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Annual Audit Letter 2013/14

Amber Valley Borough Council

October 2014

Contents

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

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

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

Headlines

This report summarises the key findings from our 2013/14 audit of Amber Valley Borough Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2013/14 financial statements and the 2013/14 VFM conclusion.

VFM conclusion	We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2013/14 on 19 September 2014. This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness. To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources.
VFM risk areas	We identified a single specific risk to our VFM and considered the arrangements you have put in place to mitigate this. We critically assessed the controls the Authority has in place to ensure a sound financial standing and reviewed how the Authority is planning and managing its savings plans We concluded that we did not need to carry out additional work for this risk as there was sufficient relevant work that had been completed by the Authority in relation to this risk area. Moving forward, given the scale of the financial challenges ahead, budget monitoring including regular monitoring and reporting of the savings plans (Budget Reduction Action Plans) will be fundamental to the continued financial resilience of the Authority.
Audit opinion	We issued an unqualified opinion on your financial statements on 19 September 2014. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.
Financial statements audit	Generally the Authority has reasonable processes in place for the production of the accounts although not all key working papers were provided on the first day of the audit and the Annual Governance Statement (AGS) and Whole of Government Accounts (WGA) were not produced until after the end of our planned visit. Our work on fixed assets revaluation and the fixed asset register identified a number of issues. As a result of these issues an increase in the scale fee will be necessary and we are proposing an additional fee of £3,932. This is subject to Audit Commission approval. We have had regular meetings with Officers throughout the year which has facilitated delivery of the audit.
Annual Governance Statement	We reviewed your *Annual Governance Statement* and concluded that it was consistent with our understanding.

Headlines (continued)

We provide a summary of our key recommendations in Appendix 1.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

Whole of Government Accounts	We undertook a limited review of the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. As the Authority falls below the threshold for detailed testing we only reported that the pension liabilities and PPE disclosures in the Authority's consolidation pack are consistent with the audited statutory accounts.
High priority recommendations	We raised three high priority recommendations as a result of our 2013/14 audit work. These are detailed in Appendix 1 together with the action plan agreed by management. We will formally follow up these recommendations as part of our 2014/15 work. In summary these recommendations relate to: ■ The revaluation of fixed assets (including investment properties) and content and presentation of the fixed asset register. ■ The Authority's review and assessment of asset valuations provided by the Valuer. ■ The need for robust financial planning and regular budget monitoring including the agreement and implementation of savings plans to continue to be given the high priority it has in the past.
Certificate	We issued our certificate on 19 September 2014. The certificate confirms that we have concluded the audit for 2013/14 in accordance with the requirements of the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.
Audit fee	Our planned fee for 2013/14 was £62,415, excluding VAT. As set out on the previous page, we are proposing an additional fee of £3,932 in respect of the additional work we were required to carry out in respect of fixed asset revaluations and the fixed asset register. We are proposing a further additional fee of £900 for 2013/14 for the additional NNDR testing that we have had to carry out as part of our opinion audit as a result of there being no certification of the NNDR3 return. These additional fees are subject to final determination by the Audit Commission. Further detail is contained in Appendix 3.
Risk register benchmarking exercise	We reported on a benchmarking exercise to compare risk registers and the related review processes across our wide range of local government clients. This confirmed that your risk management processes are generally in line with other district councils and you share similar risks. The report is intended to provide a useful prompt to the Governance and Audit Board to review its role in this area.

Appendix 1: Key issues and recommendations

This appendix summarises the high priority recommendations that we identified during our 2013/14 audit, along with your responses to them.

Lower priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

We will hold a debrief meeting with officers to discuss the learning points from this year's audit.

No.	Issue and recommendation	Management response/ responsible officer/ due date
1	**Revaluation of Fixed Assets and the Fixed Asset Register** Our work on fixed assets revaluation and the asset registers identified a number of issues. **Recommendation** Redesign the asset register spreadsheets so that the information contained therein is clearly presented. Ensure it is updated and all assets are recorded accurately. Ensure that; • valuation certificates correctly describe the asset and contain the correct asset number. • the Valuer provides a summary report explaining his method of valuation. • investment properties are revalued annually.	Officers acknowledge that the fixed asset register is complex and will attempt to improve it's clarity to assist the audit process in 2014-15. However in the longer term rather than redesigning the Fixed Asset Register, officers intend to migrate these records to a propriety software package designed specifically for the purpose of fixed asset accounting. It is hoped to have such a system in place in time for the 2015-16 accounts closedown process. The valuation exercise for the 2013-14 has been affected by both staff absences and a requirement to undertake a number of additional valuations resulting from the asset reconciliation process. This has led to difficulties in obtaining the necessary valuation documentation and in dealing with requests for clarification/requests for additional information. Officers are already liaising with the Council's external valuers to agree the process for the 2014-15 exercise and will work together with the valuers to avoid the repetition of any similar shortcomings in future.

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No.	Issue and recommendation	Management response/ responsible officer/ due date
2	**Valuation of Leisure Centres** The Valuer had valued three of the Authority's leisure centres resulting in a material £11m upward revaluation. We were not provided with the Valuer's report to detail the change. Given the significance of the upward revaluation. We queried this with the Authority and staff had to go back to the Valuer for clarification. As a consequence of the scale of change and lack of supporting detail we sought a second opinion from our Valuer who supported our query re the basis of the land/building split and confirmed that the valuation was within a reasonable range based on the information available. As a result of all of the above, the value has been restated. Originally the total value of the asset had been based on an arbitrary split applied of 35% land value and 65% building value. This was not based on the actual land/building split of approximately 14% land and 86% buildings. The Authority have now agreed the original split was incorrect and have amended the land/building value. As a result, depreciation on the building value had been understated by £669,000. Given the significance of the revaluation the Authority's staff state that they did query the basis on receipt but did not receive a response to the query before updating the financial statements. **Recommendation** The Authority needs to satisfy itself that the valuation of its assets is correct and on a reasonable basis. This should involve critically reviewing the information provided by the Valuer and seeking further clarification and detail to support any significant changes	Given the increase in values to the three leisure centres officers did seek to ascertain the reasons behind the significant movement in their value. Unfortunately this information was received too late to enable a detailed examination of the explanation before the Statement of Accounts were Authorised for Issue on 27 June 2014. Explanations provided included an increase to the land valuation and an increase to the construction costs of this type of building. These were considered to be a reasonable explanation and were accepted. Further detailed work undertaken after the Accounts were issued indicated whilst the overall valuation was correct in total the apportionment between land and buildings was incorrect. The impact of this is highlighted in the adjacent issue raised by the Auditors. Officers agree that in future where significant changes to the values of assets occur a critical review of the reasons for this change will occur. Officers are already liaising with the Council's valuers to ensure the exercise is completed in advance of the 31 March, allowing sufficient time for such a review if necessary.

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No.	Issue and recommendation	Management response/ responsible officer/ due date
3	**Value for money conclusion** The Authority continues to review its financial and Budget Reduction Action Plan in order to address the reduction in government grant of £900,000 in both years in 2014/15 and 2015/16. The identification of further savings is imperative and this will be more challenging in the future as the options for further savings become more difficult to identify. It is vital that the recent change in administration and the implementation of new policies and arrangements to support the new regime does not place the delivery of the budget and savings plans at risk. **Recommendation** Robust financial planning and regular budget monitoring including the agreement and implementation of savings plans must continue to be given the high priority it has in the past.	Recommendation Agreed Council agreed on 23 July 2014 that a Budget Action Reduction Plan would be presented to Council in March 2015 to address the budget deficit which will arise as a result of the reduction in external grant in 2014/15 and 2015/16.

Appendix 2: Summary of reports issued

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

2014

January

February

March

April

May

June

July

August

September

October

November

Certification of Grants and Returns (January 2014)

This report on summarised the outcome of our certification work on the Authority's 2012/13 grants and returns.

External Audit Plan (February 2014)

The *External Audit Plan* set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.

Audit Fee Letter (April 2014)

The *Audit Fee Letter* set out the proposed audit work and draft fee for the 2014/15 financial year.

Risk register benchmarking exercise (September 2014)

We issued a report benchmarking the Authority's risk register against other district councils'.

Auditor's Report (September 2014)

The *Auditor's Report* included our audit opinion on the financial statements, our VFM conclusion and our certificate.

Report to Those Charged with Governance (September 2014)

The *Report to Those Charged with Governance* summarised the results of our audit work for 2013/14 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Annual Audit Letter (October 2014)

This *Annual Audit Letter* provides a summary of the results of our audit for 2013/14.

Appendix 2: Audit fees

This appendix provides information on our final fees for 2013/14.

To ensure openness between KPMG and your Governance and Audit Board about the extent of our fee relationship with you, we have summarised the outturn against the 2013/14 planned audit fee.

External audit

Our proposed fee for the 2013/14 audit of the Authority is £67,247. This compares to a planned fee of £62,415.

We are proposing an additional fee of £3,932 in respect of the additional work we were required to carry out in respect of fixed asset revaluations and the fixed asset register

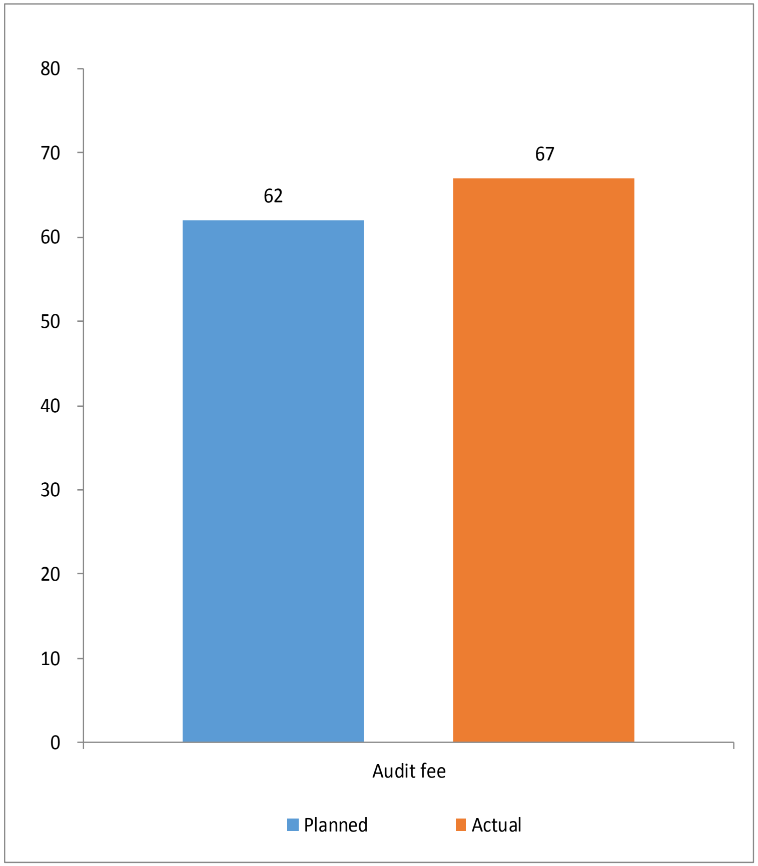
We are proposing a further additional fee of £900 to cover extra work undertaken on NNDR. To deliver our 2013/14 audit opinion there were two elements of our work that we have previously carried out while certifying LA01 (the NNDR3 return), and relied upon for our opinion audit. In 2013/14, as a result of there being no certification of the NNDR3 return, we have had to carry out this work as additional procedures to our opinion audit.

Our proposed additional fees are still subject to final determination by the Audit Commission.

Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2013/14* which we are due to issue in January 2015.

External audit fees 2013/14 (£'000)



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