

# The Audit Findings for Erewash Borough Council

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**Year ended 31 March 2014**

September 2014

**Kyla Bellingall**

Director

T 0121 232 5334

E [kyla.bellingall@uk.gt.com](mailto:kyla.bellingall@uk.gt.com)

**Mark Surridge**

Senior Manager

T 0121 232 5424

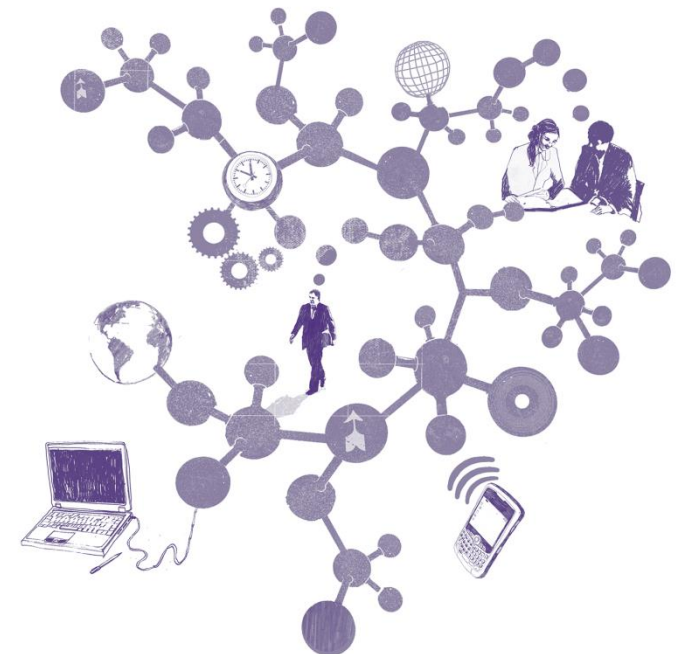
E [mark.n.surridge@uk.gt.com](mailto:mark.n.surridge@uk.gt.com)

**Paul Harvey**

Executive

T 0121 212 4000

E [paul.m.harvey@uk.gt.com](mailto:paul.m.harvey@uk.gt.com)



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## **Appendices**

- A Action plan
- B Audit opinion
- C Management Representation Letter
- D. Follow up of prior year recommendations

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Section 1: Executive summary

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# Executive summary

## **Purpose of this report**

This report highlights the key matters arising from our audit of Erewash Borough Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## **Introduction**

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan presented to Audit Committee on 29 July 2014.

Our audit is substantially complete although we are finalising our work in the following areas:

- clearing residual queries in relation to employee remuneration
- final testing of business rates income
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

## **Key issues arising from our audit**

### **Financial statements opinion**

We anticipate providing an unqualified opinion on the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the draft accounts were of a good quality
- the audit did not identify any material misstatements
- finance staff responded promptly to audit queries, facilitating the prompt completion of the audit
- working papers were of a good quality.

We have identified no adjustments affecting the Council's reported financial position. We did identify a small number of disclosure errors, and requested a some adjustments to improve the presentation of the financial statements.

Further details are set out in section 2 of this report.

### **Value for Money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

### **Whole of Government Accounts (WGA)**

We have completed our work on the Whole of Government Accounts and have no issues to highlight for your attention.

### **Controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has not identified any significant control weaknesses which we wish to highlight for your attention. A small number of IT related control recommendations have been made, these are set out on page 12 and are included in the action plan at Appendix A.

### **Challenge and objections**

During the course of our audit, we received a letter from an elector raising concerns over the Council's procurement of agency staff. Whilst this is not a formal objection to the accounts, it is an area of significant spend that has required additional audit work.

At the time of writing this report, we are in the final concluding stages of our review, and wish to highlight that this may result in a delay in issuing our audit certificate. We will report the results of this work separately to the Council.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Resources.

We have made a small number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Director of Resources and the finance team.

### **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**September 2014**

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## Section 2: Audit findings

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# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 29 July 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to Audit Committee on 29 July 2014 other than to extend our work to consider the matter brought to our attention by an elector as detailed on page 5.

## **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our indicative audit opinion is set out at Appendix B.

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• reviewed and tested the revenue recognition policies</li> <li>• tested material revenue streams</li> <li>• considered whether there were any unusual significant transactions</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• reviewed accounting estimates, judgements and decisions made by management</li> <li>• tested journal entries</li> <li>• considered whether there were any unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls.</p> <p>Our review of journal controls, covering and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>



# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period (completeness)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• tested a sample of operating expenses and creditors</li> <li>• performed cut-off testing on payments before and after year end</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed (completeness)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• tested a sample of payments</li> </ul>	Our audit work has not identified any significant issues in relation to the risks identified for the opinion.  Whilst we have further work to complete before we are able to certify the Council's Housing Benefit Subsidy claim, this has no impact on the financial statements. Our remaining audit tests do not include any tests relating to welfare claims made during the year, our outstanding work mainly involves a review of the Council's procedures to compile the Subsidy claim.




# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Employee remuneration</b></p>	<p>Employee remuneration accruals understated (completeness)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of the processes and key control over the transaction cycle</li> <li>• undertaken a walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• reviewed the completeness of the reconciliations of information from the payroll system to the general ledger and financial statements,</li> <li>• tested a sample of employee remuneration payments</li> </ul>	<p>At the time of writing this report, we are in the process of completing a trend analysis of pay costs.</p> <p>Our completed audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Property, plant and equipment (PPE)</b></p>	<p>PPE activity not valid (valuation gross)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of the processes and key control over the transaction cycle</li> <li>• undertaken a walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• tested a sample of capital expenditure to ensure it is valid capital activity</li> <li>• considered the Council's approach to asset valuations and tested a sample of revaluations</li> </ul>	<p>We have requested confirmation from the Council that it has made appropriate arrangements to consider the fair value of all assets at the balance sheet date. In particular how the Council is satisfied that assets that have not been formally valued remain fairly stated.</p> <p>All other audit work has not identified any significant issues in relation to the risk identified.</p>

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.


Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>The Council's policy on revenue recognition is included in note 3 and note 19 of the Statement of Accounting Policies:</p> <ul style="list-style-type: none"> <li>Revenue from the sales of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or services potential associated with the transaction will flow to the Council</li> <li>Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council</li> <li>Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurances that the Council will comply with the conditions attached to the payments, and grants or contributions will be received.</li> </ul>	<ul style="list-style-type: none"> <li>The Council's policy is appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice</li> <li>Minimal judgement is involved</li> <li>Accounting policies are properly disclosed, following our request that the Council includes a revenue recognition policy for business rates</li> </ul>	 (Green)
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</li> </ul>	 (Green)
<b>Judgements and estimates</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>pension fund valuations</li> <li>useful life of capital assets</li> <li>impairments</li> </ul>	<ul style="list-style-type: none"> <li>The Council's approach is appropriate and consistent with the Local Government Code of Accounting Practice</li> </ul>	 (Green)

**Assessment**

● (Red) Marginal accounting policy which could potentially attract attention from regulators  
 ● (Green) Accounting policy appropriate and disclosures sufficient

● (Amber) Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements


Accounting area	Summary of policy	Comments	Assessment
<p><b>Judgements and estimates – PPE</b></p>	<p>Page 15 of the draft accounts sets out the Council's rolling programme of asset revaluations. This ensures that all property, plant and equipment is revalued at least every five years</p>	<ul style="list-style-type: none"> <li>• The Local Government Code of Practice on Local Authority Accounting requires councils to value all items within a class of property, plant and equipment simultaneously. A rolling basis of revaluation is only permitted when:                             <ul style="list-style-type: none"> <li>- the revaluation of the class of assets is completed within a 'short period'</li> <li>- the revaluations are kept up to date.</li> </ul> </li> <li>• We would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</li> <li>• The Council has assured itself that these valuations reflect current valuations at 31/3/2014 by undertaking a desktop review of all assets that had not been revalued in 2013/14.</li> <li>• The Code also requires local authorities disclose the classes of assets selected within a note to the financial statements. The Council's groups assets of a similar nature and use, such as car parks, leisure centres, however, the financial statements do not disclose this level of detail, instead assets are disclosed within a higher grouping, such as "operational land and buildings"</li> <li>• This approach is similar to many other authorities and whilst not compliant with the Code we are satisfied that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014.</li> <li>• As a result, whilst we have accepted the approach for 31/3/2014 we have included a recommendation at Appendix A that this will be reviewed for 2014/15.</li> </ul>	<p style="text-align: center;">                       (Amber)                 </p>

**Assessment**

● (Red) Marginal accounting policy which could potentially attract attention from regulators  
 ● (Green) Accounting policy appropriate and disclosures sufficient

● (Amber) Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements

Accounting area	Summary of policy	Comments	Assessment
<p><b>Judgements and estimates - provisions</b></p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>• pension fund valuations</li> <li>• useful life of capital assets</li> <li>• revaluations</li> <li>• impairments</li> <li>• Property, Plant and Equipment (PPE) valuations</li> </ul>	<ul style="list-style-type: none"> <li>• Under the new arrangements for business rates retention, the Council now bears the risk and reward of movements in business rates. For accounting purposes, the Council has set aside a provision of £165k for business rate appeals (note 21). We have reviewed the Council's approach in calculating this provision and make the following observations:                             <ul style="list-style-type: none"> <li>- the Council's calculation for this provision is based on a number of assumptions, including information from the Valuation Office. The key assumptions are: the likelihood of a successful appeal and the potential reduction in rates</li> <li>- these assumptions are, in the Council's view, the best estimate on the potential outcome of appeals. A small movement in the percentages used to calculate the estimate can have a large effect on the provision. Our analysis showed a five per cent movement may result in an increase of £90k to the provision</li> <li>- the Council's provision of £165k is based on appeals that it is currently aware of. It does not take into account future appeals and it is the Council's view that it is unable to reliably estimate the impact that future appeals may have on the Council</li> <li>- we have requested the Council provides additional narrative in the accounts in the form of a contingent liability to explain that the Council is not able to quantify appeals that have not yet been lodged with the Valuation Office so there is a risk to the Council that national and local appeals may have a future impact on the accounts. This additional disclosure is described as a contingent liability in the Council's revised financial statements</li> </ul> </li> </ul>	<p style="text-align: center;">                       (Amber)                 </p>

**Assessment**

- (Red) Marginal accounting policy which could potentially attract attention from regulators
- (Green) Accounting policy appropriate and disclosures sufficient

- (Amber) Accounting policy appropriate but scope for improved disclosure

# Misstatements and adjustments

## Adjusted misstatements

We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. Through the course of our work, we did not identify any matters that resulted in an adjustment to the balances presented in the Council's financial statements

## Unadjusted misstatements

The Council has processed all audit adjustments, and therefore there are no further items to report to you.

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.



Adjustment type		Account balance	Impact on the financial statements
1	Disclosure	Note 32 – Contingent Liabilities	The Council has included additional narrative to further illustrate the extent of financial uncertainty that business rate appeals may have on the Council's financial position
2	Disclosure	Accounting policies	The Council has added narrative to disclose its policy on the recognition of business rate income
3	Disclosure	Comprehensive Income and Expenditure Statement	To comply with new accounting guidance for 2013/14, the description for an entry on the face of the Statement has been amended from "Actuarial losses / (gains) on pension assets and liabilities" to "Measurement of the net defined liability".
4	Disclosure	Various	We have agreed a small number of presentational and narrative changes to the financial statements as well as suggested areas for further improvements in 2014/15. These are not significant in nature or volume.

# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A. We have also included, as Appendix D, a follow up to the recommendations raised in our prior year Audit findings Report.

	Assessment	Issue and risk	Recommendations
1.	 (Amber)	<p><b>Monitoring of access to the oracle, progress and SQL databases</b></p> <p>There are currently no system generated audit logs in place to record changes made to the Finance, Revenue and Benefits and Payroll systems at database level. Direct access to the databases underlying these systems is restricted to the ICT department through individual accounts. The third party maintenance support companies of these systems also have access to these databases at predetermined times and when actions are agreed.</p> <p>There is a risk that unauthorised changes may be made to the database by the database administrators or the third party support team without them being logged or recorded. These changes may affect the integrity of the system and its data.</p>	<p>We recommend audit logging is enabled for all databases for the systems identified. Those audit logs should be monitored periodically, preferably by an individual in IT who does not have direct access to the databases.</p> <p>As a minimum, critical tables within the system such as bank details and supplier and customer master files should be restricted and any alterations made to fields within these logged and reviewed periodically.</p>
2.	 (Amber)	<p><b>Procedures</b></p> <p>Change management requests for the key applications are undertaken through formal requests to the respective software providers. Requests are made by the respective system owners or through the IT team. We noted that IT have not established any documented procedures governing the release of patches or system upgrades by the software vendor. We acknowledge that at the point of review the IT team were working to produce documented change management procedures.</p> <p>The lack of documented procedures for staff to adhere to could result in changes not being effectively administered on key applications, causing system down-time.</p>	<p>IT should implement formally documented procedures for the change management process which will define how they will deal with minor and major changes. This is to ensure that staff are dealing with changes as per the set process and traceability is maintained throughout.</p>

## Assessment

-  (Red) Significant deficiency – risk of significant misstatement
-  (Amber) Deficiency – risk of inconsequential misstatement

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>
7.	<b>Other matters</b>	<ul style="list-style-type: none"> <li>The auditors of the Derbyshire Pension Fund have reported system weaknesses relating to pension payments. Under and over payments have been identified as a result of a reconciliation exercise between AXISE (the pensions database) and SAP (the Fund's finance and payroll system). There is no automated interface between the two systems. The Fund's reconciliation identified around 2,450 cases where the pension amounts were different in the two systems and around 1,200 cases remain to be investigated. Of the cases reviewed so far, there have been 44 cases where the amounts paid were wrong, resulting in either under or over payments to the pensioner – 16 were under and 28 over payments. The largest single overpayment error to date is approximately £15k to one of the pensioners. There are only two errors greater than £3k. The total amount written off to date for overpayments is approximately £130k. All under payments identified to date have been corrected and arrears paid.</li> </ul>



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## Section 3: Value for Money

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# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted that arrangements meet adequate standards.

### Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

We have completed our work and our findings are included in the table overleaf

## Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	The Council has adequate arrangements in place to monitor its financial performance. The VFM profile tools collated by the Audit Commission show that the Council is performing in line with other district councils with regard to financial performance and spending on its residents. The Council has adequate arrangements in place to manage its workforce having focussed efforts in 2013/14 on the implementation of job evaluation and monitoring of sickness absence. The Council initiated a review of its officer resources and structure in March 2014, the impact of which will fall into the 2014/15 financial year.	<b>Green</b>
Strategic financial planning	Each year the Council updates its medium term financial plan alongside the current year budget forecasts. By presenting both a short-term and long-term financial perspective, the Council is able to demonstrate it is aware of how both documents complement each other and support the Corporate Plan. The Council is projecting the need to identify efficiency savings of £359k in 2014/15, £785k in 2015/16 and a further £516k in 2016/17. A large proportion of these efficiency savings are reliant on the officer resource and structure review, which the Council expects to realise savings of c£500k.	<b>Green</b>
Financial governance	The Council has adequate risk management arrangements in place, with regular reporting of strategic risks to Members. Regular financial and non-financial performance information is both provided to officers and Members.	<b>Green</b>
Financial control	<p>The Council has a track record for delivering budgeted savings and the Council's longer-term financial planning includes a policy on the level of reserves required for sound financial standing. The Council currently benefits from the New Homes Bonus (£836k in 2013/14 and £1,010k in 2014/15), which is allocated to the general fund. However, there is longer term uncertainty in local authority financing from both the changes in business rate retention and grant settlements beyond 2015/16.</p> <p>Overall arrangements for Internal Audit remain consistent with the prior year and are, overall, adequate. As we have previously commented there are inherent risks to the delivery of the full internal audit plan with reliance upon a small team. The Council has, however, developed an action plan to improve arrangements following a self assessment against Public Sector Internal Audit Standards.</p> <p>This theme is rated amber to reflect the long-term financial challenges for the Council in delivering the savings required and for the risk relating to the resilience of the Council's internal audit team.</p>	<b>Amber</b>
Prioritising resources	The Council's current Corporate Plan runs to 2016 and sets out the corporate objectives, which are supported by an annual action plan that is reported to Cabinet through an outcomes report. This ensures the Council has appropriate arrangements in place to prioritise its resources and allocate funding according to those resources.	<b>Green</b>
Improving efficiency & productivity	The Council has historically delivered the savings required as set out in its annual budget and all savings and costs have been built into the medium term financial plan and budget for the forthcoming year.	<b>Green</b>

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## Section 4: Fees, non audit services and independence

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# Fees, non audit services and independence

We confirm below our final fees charged for the audit

## Fees

	Per Audit plan £	Actual fees £
Council audit	74,670	74,670
Grant certification	20,328	20,328
Additional audit work to support the financial statement audit regarding Business Rates	NIL	900
<b>Total audit fees</b>	<b>94,998</b>	<b>95,898</b>

## Fee Variation for Business Rates

There is an additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NNDR3 claims.

## Fees for other services

Service	Fees £
None	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

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02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices



# Appendix A: Action plan

**Priority**

**Significant deficiency** – risk of significant misstatement

**Deficiency** - risk of inconsequential misstatement

Rec No.	Recommendation	Priority (High,	Management response	Implementation date & responsibility
1	The Council should review its approach to the classification and disclosure of classes property, plant and equipment in 2014/15.	Medium		
2	We recommend audit logging is enabled for all databases for the systems identified. Those audit logs should be monitored periodically, preferably by an individual in IT who does not have direct access to the database.	Low		
3	IT should implement formally documented procedures for the change management process which will define how they will deal with minor and major changes. This is to ensure that staff are dealing with changes as per the set process and traceability is maintained throughout.	Low		

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EREWASH BOROUGH COUNCIL

### Opinion on the Authority financial statements

We have audited the financial statements of Erewash Borough Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Erewash Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Director of Resources and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Erewash Borough Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

### Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

**Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Erewash Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

**Certificate**

We certify that we have completed the audit of the financial statements of Erewash Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Kyla Bellingall  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza  
20 Colmore Circus  
BIRMINGHAM  
West Midlands  
B4 6AT

September 2014

# Appendix C: Management representation letter

\*\*\*Prepare on client letterhead\*\*\*

Grant Thornton UK LLP  
Dear Sirs

**Erewash Borough Council**

**Financial Statements for the year ended 31 March 2014**

This representation letter is provided in connection with the audit of the financial statements of for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

## **Financial Statements**

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.

We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.

All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.

We have not adjusted the misstatements brought to our attention in the Audit Findings report, which are considered to be immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

## **Information Provided**

We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of your audit; and
- unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence

We have communicated to you all deficiencies in internal control of which management is aware.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

We are satisfied that our approach to accounting for business rates is consistent with accounting standards.

## **Annual Governance Statement**

We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

## **Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on [DATE].

## Appendix D: Follow up of prior year recommendations

Recommendation	Management response	Status
<p>The Council should review its treasury management limits and approval arrangements and ensure that these are commensurate with business needs. Where departures cannot be avoided these should be promptly reported to the Executive.</p>	<p>The Treasury Management limits are reviewed every year as part of the Treasury Management approval process. This will continue to be done but where unavoidable minor breaches occur they will be promptly reported to Members. The instance identified by the auditors arose due to technical issues which meant that an intended investment could not be placed with the result that the only option available to the Council was to keep the funds overnight with the Council's own bank. The risk to the Council was considered minimal. The failure to report the matter to the Executive was an oversight attributed to human error and this has now been rectified at the earliest opportunity.</p>	<p>Implemented. No evidence of non-compliance identified during our 2013/14 audit.</p>
<p>The Council should ensure all journals are signed and dated as prepared and authorised and contain narrative descriptions.</p>	<p>Agree with the recommendation and the small percentage of incomplete journals will be rectified in the current financial year</p>	<p>Implemented. No evidence of non-compliance identified during our 2013/14 audit.</p>
<p>We recommend audit logging is enabled for all databases for the systems identified. Those audit logs should be monitored periodically, preferably by an individual in IT who does not have direct access to the database.</p>	<p>All database changes have a user footprint and a date/ time of change. Will seek further clarification in discussion with the specialist IT auditors and the external database administrators as to whether any further audit logging is required</p>	<p>Not implemented – recommendation reported in 2013/14</p>
<p>IT should implement formally documented procedures for the change management process which will define how they will deal with minor and major changes. This is to ensure that staff are dealing with changes as per the set process and traceability is maintained throughout.</p>	<p>The Information Technology Infrastructure Library (ITIL) is a set of practices for IT service management that focuses on aligning IT services with the needs of business. Although full adoption of ITIL would require significant additional resources to achieve compliance, which may not be appropriate for an organisation of our size, the Council will implement some aspects of the ITIL service management system that will have an immediate impact on the quality of the ICT service, such as a revised help desk system. This item was discussed at the ICT Steering Group and the Council Executive has approved in principle to the purchase of the software subject to the production of an appropriate business case together with the necessary financial resources.</p>	<p>Not implemented – recommendation reported in 2013/14</p>



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