Public Document Pack

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Ask for Danny Sunderland

Dear Councillor

AUDIT COMMITTEE - TUESDAY, 19 SEPTEMBER 2023

I am now able to enclose, for consideration at next Tuesday, 19 September 2023 meeting of the Audit Committee, the following reports that were unavailable when the agenda was printed.

Agenda No	Item
6.	**<u>To consider the report of the External Auditor on Audit Strategy Memorandums</u> (Pages 1 - 74)**

Yours sincerely

Helen E. Barrington

Helen Barrington
Director of Legal and Democratic Services

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Audit Strategy Memorandum

Derbyshire Pension Fund

Year ending 31 March 2023

Page 1

Agenda Item 6

Contents

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Members of Derbyshire County Council's Audit Committee
Derbyshire County Council
County Hall
Matlock
DE4 3AG

Mazars LLP
The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

8 September 2023

Dear Audit Committee Members

Audit Strategy Memorandum – Year ending 31 March 2023

We are pleased to present our Audit Strategy Memorandum for the Derbyshire Pension Fund for the year ending 31 March 2023. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 6 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Derbyshire County Council Pension Fund which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains appendices that outline our key communications with you during the course of the audit and explains the implications of the introduction of the new auditing standard for Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019).

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0738 724 2052.

Yours faithfully

Signed:

Cameron Waddell

Mazars LLP

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Derbyshire Pension Fund (the Fund) for the year to 31 March 2023. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Audit Committee, as Those Charged With Governance, of their responsibilities.

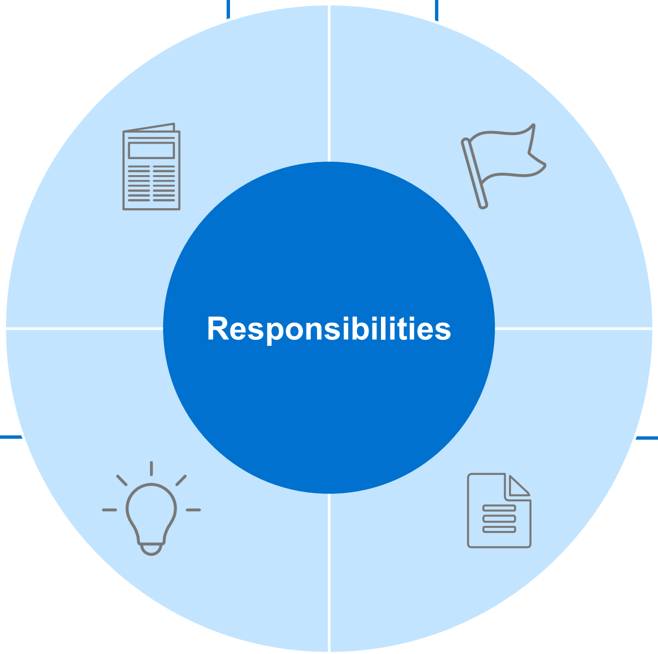
The Director of Finance & ICT is responsible for the assessment of whether is it appropriate for the Pension Fund to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

a) whether a material uncertainty related to going concern exists; and

b) consider the appropriateness of the Director of Finance & ICT's use of the going concern basis of accounting in the preparation of the financial statements.

Consistency statement

We are required to form and express an opinion on the consistency of the financial statements within the Pension Fund's annual report and the Pension Fund's financial statements included in the Statement of Accounts of Derbyshire County Council.



Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both Those Charged With Governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of Those Charged With Governance, including key management and internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Our audit, however, should not be relied upon to identify all such misstatements.

Wider reporting and electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. This would include an objection made to the accounts of the Pension Fund included in the administering authority's financial statements. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom

02

Section 02:

Your audit engagement team

2. Your audit engagement team

Page 7

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Engagement Manager

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03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

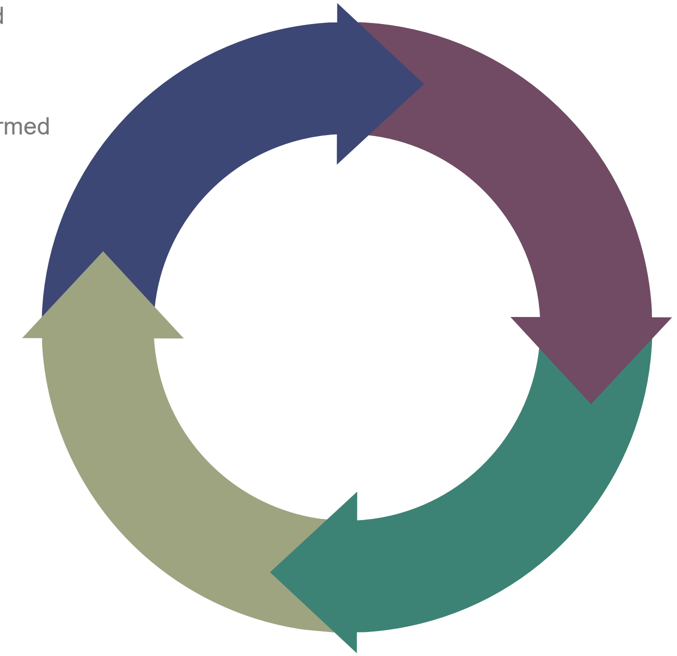
If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 7.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.

3. Audit scope, approach and timeline

Planning March
- Planning work and developing our understanding of the Pension Fund
- Initial opinion assessment
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality



Interim April - June
- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Completion November - December
- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing the content of the letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the auditor's reports

Fieldwork July - October
- Receiving and reviewing draft financial statements
- Accounting Technical Services (ATS) review of draft financial statements
- Reassessment of audit plan and revision if necessary
- Delivering our audit strategy starting with significant risks and high risk areas including detailed testing of transactions, account balances and disclosures
- Communicating progress and issues
- Clearance meeting

3. Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Pension Fund's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits.	Hymans Robertson	None

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Pension Fund that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Pension Fund and our planned audit approach.

Items of account	Service organisation	Audit approach
Investment valuations and related disclosures Investment income and related disclosures	Investment Managers Custodian	Substantive testing of in year transactions and valuations applied to investments at the year end.

04

Section 04:

Significant risks and other key judgement areas

Page 12

4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

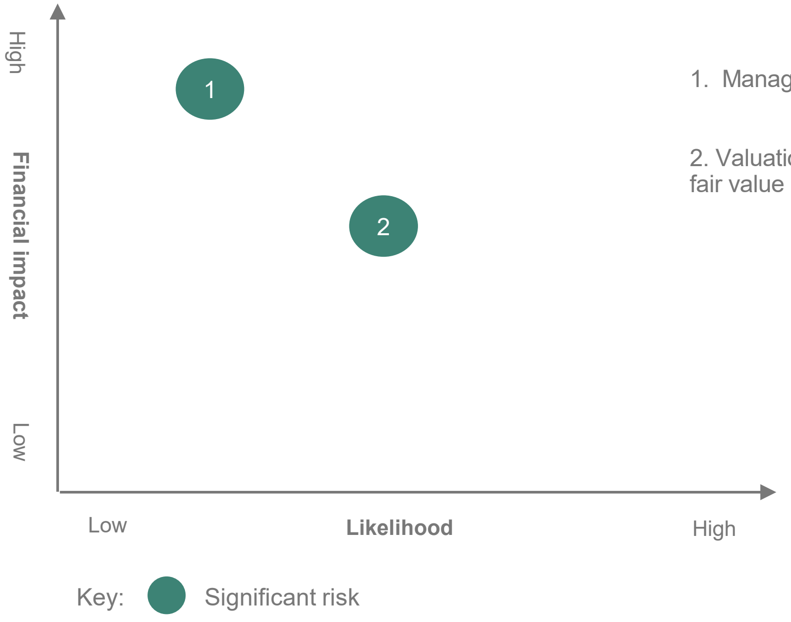
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Pension Fund. We have summarised our audit response to these risks on the following pages.



1. Management override of controls
2. Valuation of investments within level 3 of the fair value hierarchy

4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	**Management override of controls** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	●	○	○	We plan to address the management override of controls risk by performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

Page 14

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2 Page 15	**Valuation of investments within level 3 of the fair value hierarchy** At 31 March 2022 the Pension Fund held investments which were not quoted on an active market with a fair value of £3,227.0 million, accounting for 52.6 per cent of the Fund's net investment assets. This included: Alternatives including tracker funds (£2,199.8 million), Property (£453.6 million), Infrastructure (£382.2 million) and Private Equity (£191.4 million). Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end. As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances for 2022/23 due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.	○	●	●	We plan to address this risk by completing the following additional procedures on a sample basis: • agree holdings from fund manager reports to the global custodian's report; • agree valuations included in the Pension Fund's underlying financial systems to the most up-to date supporting documentation at the time of audit including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation; • agree the investment manager valuations to audited accounts or other independent supporting documentation, where available; • where audited accounts are available, check that they are supported by an unmodified opinion; • review the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required; and • where available, review independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Pension Fund's financial statements.

Other key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. We have not identified any such judgements.

05

Section 05:

Fees for audit and other services

Page 16

5. Fees for audit and other services

Fees for work as the Pension Fund's appointed auditor

Area of work	2022/23 Proposed Fee	2021/22 Actual Fee
Code Audit Work		
Scale fee[1]	£26,008	£22,077
Fee variations	TBC[4]	£6,000[2]
Audit related fees		
Pension assurance letters to employer auditors	£21,840	£18,200[3]

[1] The scale fee is set by the PSAA.

[2] The additional audit cost in 2021/22 relates to enhanced procedures required due to increased regulatory expectations, primarily related to the audit of level 3 investments. This work is required on an annual basis so an additional fee will be required until the scale fee fully reflects the audit time needed.

[3] During the year we responded to requests received from employer body auditors to undertake a programme of work to provide assurance in respect of data held by the Fund, which is used by the actuary to calculate pension assets and liabilities for individual employers. It is expected that the Fund will recharge these fees to the relevant employers. This approach is in line with the PSAA Terms of Appointment, and the expectation within NAO's AGN01 General Guidance Supporting Local Audit.

[4] The Fund's financial statements for the year ended 31 March 2023 will include disclosures based on the 2022 triennial valuation. As a result, we will need to perform audit procedures relating to the triennial valuation as part of our audit of the Fund's 2022-23 financial statements. This work is in addition to the annual audit procedures that we undertake and will therefore be subject to a separate fee that will be based on the time taken to complete the additional audit testing.

Fees for non-PSAA work

We have not been separately engaged by the Pension Fund to carry out additional work.

06

Section 06:

Our commitment to independence

6. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Kirkham in the first instance.

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

07

Section 07:

Materiality and misstatements

Page 20

7. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £m
Overall materiality	61.3
Performance materiality	46.0
Specific materiality: Fund Account	20.3
Performance Materiality: Fund Accounts	14.5
Trivial threshold for errors to be reported to the Audit Committee	1.8

Page 21

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on the draft 2022/23 accounts. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that net assets available to pay benefits remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

7. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 1% of net assets. Based on asset values in the draft accounts for 2022/23 we anticipate the overall materiality for the year ending 31 March 2023 to be in the region of £61.3 million (£57.0 million in the prior year).

Our provisional specific materiality for the fund account is set based on a benchmark of contributions receivable. We expect to set a materiality threshold at 10% of contributions receivable. Based on the draft accounts for 2022/23 we anticipate the fund account specific materiality for the year ending 31 March 2023 to be in the region of £20.3m (£19.4m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 75% of overall materiality as performance materiality.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £1.8m based on 3% of overall materiality. If you have any queries about this, please do not hesitate to raise these with Cameron Waddell.

Reporting to the Audit Committee

The following three types of audit differences above the trivial threshold will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

A

Appendices

A: Key communication points

B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

Appendix A: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged with Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor’s Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Development Update

- Our responsibilities in relation to the audit of the financial statements.
- The planned scope and timing of the audit.
- Significant audit risks and areas of management judgement.
- Our commitment to independence.
- Responsibilities for preventing and detecting errors.
- Materiality and misstatements.
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix A: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: • enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud.	Audit Completion Report and discussion at the Audit Committee. Audit planning and clearance meetings

Appendix A: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • non-disclosure by management; • inappropriate authorisation and approval of transactions; • disagreement over disclosures; • non-compliance with laws and regulations; and • difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities.	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

Appendix A: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit Completion Report and Audit Committee meetings
Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern include: • whether the events or conditions constitute a material uncertainty; • whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • the adequacy of related disclosures in the financial statements.	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

Page 27

Appendix B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

Background

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor's risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The new standard is effective for periods commencing on or after 15 December 2021 and therefore applies in full for the Pension Fund's 2022/23 audit.

The most significant changes relevant to the Pension Fund's audit are outlined below.

Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the audited entity, its environment and the applicable financial reporting framework in order to identify and assess risk based on new inherent risk factors which include:

- Subjectivity
- Complexity
- Uncertainty and change
- Susceptibility to misstatement due to management bias or fraud.

Using these inherent risk factors, we assess inherent risk on a spectrum, at which the higher end of which lies significant risks, to drive an audit that is more focused on identified risks. Auditors are now also required to obtain sufficient, appropriate evidence from these risk identification and assessment procedures which means documentation and evidence requirements are also enhanced.

Greater emphasis on understanding IT

In response to constantly evolving business environments, the standard places an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible risks within an entity's information systems. As a result, we are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs).

Increased focus on controls

Building on the need for auditors to gain a greater understanding of the IT environment, the standard also widens the scope of controls that are deemed relevant to the audit. We are now required to broaden our understanding of controls implemented by management, including ITGCs, as well as assess the design and implementation of those controls.

Implications for the audit

Our risk assessment procedures will be more granular than in the prior year and we will be seeking more information from the Pension Fund to ensure that we can document our detailed understanding of the Fund and the environment that it operates in. This will build on the existing strong knowledge of the Fund we already have in place from our previous years' audits. In documenting our risk assessment, we will need to input additional time to assess inherent risks of the spectrum that the auditing standard requires.

In terms of IT, we have established a good understanding of the Fund's IT environment. We will keep this under review as part of our work. We do not plan to test ITGCs as we have designed our approach to gain assurance from substantive testing, which in our view remains the most efficient approach to take.

Cameron Waddell

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Audit Strategy Memorandum

Derbyshire County Council

Year ending 31 March 2023

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Contents

This document is to be regarded as confidential to Derbyshire County Council. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit Committee
Derbyshire County Council
County Hall
Matlock
DE4 3AG

10 July 2023

Mazars LLP
Park View House
58 The Ropewalk,
Nottingham
NG1 5DW

Dear Audit Committee Members

Audit Strategy Memorandum – Year ending 31 March 2023

We are pleased to present our Audit Strategy Memorandum for Derbyshire County Council for the year ending 31 March 2023. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Derbyshire County Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit.

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on mark.surridge@mazars.co.uk

Yours faithfully

Mark Surridge

Mazars LLP

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Derbyshire County Council (the Council) for the year to 31 March 2023. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

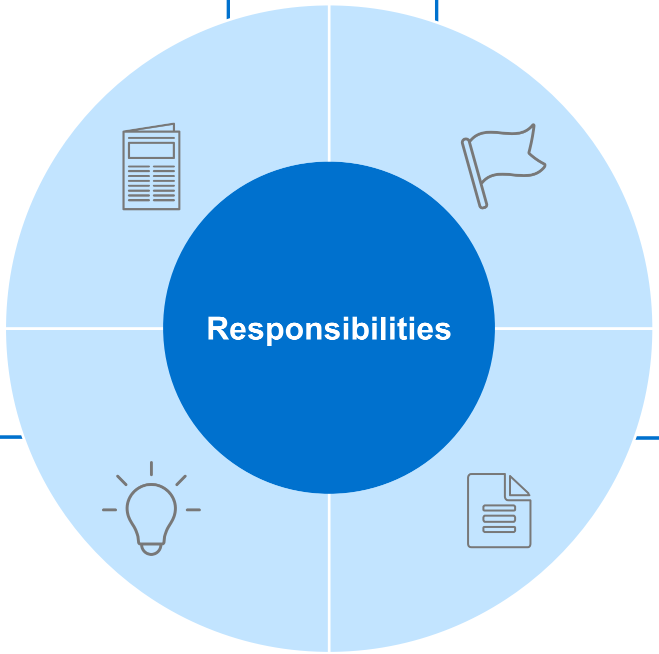
We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

The section 151 officer is responsible for the assessment of whether is it appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding this, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the section 151 officer's use of the going concern basis of accounting in the preparation of the financial statements.

Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and Internal audit, as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.



Value for money

We are also responsible for forming a commentary on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Wider reporting and electors' rights

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom

02

Section 02:

Your audit engagement team

2. Your audit engagement team

Who	Role	Email
Mark Surridge Director and Key Audit Partner	Engagement Lead	Mark.Surridge@mazars.co.uk
Michael Norman Senior Manager	Engagement Manager	Michael.Norman@mazars.co.uk
Vikash Patel Assistant Manager	Engagement Senior	Vikash.patel@mazars.co.uk

Page 37

03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit is designed to comply with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our risk based audit approach is driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit and the indicative timeline. The specific dates are subject though as always to:

- the timely provision of information by the Council and any third parties; and
- us being able to fully complete the audit procedures to the required quality standards.

3. Audit scope, approach and timeline

These dates are based on the current timetable agreed with management, with the draft financial statements expected to be published by the end of July 2023. The field work stage is split into two visits (starting in August and October 2023).

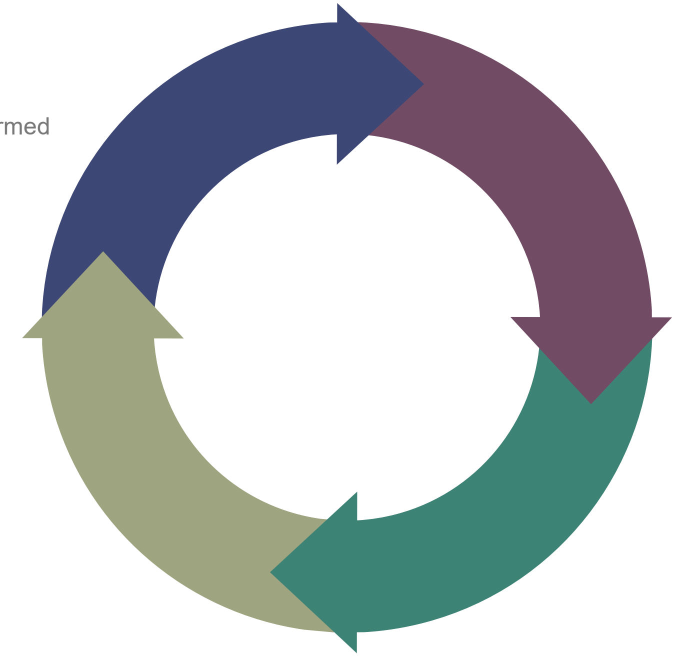
Planning February 2023 – March 2023

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Page 40

Interim March and July 2023

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary
- Carrying out our VFM risk assessment



Completion December 2023

- Final review and disclosure checklist of financial statements
- Final Engagement Lead review
- Agreeing content of letter of representation
- Reporting to the Audit Committee.
- Reviewing subsequent events
- Signing the auditor's report
- Issuing our Auditor's Annual Report

Fieldwork August – November 2023

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting
- Updating our VFM risk assessment

3. Audit scope, approach and timeline

Internal audit

We will continue to liaise with internal audit to inform our continual risk assessment.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account. We have summarised the items of account and our respective experts in the table below.

Item of account	Management's expert	Our expert
Property Plant and Equipment (valuations)	Internal Valuer	We will if necessary engage our internal valuation team to review Management's expert's valuation of specific assets
Pensions (valuations)	Hymans Robertson	PWC (the consulting actuary appointed by the National Audit Office)
Financial instrument disclosures (valuations)	Arlingclose Ltd	Not applicable

04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

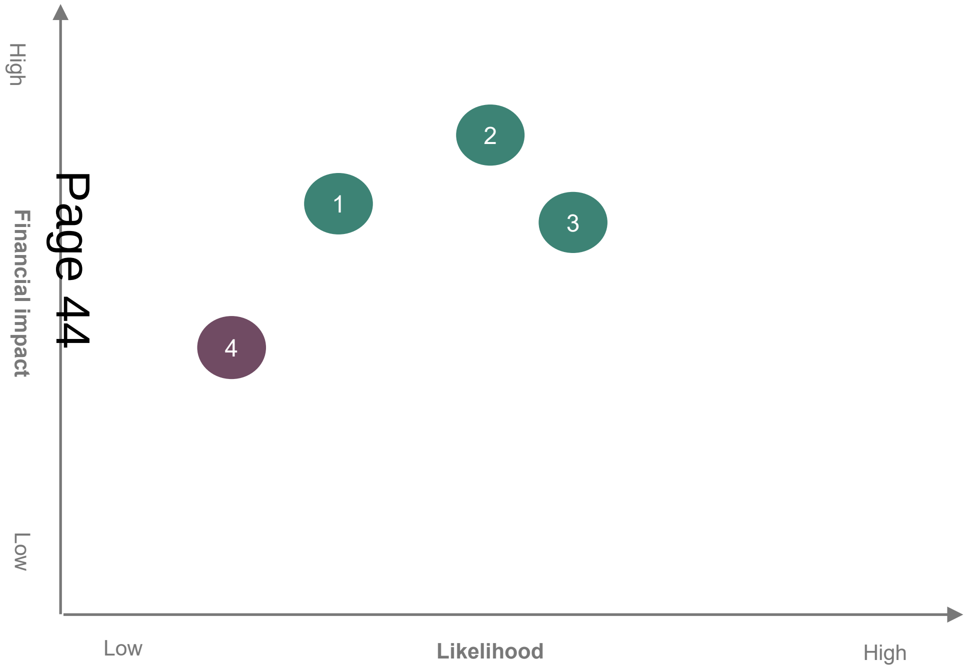
Area of Focus

Where we identify a material item of account or aspect of financial reporting that represents a challenge to the Council, we will highlight to the Audit Committee as one where we will focus our audit attention.

4. Significant risks and other key judgement areas

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council. We have summarised our audit response to these risks on the next page.



Page 44

Key: Significant risk   Enhanced risk / significant management judgement

	Risk	Risk rating 2021/22
1	Management override of controls	Significant risk (no change)
2	Valuation of Net defined benefit pension liability valuation	Significant risk (no change)
3	Valuation of Land and Buildings	Significant risk (no change)
4	Accounting for the waste management treatment plant (SinFin)	Enhanced (no change)

4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	**Management override of controls** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits	●	-	-	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	**Net defined benefit liability valuation** The defined benefit liability relating to the Local Government pension scheme represents a significant balance on the Council's balance sheet. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area. Relevant Account Balances (taken from the 2022/23 financial statements): • Net Pension Liability – LGPS: £812m	-	●	●	We plan to address the risk by: • critically assessing the competency, objectivity and independence of the Pension Fund's Actuary; • liaising with the auditors of the Derbyshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information by the consulting actuary engaged by the National Audit Office; and • agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements. • Reviewing and challenging the Council's assessment, under the requirements of IFRIC14, of its Pension surplus and confirming that the accounting treatment is appropriate and reasonable.

Page 46

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	**Valuation of Land and Buildings** Land and buildings assets are a significant balance on the council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements. Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area. At the planning stage of the audit, this risk covers (figures have been taken from the 2021/22 financial statements): • Land & Buildings (£1,226m)	-	●	●	We plan to address this risk by: • critically assessing the scope of work, qualifications, objectivity and independence of the Council's valuer to carry out the required programme of revaluations; • considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA code of practice and the Council's accounting policies; • Testing a sample of valuations carried out in the year to confirm they have been carried out on the correct basis and that the underlying judgements are based on relevant inputs and are reasonable; • assessing whether valuation movements are in line with market expectations by considering valuation trends; and • critically assessing the approach that the Council adopts to ensure that assets that are not subject to revaluation in 2022/23 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Councils valuers.

4. Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
4	**SinFin Waste Recycling** The long-term waste management contract between Derbyshire County Council, Derby City Council and Resource Recovery Solutions came to an end in 2019. Work is underway to determine the condition and capability of the currently non-operational treatment facility. The Council's management will need to make a judgement on how to account for the asset in 2022/23.	-	-	●	We will evaluate the basis of the accounting judgement and the impact on the financial statements for 2022/23 including the adequacy of disclosures.

Page 48

05

Section 05:

Value for Money

Page 49

6. Value for Money

The framework for Value for Money work

We are required to form a view as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

We are required to report in the auditor's report where we identify significant weaknesses in arrangements. However, the key output of our work on VFM arrangements is the commentary on the Council's arrangements which forms part of the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Status of our 2022/23 Assessment

We have updated our planning and risk assessment and at this stage and have not identified any risks of, or actual, significant weaknesses. We will, if necessary, report any identified risks or weaknesses to the Audit Committee on as our audit progresses and will report our final VFM commentary through the 2022/23 Annual Auditor's Report.

Planning

Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and members

Additional risk based procedures and evaluation

Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.

Reporting

We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.

Our commentary will also highlight:

- Significant weaknesses identified and our recommendations for improvement
- Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

06

Section 06:

Fees for audit and other services

Page 51

6. Fees for audit and other services

Fees for work as the Council's appointed auditor

Details of the 2021/22 expected and planned 2022/23 fees are set out below.

The 2021/22 audit has not been finalised yet, with the completion delayed due to the need to carry out further audit work in relation to the Infrastructure and Pensions financial reporting requirements. The final fee, including any identified fee variations for work outside of the set scale audit fee, is subject to agreement with management and approval by PSAA.

PSAA has notified clients of increases in the published 2022/23 scale audit fees to reflect changes in the work required since the scale fees were originally set. We have also identified likely fee variations required for the year. These are subject to agreement with management and approval by PSAA once the audit has been finalised.

Area of work	Estimated 2021/22 Fees	Estimated 2022/23 Fees
Scale audit fee	£96,524	£108,489
Fee variations:		
Additional testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes and quality control procedures as a major local audit as a result of changes in regulatory expectations	£14,970	n/a – included in updated scale fee
Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; ISA570 (Revised) Going Concern, ISA (UK) 315 (Revised 2019) Revised auditing standard on Identifying and assessing the risks of material misstatement.	£5,800	£15,000 - £25,000
Other additional costs - Infrastructure Assets – clarification of the accounting requirements - Pensions – impact of triennial valuation	TBC	-
Sub-total	**£117,294**	**£123,489 - £133,489**
Additional work arising from the change in the Code of Audit Practice	£14,000	£14,000
Total	£131,294	£137,489 - £147,489

6. Fees for audit and other services

Fees for non-PSAA work

In addition to the fees outlined on the previous page in relation to our appointment by PSAA, we expect to be separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Area of work	2022/23 Indicative Fee	2021/22 Actual Fee
Assurance services – Teachers' Pensions Return	£4,500	£4,200

Page 53

07

Section 07:

Our commitment to independence

7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Surridge in the first instance.

Prior to the provision of any non-audit services Mark Surridge will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

08

Section 08:

Materiality and other misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	32,050
Performance materiality	24,030
Specific Materiality - Senior Officer remuneration disclosure	10
Trivial threshold for errors to be reported to the Audit Committee	960

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of The financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and audited to levels of materiality;
- Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- Will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of Gross Revenue Expenditure at Surplus/deficit on Provision of Services level. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that the Gross Revenue Expenditure at Surplus/deficit on Provision of Services level remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

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8. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 2% of Gross Revenue Expenditure at Surplus/deficit on Provision of Services level. Based on prior year financial statements we anticipate the overall materiality for the year ending 31 March 2023 to be in the region of £32m (£30m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 75% of overall materiality as performance materiality.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £960,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Surridge.

Reporting to the Audit Committee.

The following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

A

Appendices

A: Key communication points

B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

Appendix A: Key communication points

We value communication with Those Charged With Governance as a two-way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged with Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor’s Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix A: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: • Enquiries of Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud.	Audit Completion Report and discussion at Audit Committee meetings. Audit Planning and Clearance meetings

Appendix A: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to Audit Committee in the context of fulfilling their responsibilities.	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

Page 62

Appendix A: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit Completion Report and Audit Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements.	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

Page 63

Appendix B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

Background

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor's risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The new standard is effective for periods commencing on or after 15 December 2021 and therefore applies in full for the Council's 2022/23 audit.

The most significant changes relevant to the Council's audit are outlined below.

Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the audited entity, its environment and the applicable financial reporting framework in order to identify and assess risk based on new inherent risk factors which include:

- Subjectivity
- Complexity
- Uncertainty and change
- Susceptibility to misstatement due to management bias or fraud.

Using these inherent risk factors, we assess inherent risk on a spectrum, at which the higher end of which lies significant risks, to drive an audit that is more focused on identified risks. Auditors are now also required to obtain sufficient, appropriate evidence from these risk identification and assessment procedures which means documentation and evidence requirements are also enhanced.

Greater emphasis on understanding IT

In response to constantly evolving business environments, the standard places an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible risks within an entity's information systems. As a result, we are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs).

Increased focus on controls

Building on the need for auditors to gain a greater understanding of the IT environment, the standard also widens the scope of controls that are deemed relevant to the audit. We are now required to broaden our understanding of controls implemented by management, including ITGCs, as well as assess the design and implementation of those controls.

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Audit Progress Report

Derbyshire County Council and Derbyshire Pension Fund

Audit Committee 19 September 2023

mazars

1. Audit Progress - 2021/22 Audit
2. Audit Progress – 2022/23 Audit

1. Audit progress – 2021/22 Audit

This section of our report provides the Audit Committee's 19 September 2023 meeting with an update on the status of the 2021/22 County Council and Pension Fund Audits and their completion.

Derbyshire County Council

Audit Opinion on the 2021/22 Financial Statements

We presented our Audit Completion Report to the Audit Committee in November 2022. In our report we identified the status of the audit, the key findings to date and the remaining work. We committed to keeping the Committee informed on progress and the outcome of the work. We have provided the Committee with update reports since then, including an updated Audit Completion Report to the Committee in March 2023. There were two national issues which held up the completion of the audit

- **Infrastructure Assets - i**n our November 2022 report to the Committee we highlighted a national accounting issue in relation to infrastructure assets, which could not be progressed at that time of our report until CIPFA and Department for Levelling Up, Housing and Communities (DLUHC) had resolved the expected accounting treatment and issued relevant guidance to Councils. The guidance was issued on 11 January 2023 and we have liaised with finance team to determine the impact on the Council's financial statements. We are satisfied that, subject to the notes to the financial statements being amended to include the disclosures required by the guidance, the infrastructure balances and transactions are not materially misstated. We also agreed with the finance team that the approach to determining the depreciation estimate for Infrastructure assets is to be revised as part of the preparation of the 2022/23 financial statements to ensure it more closely follows the expected practices and more clearly reflects the nature of the specific assets in use.

- **2022 Triennial Pension Fund Valuation -** The 2022 Triennial Pension Fund valuations, which were reported in March 2023, showed material movements in the estimated 31/3/2022 net liability valuation, largely due to updated membership details. The Regulators and audit suppliers confirmed in May 2023 the way forward to address this. As part of this:
  - Councils have been required to obtain updated IAS19 valuation reports and amend the draft financial statements for the new figures. This additional work was completed in August 2023 and the adjustments required to the draft financial statements agreed with Management.
  - Pension Fund auditors have needed to complete testing on the reliability and accuracy of the updated pension fund membership data used as part of the 2022 Triennial valuation. The results from this work, confirming the updated pension fund membership data can be relied upon, was completed in August 2023.

1. Audit progress – 2021/22 Audit (continued)

Audit Opinion on the 2021/22 Financial Statements (continued)

In July 2023 the Council settled the legal case (dating back to 2019) relating to the Long Term Waste Contract, with £56.9m paid by the Council. This was disclosed as a Contingent Liability in the 2021/22 draft Financial Statements. The value of the settlement is material and we are currently discussing with management the reporting requirements as an adjusting Post Balance Sheet Event and agreeing any changes to the draft financial statements' disclosures and balances.

Once this final matter is resolved we expect to move quickly towards giving an unqualified audit opinion on the County Council's updated and final Financial Statements. We will provide the Committee, alongside with the audited Financial Statements, with a letter updating our November report on any additional findings and summarising the final adjustments to the financial statements.

Auditor's Annual Report 2021/22, including the Value for Money Commentary

We reported our interim findings in relation to the Council's Value for Money arrangements for 2021/22 in our November 2022 report to the Committee and have continued to keep our risk assessment up to date. There have been no significant changes to our assessment of the Council's arrangements and there are no significant risks or weaknesses to highlight in this report. We will update our assessment and set out our findings and conclusions in the 2021/22 Auditor's Annual Report, which we expect to be issued alongside the audit opinion on the 2021/22 Financial Statements.

Audit Certificate 2021/22

We are required to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have not received any questions or objections in respect of the Council's financial statements and there are no ongoing matters in relation to this specific responsibility.

The National Audit Office has not yet finalised their requirements of auditors in relation to the Council's 2021/22 Whole of Government Accounts. We do not foresee any significant concerns in relation to this but we are unable to issue our audit certificate until this is formally confirmed. We will update the Committee when this has been concluded.

1. Audit progress – 2021/22 Audit (continued)

Derbyshire Pension Fund

Audit Opinion on the 2021/22 Financial Statements

We presented our Audit Completion Report to the Audit Committee in November 2022. In our report we identified the status of the audit, the key findings to date and the remaining work. We committed to keeping the Committee informed on progress and the outcome of the work. We have provided the Committee with update reports since then, including a Progress Report to the Committee in March 2023.

There are no additional matters to report and no outstanding audit work. We proposing giving an unqualified audit opinion on the Pension Fund Financial Statements included in the Statement of Accounts at the same time as the audit opinion is given on the County Council's Financial Statements.

2. Audit Progress – 2022/23 Audit

2022/23 Audit Planning

At the March 2023 meeting of the Committee we shared a summary of the key elements of our 2022/23 County Council and Pension Fund Audit Strategies, including:

- Our audit responsibilities and planned communications with the Committee
- The key members of the audit team and their responsibilities
- The planned audit approach and the timing of the key stages of the audit
- The significant audit risks identified and our planned response
- The expected materiality thresholds to be applied in carrying out our audit work and evaluating any errors or misstatements identified
- The approach to completing our assessment of the County Council's VFM arrangements and the outcome from the initial risk assessment.

Copies of the full Audit Strategy Memoranda are included elsewhere on the Committee's September 2023 agenda. There are no significant changes to the March 2023 summaries of our approach, scope of the audit, the areas of focus and audit risks and no additional concerns that we need to highlight to the Committee.

County Council

Accounts Audit Progress

The audit work is being completed in two stages, with the first phase carried out at the end of July 2023. This work focused on selection of audit samples and early testing. We have continued to liaise with management regarding the initial audit queries raised. The second stage of the audit work, focusing on evaluating the responses to our sample requests and completing the other areas of audit work, is scheduled for October 2023.

The only points to highlight for the Committee at this stage are as follows:

- Long Term Waste Contract Settlement – as described earlier in this report we are discussing with management the impact of this Post Balance Sheet Event on the disclosures and balances in the draft financial Statements.
- Net Pension Asset - The 2022 Triennial Valuation of the Fund, and changes in the Actuaries' assumptions in 2022/23 have seen significant movements in the Pension liability valuation, with many employers IAS19 reports showing a net Asset position. The accounting requirements in these circumstances are complicated and require careful judgement. We have now received the updated auditor guidance on this and are discussing the Council's approach with management.

We will keep the Committee updated on progress and expect to present our Audit Completion Report in November 2023.

2. Audit Progress – 2022/23 Audit (continued)

County Council (continued)

Value for Money Arrangements

We have kept our risk assessment up to date and no significant weaknesses in the Council's arrangements for 2022/23 have been identified. We will keep our risk assessment up to date and report any additional matters through our Audit Completion Report and Auditor's Annual Report.

Pension Fund

Accounts Audit Progress

Our final accounts audit for 2022/23 is underway with no issues to draw to the attention of the Audit Committee at this stage.

We will keep the Committee updated on progress and expect to present our Audit Completion Report in November 2023.

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