Pension Fund.

Significant audit risk	Issue	Findings
	<p>From 1 December 2014, the Pension Fund Administration system changed from AXISe to Civica UPM. The new system provides greater functionality and transparency in over the process of administering the pension fund. However, combined with the changes resulting from LGPS reform outlined previously there is a risk that the data transfer/migration to the Civica UPM system has not been actioned correctly and will therefore not accurately calculate the pension benefits due to members which could result in material misstatements in the 2014/15 accounts.</p> <p>Specific audit work is needed to assess whether material errors exist as a result of data migration from the AXISe system to the Civica UPM system.</p>	<p>As part of our audit we have reviewed the change of the Pension Fund administration system from AXISe to Civica UPM. As part of this work we have:</p> <ul style="list-style-type: none"> Reviewed and documented the process that has been put in place for the data migration Reviewed the data migration documentation to confirm that all data lines from AXISe agree with UPM We have noted that there are still issues with the new system not producing the information accurately. Whilst we are happy that this does not have a material impact on the financial statements, a recommendation has been made to ensure that the system is operating effectively as soon as possible

In our *External Audit Plan 2014/15* 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. These issues are relevant to both the Authority and the Pension Scheme.

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 on either audit 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 2014/15</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>This is still the case. Since we have rebutted this presumed risk for both audits there has been no impact on our audit work.</p>

The Authority has a well established and strong accounts production process. This operated well in 2014/15, 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	<p>The Authority continues to maintain a strong financial reporting process and produce statements of accounts to a good standard.</p> <p>We consider that accounting practices are appropriate</p>
Completeness of draft accounts	<p>We received a complete set of draft accounts on 8 June 2015.</p> <p>The Authority have 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.</p>
Quality of supporting working papers	<p>We issued our <i>Accounts Audit Protocol</i> including our required working papers for the audit on 15 January 2015.</p> <p>The quality of working papers provided was high and fully met the standards specified in our <i>Accounts Audit Protocol</i>.</p>
Response to audit queries	<p>Officers resolved all audit queries in a timely manner.</p>

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

Prior year recommendations

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

The Authority has implemented all of the recommendations in our *ISA 260 Report 2013/14*

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 2015, we confirm that there were no relationships between KPMG LLP and Derbyshire County Council or Derbyshire Local Government 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 s151 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 others 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 2014/15 financial statements.

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

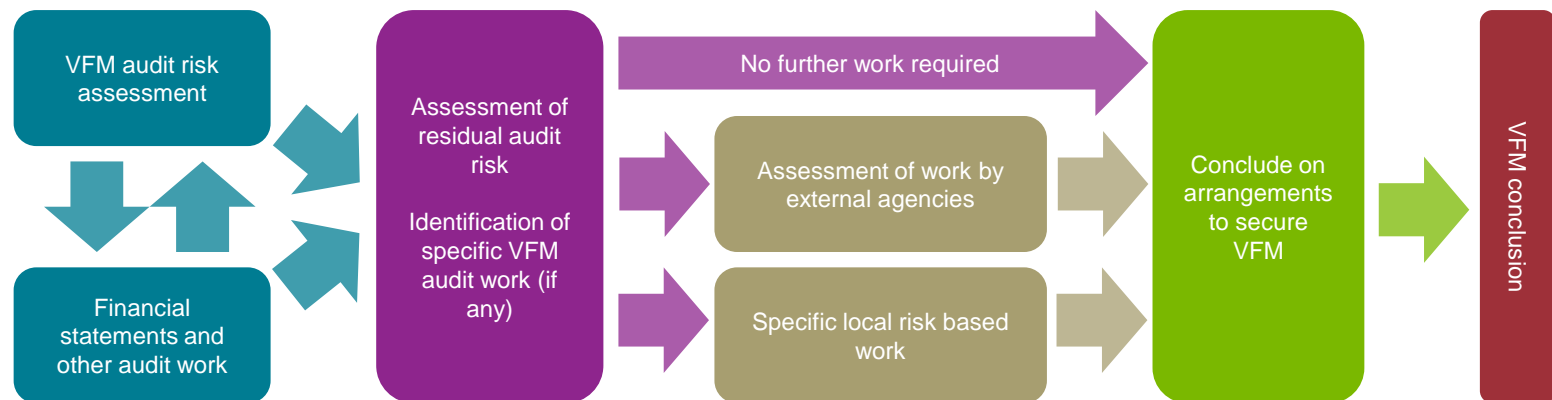
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional 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	✓



Appendix 1: Key issues and recommendations

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	Pension Fund Annual Report The Authority has made good progress with moving the Financial Statements deadline forward so they are prepared for the earlier audit deadline in future years. However, we still have not received the Pension Fund Annual Report which we are required to review prior to giving our Audit Opinion. Recommendation The 2014-15 Pension Fund Annual Report needs to be provided as a matter of urgency. The Authority review the process of preparation of this document to ensure it is delivered with the Financial Statements and associated working papers in future years.	Agreed

Appendix 1: Key issues and recommendations

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	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>	Agreed
3	3	<p>Journals</p> <p>The Council's policy for journal preparation requires that full supporting evidence should be attached on to the ledger for all journals. Our testing found that this was not held on the ledger in all cases. Whilst evidence could be provided upon request the policy should be followed in full as a lack of documentation increases the risk of error.</p> <p>Recommendation</p> <p>Full supporting documentation should be included on SAP for all journals processed.</p>	Agreed

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2013/14*.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2013/14* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	0

Appendix 3: Audit differences

This appendix sets out the audit differences. There are no audit differences to report

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.

Material misstatements

We are pleased to report that there are no material misstatements to report.

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.

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 (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 2015, 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.

For 2014/15 our materiality is £27 million for the Authority's accounts. For the Pension Fund it is £33 million.

We have reported all audit differences over £1.35 million for the Authority's accounts and £1.65 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 2014/15, presented to you in March, 2015.

Materiality for the Authority's accounts was set at £27m which equates to around 2 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Materiality – pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £33 million which is approximately 1 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £1.65 million for 2014/15.

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 £1.35m 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.

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.

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 behaviors in the performance of effective and efficient audits. The key behaviors 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 (issued June 2015) showed that we are meeting the overall audit quality and regulatory compliance requirements.



cutting through complexity™

© 2015 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.