Public Document Pack

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PUBLIC

To: Members of Audit Committee

Monday, 15 March 2021

Dear Councillor,

Please attend a meeting of the **Audit Committee** to be held at **2.00 pm** on **Tuesday, 23 March 2021.** This meeting will be held virtually. As a member of the public you can view the virtual meeting via the County Council's website. The website will provide details of how to access the meeting, the agenda for which is set out below.

Yours faithfully,

Helen E. Barrington

Helen Barrington
Director of Legal and Democratic Services

A G E N D A

1. To receive apologies for absence

2. To receive declarations of interest (if any)

3. To confirm the minutes of the meeting held on 2 February 2021 (Pages 1 - 6)

To consider the reports of the Director of Finance and ICT on:

4 (a) Performance and Budget Monitoring/Forecast Outturn Arrangements

(Pages 7 - 32)

4 (b) Statement of Accounts 2020-21 (Pages 33 - 36)

4 (c) External Audit - Update on 2019-20 Internal Control Recommendations (Pages 37 - 44)

4 (d) Tax Strategy (Pages 45 - 54)

4 (e) Accounting Policies (Pages 55 - 146)

4 (f) PSAA Update (Pages 147 - 158)

4 (g) Strategic Risk Register Review (Pages 159 - 204)

To consider the reports of the Assistant Director of Finance (Audit) on:

5. Internal Audit Plan 2021-22 (Pages 205 - 226)

To consider External Auditor reports on:

6 (a) Annual Audit Letter (Pages 227 - 240)

6 (b) Audit Strategy Memorandum (Pages 241 - 280)

PUBLIC Agenda Item No.3

MINUTES of a meeting of the **AUDIT COMMITTEE** held on 2 February 2021.

PRESENT

Councillor K S Athwal (in the Chair)

Councillors N Barker, S Brittain, L M Chilton, A Griffiths and P Murray

Officers in attendance – D Ashcroft, P Handford, C Hardman, J Lakin, P Spencer and P Stone (representing Derbyshire County Council) and J Pressley (representing Mazars)

Apologies for absence were received on behalf of M Surridge (Mazars)

Declarations of Interest

There were no declarations of interest

1/21 **MINUTES RESOLVED** that the minutes of the meeting held on 8 December 2020 be confirmed as a correct record.

2/21 **MATTERS ARISING (a) (Minute No.45/20) Cipfa Financial Management Code** The Assistant Director of Finance (Financial Management) updated Members on the progress that had been made in the areas where further work was required. The Committee would receive a report in due course which would set out the actions that had been taken.

Mr Pressley reported that a briefing note relating to the new value for money conclusion will be circulated to Members at the next meeting of the Committee in March.

(b) (Minute No.48/20) Redmond Review At the last meeting, Members of the Committee had discussed the benefits of producing simplified accounts along the lines of the County Council's council tax leaflet. The Director of Finance & ICT informed the Committee that it was unlikely that this could be produced this year due to the Covid-19 pandemic, but the finance team would hope to have this in place next year.

3/21 **PERFORMANCE AND BUDGET MONITORING/FORECAST OUTTURN 2020-21 AS AT QUARTER 2 (30 SEPTEMBER 2020)** The Assistant Director of Finance (Financial Management) provided Members with an update of Council Plan performance and the Revenue Budget position/forecast outturn for 2020-21 as at September 2020.

The Assistant Director of Finance (Financial Management) highlighted the new format of the report which the finance team had been working towards with colleagues in the Policy & Research team. These reports would now be submitted on a quarterly basis. The report presented both the Council Plan performance and financial budget monitoring and forecast outturn data. The Performance Summary set out the progress the Council was making on delivering the Council Plan with a focus on the achievement of the Council Plan priorities. The Revenue Budget Position and Financial Summary provided an overview of the Council's overall budget position and forecast outturn as at 30 September 2020.

The remainder of the report summarised progress on Council Plan deliverables and the controllable budget position by Cabinet Member Portfolio as at 30 September 2020. Further reports would be considered at Audit Committee and Council in accordance with the Budget Monitoring Policy and Financial Regulations.

The Council Plan 2020-21 set out the future direction of the Council and the outcomes that the Council was seeking to achieve. The Plan identified a small number of focused priorities to direct effort and resource, supported by "deliverables" under each priority. These set out what the Council aimed to deliver over the forthcoming year and were supported by key measures which enabled the Council to monitor the progress it was making. The Council Plan had been refreshed in July 2020 to reflect the impact, opportunities and challenges resulting from the pandemic.

The Performance Report for Quarter 2, attached at Appendix One to the report, set out the position in full up to the end of September 2020 for each deliverable and associated key measures, and an overview of performance was presented.

The latest progress of the deliverables showed an improvement from the previous quarter. Of the 51 deliverables in the Council Plan, 38 (75%) had been categorised as strong or good, 11 as requiring review and 1 as requiring action as at 30 September 2020. An overview of the latest performance for each deliverable by Council Plan priority was highlighted. With 75% of deliverables rated as strong or good, there was much to celebrate in the progress the Council was making in delivering the Council Plan. Key highlights were set out by Cabinet Member portfolio in the report, together with areas for consideration which detailed the actions the Council was taking to improve performance where this was required. Further detail was set out in Appendix One to the report.

The Assistant Director of Finance (Financial Management) summarised the forecast outturn for 2020-21 as at Quarter 2 compared to controllable

budget. The Covid-19 pandemic was having a significant impact on the Council's 2020-21 forecast outturn.

An overall Council underspend of £9.617m was forecast, after accounting for £45.037m of Ministry of Housing Communities & Local Government (MHCLG) Covid-19 emergency grant funding awarded and additional income of £4.853m compensation for lost sales, fees and charges income estimated to be claimable under the Government scheme announced on 2 July 2020. A Council portfolio overspend of £11.835m was forecast, after the use of MHCLG Covid-19 grant funding for Covid-19 related costs forecast to be incurred in 2020-21. The Covid-19 related costs across the portfolios was £34.023m and details were presented. Budget of £34.023m would be allocated to portfolios from the Risk Management Budget, where the emergency Covid-19 grant funding and reimbursement for lost income from sales, fees and charges received from Government had been temporarily allocated, to match these costs.

There was a forecast underspend on the Risk Management Budget of £19.116m, which represented the funding the Council had received, or was expected to receive, additional to its planned requirements and forecast Covid-19 related costs for 2020-21. However, there was considerable uncertainty about the impact on the Council's finances of future waves of the pandemic and any local or national restrictions imposed later in the year. Details of the forecast expenditure for the Risk Management Budget were provided.

A summary of the expected achievement of budget savings targets was provided at Appendix Four to the report. The budget savings target for 2020-21 was £18.795m, with a further £6.332m target brought forward from previous years. The savings initiatives identified to meet this target currently fell short by £8.074m, therefore further proposals would need to be brought forward to ensure the Council continued to balance its budget.

The General Reserve stood at £49.845m as at 30 September 2020. The level of General Reserve was currently 9.14% of the Council's Net Budget Requirement. Commitments were held against this General Reserve balance, which were referred to in the Council's 2020-21 Revenue Budget Report. At that time the General Reserve, in a pessimistic forecast, was predicted to decrease to 2.2% (£12.793m) of the Council's Net Budget Requirement by 2024-25. The majority of chief financial officers considered 3% to 5% of a council's net spending to be a prudent level of risk-based reserves. However, the Assistant Director of Finance (Financial Management) assured Members that there were sufficient General Reserves to help support the budget in the short term, but this situation would be continually monitored. The Chairman was very pleased with the position of the General Reserves as at 30 September 2020 and also the reimbursements from the Government.

A summary of each of the individual portfolio positions/forecast outturn for 2020-21 was presented.

The Chairman asked whether the savings of £400,000 on vacancy control within the Highways, Transport & Infrastructure portfolio had had a detrimental effect on the services within the department. The Assistant Director of Finance (Financial Management) reported that colleagues were aware of the pressures, particularly in relation to the recent flooding in the county and of the Covid-19 pandemic. The Director of Economy, Transport & Environment was looking at resources and considering how to move forward and progress projects.

Members of the Committee welcomed the report and praised the new format. The Chairman expressed their thanks to Mr Handford, Mr Stone and all the finance team for keeping the Council financially resilient.

RESOLVED that the Audit Committee (1) notes the update of Council Plan performance and the Revenue Budget position/forecast outturn for 2020-21 as at 30 September 2020 (Quarter 2);

(2) gives consideration as to whether there were any further actions that should be undertaken to improve performance where it has not met the desired level;

(3) notes a budget virement totalling £4.272m to centralise the Council's existing cleaning budgets had been approved by Cabinet; and

(4) Notes the funding of capital expenditure on the Property Planned Maintenance Programme 2020-21, estimated to be £1.236m, from borrowing, as an alternative to the planned contributions from revenue budgets.

4/21 AUDIT SERVICES UNIT PROGRESS AGAINST AUDIT PLAN 2020-21 Members were informed of progress against the approved Audit Plan for 2020-21 as at 31 December 2020.

At the last meeting of the Audit Committee on 8 December 2020 a report was presented following a detailed review of the Audit Services Plan, which included the status of individual projects identified, and forecast potential, available resources to 31 March 2021. The situation regarding delivery of the approved Audit Services Plan continued to be closely monitored and an updated forecast was attached at Appendix 3 to the report. This had not significantly changed from the previous forecast reported to the Committee on 8 December 2020.

The Audit Services Unit had continued to progress its approved programme of work, including those areas of additional, unplanned work which

were necessary to support Senior Management facing the challenges of the pandemic, and undertaking “deep dives” into specific areas of risk in greater detail. The potential impact of the coronavirus had previously been reported to the Audit Committee and these factors still remained.

The country was currently in lockdown and it was now approaching a year since the start of the first lockdown and it was still not possible to determine if, how and when the Council’s services would return to normal. It was clear that the coronavirus will have an impact on the Unit’s activities for some time and will be a factor in the preparation of the Audit Services Plan for 2021-22.

The Assistant Director of Finance (Audit) had submitted formal notification of his intention to retire on 31 March 2021 after over thirty years’ service with the Council. A Principal Auditor had recently resigned and approval was being sought to fill this post. The vacant Senior Auditor post had been filled by internal promotion with effect from 18 January 2021 and action was being taken to fill the resulting vacancy at Auditor level. The Unit’s sickness absence continued to remain at a higher level than estimated and at 31 December 2020 220 days had been lost through sickness absence. Consequently available staffing resources remained under considerable pressure.

Despite the impact of the coronavirus and reduced resources, Audit staff would continue to focus on the delivery of the Audit Services Plan and supporting Senior Management during these challenging times for the Council. Current restrictions had prevented certain planned activities from taking place including school and establishment Audits.

The delivery of Audit work was routinely monitored on a weekly basis by Senior Audit Management and progress against the Audit Services Plan would continue to be regularly reported to the Audit Committee. It was essential that the Audit Services Plan can continue to respond to changing and emerging threats to the Council’s governance, control and risk management framework.

At 31 December 2020 1,894 productive days had been delivered against the pro-rata target of 2,163 days (total planned days for 2020-21 was 2,884). This included 477 days deployed on projects not specifically included in the original Audit Services Plan.

The Chairman once again acknowledged that this had been a very difficult year and the Committee appreciated the flexibility of the Unit in the work that had been carried out. Members of the Committee congratulated Mr Hardman on his forthcoming retirement and thanked him for all his work and the service he had given to the County Council.

RESOLVED that the Committee note the information on progress to date against the approved Audit Services Plan.

5/21 LOCAL CODE OF CORPORATE GOVERNANCE AND ANNUAL GOVERNANCE STATEMENT Members will recall that the Governance Group was established to conduct an ongoing review of key systems and processes operated within the Council to ensure that effective Corporate Governance was promoted and delivered. The Governance Group had a key role in the ongoing review and development of the Local Code of Corporate Governance and the Annual Governance Statement and Action Plan.

The Local Code of Corporate Governance was currently being finalised by the Governance Group and would be presented to the Audit Committee and published on the Council's website when it was completed. Progress against the Annual Governance Statement Action Plan based on comments received was shown at Appendix 1 to the report.

Members welcomed this document which had identified areas for improvement, allocation of responsible officers and the current status. Hopefully this would provide Members with assurances and the progress of each area for improvement could be followed and monitored.

RESOLVED to note (1) the information provided in the report regarding the production of the Local Code of Corporate Governance and Annual Governance Statement; and

(2) the progress against the Annual Governance Statement Action Plan.

6/21 MEETING DATES AND AGENDA ITEMS 2021-2022 The proposed dates and potential agenda items for 2021-22 were presented for Members' consideration. The items were based on the existing business of the Committee and specific dates would be confirmed with Members in due course. To this schedule may be added any Member training proposals and any additional reports arising.

RESOLVED that Members agree the proposed programme for 2021-22.

7/21 EXTERNAL AUDIT – UPDATE REPORT John Pressley from Mazars informed Members that the Audit Strategy Memorandum would be presented to the Committee in March. An update on the new Audit Code of Practice along with the value for money briefing note would also be provided.

Agenda Item No.4 a

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

23 March 2021

Report of the Director of Finance & ICT

PERFORMANCE AND BUDGET MONITORING/FORECAST OUTTURN ARRANGEMENTS

1 Purpose of the Report

To provide Members with details of the latest arrangements for performance and budget monitoring/forecast outturn.

2 Information and Analysis

Details of the Council's budget monitoring protocols and developments have previously been reported to Audit Committee.

Departments are required to meet monthly with the Director of Finance & ICT and provide details of their latest budget monitoring position. The information is generally presented in a consistent format by all departments, showing the year to date position and the projected outturn for the year, together with a brief summary of the major variances.

To ensure that the arrangements remain robust, reporting requirements and timescales are set out in the Performance and Budget Monitoring Policy, a copy of which is attached at Appendix One. The Policy is widely distributed to departmental Finance and Performance Managers.

The Accountancy and Budgetary Control audit undertaken by Audit Services last year concluded that Budget Monitoring arrangements are embedded and generally operating effectively.

Following a review of the Policy in March 2021, the following changes have been made:

- The schedule of meeting dates between the departmental Finance Managers and the Director of Finance & ICT has been updated.
- The timetable for reporting the monitoring position to Cabinet and Cabinet Member portfolios has been updated.

- A requirement for reports to present performance information detailing progress against the Council Plan and key measures led by the portfolio has been inserted, reflecting changes made in 2020-21.
- A requirement for reports to present a summary of financial performance, where the Council receives income in return for providing discretionary services.
- A note that the report format may be subject to any adaptations required to progress towards more integrated reporting, or to accommodate exceptional items of income and expenditure, such as those relating to the Covid-19 pandemic.

Peer Challenge

The Council's Corporate Peer Challenge, facilitated by the Local Government Association (LGA) in October 2018, reported a number of findings and suggested areas for improvement. Part of the feedback of the Peer Challenge was that it was difficult to see the linkages between corporate priorities, the Council Plan and the resources required to deliver those priorities. Another observation was that performance reporting at a corporate level was only reported on an annual basis. The Peer Team recommended that both financial and performance information should be formally and regularly presented to Members in order that they can see in the round how the Council is performing across a range of indicators. Also, integration of performance, finance, risk and major projects was seen as key to the Council taking active and deliberate steps to move to a One Council approach.

Current Developments

Policy and Finance officers have been collaborating throughout 2020-21 to address the concerns raised by the Corporate Peer Challenge. This work builds on the regular budget monitoring and outturn reports to Cabinet Member and Cabinet, and performance reporting to Cabinet CMT, which were already an embedded part of the reporting cycle. The updated process reflects the already established practice for finance of reporting at portfolio level to Cabinet Members and then collating this along with corporate and cross-cutting information into an overall report to Cabinet.

The reports now include the additional content and features. They:

- are submitted quarterly;
- include financial and Council Plan performance information;
- make enhanced use of charts and graphics; and
- provide a summary of performance against the Council Plan and key measures relevant to the portfolio.

Future Aspirations

Regular in-year combined performance and financial reporting is an important first step towards addressing the feedback from the Peer Review. However, it is intended to achieve the full scope of the recommendations from the Peer Review by further enhancing the content and format of the reports. This will require both risk and major projects to be reported and for the connectivity and interdependencies between the different types of information reported to be explored.

Additional changes that have been identified to work towards these goals are:

- Reporting of risks from the departmental and corporate risk registers.
- More detailed reporting of mitigating and corrective actions taken to address risks and poor financial and non-financial performance.
- Moving the detailed portfolio level financial content, included in the overall report to Cabinet, to an appendix. This will help this report to maintain a concise and strategic focus.

In the longer term it is hoped to improve the integrated thinking within the report to consider the relationships between risks, performance and finance. For example, the report will aim to draw out the connections between improving or reducing performance and how this affects or is affected by increasing or reducing expenditure.

Traded Areas

There are a number of services where the Council receives income in return for providing discretionary services to external organisations and individuals. In order to improve transparency and to raise Member's awareness of the financial performance of these areas an additional summary will be provided within the reports.

Covid-19

It has been necessary during 2020-21 to adapt the pro-forma reporting format to appropriately capture and present the additional costs and funding associated with the Council's and the Government's response to the Covid-19 pandemic. Similar adjustments are expected to be required in 2021-22. Any necessary changes to the format will be agreed by the Director of Finance & ICT.

3 Considerations

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

4 Background Papers

Performance papers held in Policy & Research, Room 124, County Hall. Finance papers held electronically by Technical Section, Finance & ICT, Room 137, County Hall.

5 Officer's Recommendation

To note the details of current performance and budget monitoring arrangements.

PETER HANDFORD

Director of Finance & ICT

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Appendix 1

Performance and Budget Monitoring Policy 2021-22

DERBYSHIRE County Council

March 2021

Performance Monitoring

The Council's priorities are set out within the current Council Plan. This is reviewed on an annual basis and the key actions required to deliver each priority are identified, these are accompanied where appropriate by measures to demonstrate effectiveness and impact.

Progress against actions is the focus of corporate performance reporting with the lead officers required to provide a quarterly commentary and a rating of strong, good, requires review or requires action for each action. These ratings are collated to give an indication of overall progress for each priority for reporting to Cabinet, with detail of each action and associated measure.

The actions relevant to each Portfolio have been identified to enable integration with the existing budget monitoring reports. This is provided in summary, highlighting key success and areas of concern with full detail of each action and measure attached in an appendix.

Objectives and Importance of Budget Monitoring

The Director of Finance & ICT is responsible for providing appropriate financial information to enable budgets to be monitored effectively by budget holders and to report to Cabinet and Council on variances.

It is the responsibility of the Director of Finance & ICT to ensure that each Executive Director is given timely information on each budget heading for which they are responsible, to enable them to fulfil their budgetary responsibilities and manage expenditure/income. Budget Monitoring ensures that relevant managers are made accountable for their elements of the overall budget and resources are used for their intended and agreed purpose.

It is the responsibility of each Executive Director to keep within their overall budget; it is the responsibility of finance staff under the direction (either directly or indirectly) of the Director of Finance & ICT to monitor these budgets and to supply this information to departmental senior officers, to assist in the management of their budget.

It is important that variances against budgetary targets are identified and explained. The Council can then identify changes in trends and resource requirements.

Budget monitoring is a means of identifying and managing possible over and underspends and will include a forecast for the year. This will enable corrective action to be taken for any problem areas during the year.

Frequency of Budget Monitoring

This note sets out the procedure for the monitoring process. Monitoring ideally should be done monthly, the first one being at period 3 (June).

At the very least, significant or problem areas within each department must be monitored, with a revised forecast provided, or assurance should be provided that the forecast remains the same as previously reported.

A departmental monitoring statement should be completed after each period end, after "actual to plan" and "plan to plan" have been copied over to the new period. A series of meetings has been arranged, with the Director of Finance & ICT, to briefly discuss the latest budget monitoring position following each period end. A report should be drafted outlining the controllable departmental budget position, together with brief details of the main variances. A copy of the report should be forwarded to the Director of Finance & ICT (copy to Finance Manager, Technical), prior to the meeting. The following table gives guidance as to when these meetings should take place.

Monitoring Period		**Meetings with Director of Finance & ICT**
P3 (Q1)	Jun 2021	w/c 26 July 2021
P4	Jul 2021	w/c 23 Aug 2021
P5	Aug 2021	w/c 27 Sep 2021
P6 (Q2)	Sep 2021	w/c 25 Oct 2021
P7	Oct 2021	w/c 22 Nov 2021
P8	Nov 2021	w/c 27 Dec 2021
P9 (Q3)	Dec 2021	w/c 24 Jan 2022
P10	Jan 2022	Not required
P11	Dec 2022	Not required
Outturn (Q4)	Mar 2022	TBC

The Executive Director for each department also has a regular 'One to One' bi-monthly meeting with the Director of Finance & ICT to discuss variances, with particular reference to proposed budget reductions. If a department's budget position is giving cause for concern, or there are there are any other concerns, the meetings will be more frequent.

Meetings have not been arranged with the Director of Finance & ICT for periods 10 and 11 as the position is unlikely to have moved significantly from that reported at period 9 (Q3), however, if there has been a significant movement in the forecast position from period 9, a meeting with the Director of Finance & ICT should be arranged. Portfolio monitoring statements are expected to be reported regularly to the appropriate Cabinet Member after consultation with the relevant budget holders at periods 3 (Q1), 6 (Q2) and 9 (Q3).

Monitoring should be based on controllable budgets using the controllable cost element hierarchy (ZRCON). It should be agreed and balanced to the controllable budget on the ledger (plan version 'C').

A full summarised Council revenue monitoring report will be submitted to Cabinet. This will occur 3 times a year and will normally report at periods 3 (Q1), 6 (Q2) and 9 (Q3).in addition to the year-end outturn (Q4). The timetable for this is as follows:

Monitoring Period	**Complete By**	**Report to Cabinet Member**	**Summarised Report to Cabinet**
3 (Q1) - June 2021	End July 2021	Within August 2021	9 September 2021
6 (Q2) - September 2021	End October 2021	Within November 2021	9 December 2021
9 (Q3) - December 2021	End January 2022	Within February 2022	10 March 2022
12 + Special Periods (Q4) Outturn	May 2022	Within June 2022	Within July 2022

A more detailed timetable is provided at Appendix A.

Including the formal monitoring process outlined above, as a minimum, the following should be undertaken:

Periods 3,6,9	• Detailed monitoring including a statement of over/underspend • A reconciliation of budget to plan version 'C' • Controllable totals agreed to ledger • All budget virements included to agree plan version 'C' with Council budget • All significant variances identified and explained • Significant use of earmarked reserves to support general spending must be clearly identified • Significant items of one-off income identified • Report to Cabinet Member, including a statement on the current debt position

Periods 4,5,7,8,10,11	• Summary of monitoring e.g. problem areas • Statement of assurance that there is no deviation from the previously reported forecast
Period 12	• Outturn report based on Period 14, including a statement on the current debt position

Format of Reports

All reports to the Cabinet Member will be in a standard format set out in Appendix B. However, the format may be subject to any adaptations required to present an integrated report coving performance, finance, risk and major projects as the Council takes active steps to move to a One Council approach. The layout may also be adjusted to accommodate exceptional items of income and expenditure, such as those relating to the Covid-19 pandemic.

Budget Savings

The Council is required by the Local Government Finance Act, 1992, to set a balanced budget. In the circumstance where funding is forecast to be insufficient to meet current levels of expenditure with the addition of cost pressures, savings will be required in order that expenditure does not exceed income.

When the annual revenue budget is set, this results in the establishment of a savings target for the Council as a whole. This target is allocated as a budget reduction between the Council's departments and subsequently between Cabinet Member portfolios.

Savings initiatives are planned programmes, activities and services reductions designed to reduce net expenditure over an implementation period. The expected value of these reductions and the profile should have been identified for every savings initiative.

The value of savings forecast to be delivered within the year should be reported in the monitoring reports and the savings actually delivered should be measured and reported within outturn reports. Savings are not made by merely allocating a reduction in budget to a service. For this purpose, the value of savings achieved is defined to be the actual reduction in net expenditure in the current financial year, compared to the previous financial year, resulting from a planned programme of actions taken in respect of the service(s) affected by the initiative. If a saving has been achieved based on this definition, but a service still overspends in another area, then it is possible to both achieve a saving and overspend overall on a service. This measurement should be adjusted for the effect of one-off items of funding and/or ongoing allocations of budget for cost pressures.

The complete delivery of a saving initiative may span more than one year. An initiative which was planned to start in a previous year but had not been fully delivered at the start of the current year must continue to be reported; the achievement of these initiatives should be measured against the total budget reduction forecast for that initiative, less the value of savings achieved in previous years.

Where the value of savings achieved is less than the portfolio's savings target, this will result in a shortfall in the savings achieved. This shortfall will be rolled forwards and added to the savings targets allocated to that portfolio in future years. Any shortfalls rolled forwards from previous years must be clearly identified and reported. These shortfalls will comprise of both a portfolio's savings targets which had not been allocated to a service and that portion of a savings target which had been allocated to a service, but had not yet been achieved, at the start of the year.

A shortfall in the savings achieved, compared to the total savings target, reported within the outturn report for a portfolio will be the value of budget reductions brought forward from previous years which is reported the following year in that portfolio's monitoring report.

Debt Position

The current debt position will be disclosed within the monitoring report. As information on debts owed to the Council is collected on a departmental rather than portfolio basis, the whole department's debt position will be reported to the most significant portfolio, in terms of income, which that department reports to. These will be as follows:

- Adult Care's debt position will be reported to the Adult Care portfolio.
- Children's Services' debt position will be reported to the Young People portfolio.
- Place's debt position will be reported to the Highways, Transport and Infrastructure portfolio.
- Commissioning, Communities and Policy's debt position will be reported to the Council Services portfolio.

It is expected that Exchequer Services will provide this data to the accountancy teams for inclusion in their monitoring reports, upon request. This will ensure consistency in the production of this information.

Traded Services

The financial performance of trading areas, where the Council receives income in return for providing discretionary services to external organisations and/or individuals, will be disclosed within the monitoring reports. A trading area may be deemed to be either ‘fully traded’ or ‘partially traded’. ‘Fully traded’ trading areas are separately identifiable and have a net controllable budget of £0, i.e. there is an expectation that on average all the controllable expenditure within this area will be funded from external income. ‘Partially traded’ trading areas do not have a net controllable budget of £0, but they do receive income from external entities which contributes to funding some of the discretionary services they provide. The financial performance of each of these areas shall be measured as follows:

- For ‘fully traded’ areas this shall be the contribution of the trading area to the Council’s general overheads, where contribution is equal to the gross controllable expenditure after controllable recharges less controllable income.
- For ‘partially traded’ areas this shall be the difference between the budgeted income target and the actual income recognised.

APPENDIX A

Detailed Timetable of Performance and Budget Monitoring Arrangements

Reporting Period	Performance measure data updated by Departments	Deliverable progress updated by Departments	Performance report to CMT (Policy)	Final Finance Portfolio Reports to Technical (Departments)	Draft Finance Overall Report to Director of Finance & ICT (Technical)	Finance & Performance Combined Portfolio Reports to Cabinet Member (Departments / Policy)	Combined Overall Report to Cabinet/CMT (Policy / Technical)	Combined Overall Report to Cabinet (Policy / Technical)
Q1 Apr-Jun	Mid July	Mid July	21-Jul-21	23-Jul-21	12-Aug-21	Aug-21	25-Aug-21	09-Sep-20
Q2 Jul-Sep	Mid Oct	Mid Oct	20-Oct-21	22-Oct-21	11-Nov-21	Nov-21	24-Nov-21	09-Dec-21
Q3 Oct-Dec	Mid Jan	Mid Jan	19-Jan-22	21-Jan-22	10-Feb-22	Feb-22	23-Feb-21	10-Mar-22
Q4 Jan-Mar (outturn)	End Apr	Mid Apr	18-May-22	27-May-22	Jun	Jun-22	29-Jun-22	Jul-22

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APPENDIX B

Agenda Item xx

DERBYSHIRE COUNTY COUNCIL

CABINET MEMBER FOR <PORTFOLIO>

<Date>

Joint Report of the Executive Director of <Department>
and the Director of Finance & ICT

PERFORMANCE AND BUDGET MONITORING/FORECAST OUTTURN 20Y1-Y2 AS AT QUARTER X (31 Month 20Y1)

(<PORTFOLIO>)

1 Purpose of the Report

To provide Cabinet with an update of Council Plan performance and the Revenue Budget position/forecast outturn for 20Y1-Y2 as at 31 Month 20Y1 (Quarter X).

2 Information and Analysis

2.1 Integrated Reporting

This report presents both financial and Council Plan performance data. The performance summary sets out progress on the Council Plan deliverables and measures led by the <name> portfolio. The remainder of the report gives a summary and detail on the revenue budget position for the portfolio.

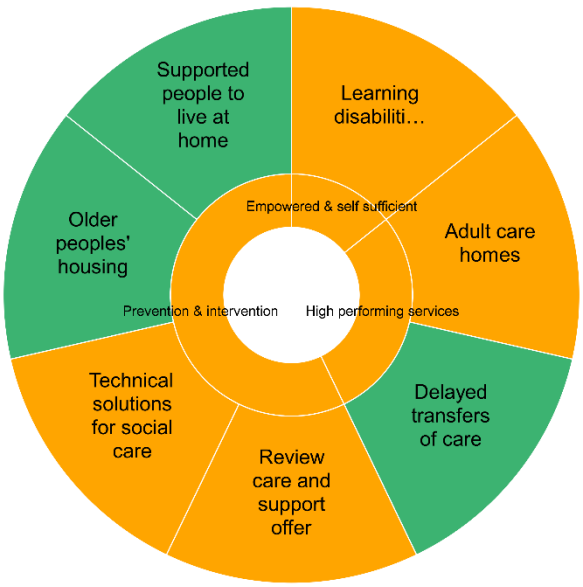
As an overview, the report shows that progress is "good" for X out of the X Council Plan key measures led by the portfolio. The budget forecast position for 20Y1-Y2 is an overs/underspend of £X.XXXm. It is forecast that £X.XXXm of savings will have been achieved by the year end. This compares to target savings of £X.XXXm and the value of savings initiatives, which have been identified for implementation in the current year, of £X.XXXm.

2.2 Performance Summary

The following shows an overview for Quarter X of progress on the Council Plan key measures relating directly to <portfolio name>.

Example Graphics

Deliverable Progress



Performance Measures Against Target

Performance Measures Against Target

	2018/2019	2019/2020	2020/2021	Target	Performance
Proportion of people (aged 65+) who are still at home 91 days after discharge from hospital into Short Term Services	79.6%	75.2%	75.0%		
Rate of permanent admissions to residential and nursing homes (aged 18-64) per 100,000 population	22.1	22.5	17.8		
Rate of permanent admissions to residential and nursing homes (aged 65+) per 100,000 population	647.5	803.5	674.6		
Percentage of Clients agreeing that care and support services help improve their quality of life	94.1%				
The daily average of days lost to delayed transfers of care per 100,000 population (aged 18+)	35.7	41.8			
Percentage of Council run adult care homes rated as 'Good' or 'Outstanding' for Quality of Care by Care Quality Commission		78.6%	85.7%		

Key Strong Good Review Action Data not available/Target not set

The progress of the relevant Council Plan key measures has been reviewed and X have been rated as "good" up to the end of Quarter X and X as "review".

Key areas of success are:

- Area and reason for success 1
- Area and reason for success 2

Key areas for consideration are:

- Area and reason for consideration 1
- Area and reason for consideration 2

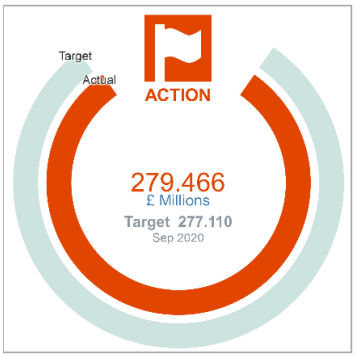
Further information on the portfolio's Council Plan performance are included at Appendix A.

2.3 Budget Forecast Summary

The net controllable budget for the <Name> portfolio is £X.XXXm.

Example Graphic

Forecast outturn against target budget



The Revenue Budget Monitoring Statement prepared at period X indicates that there is a projected year-end overspend of £X.XXXm.

This overspend will be supported by the use of £X.XXXm of earmarked reserves. After the use of these reserves the forecast position is an overspend of £X.XXXm.

In addition to any use of earmarked reserves, the forecast outturn position includes the following significant items of one-off income:

- £X.XXXm – One-Off Income Item 1 Description
- £X.XXXm – One-Off Income Item 2 Description

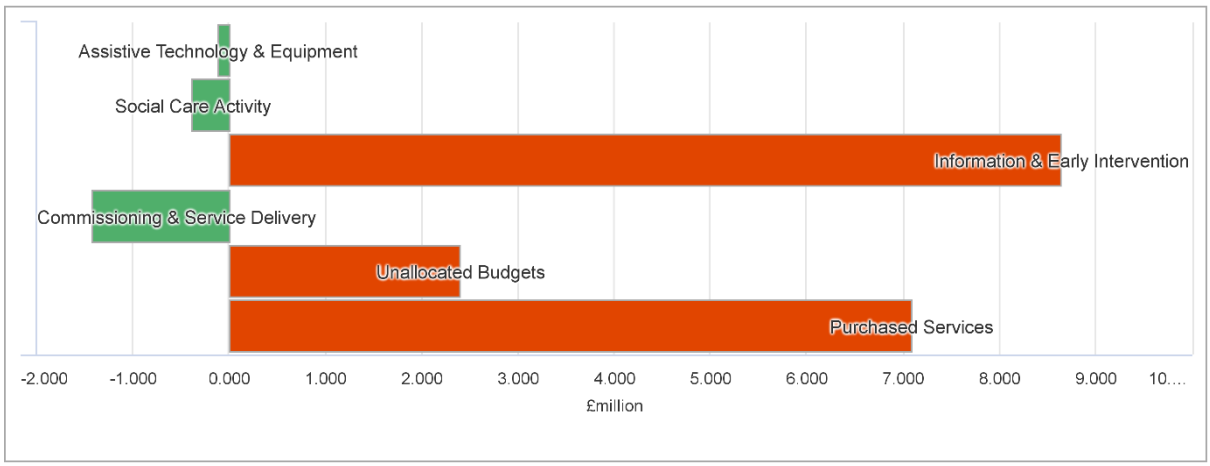
The significant areas which make up this projection are shown in the table and graph below:

APPENDIX B

<Portfolio Name> Budget Items
Forecast Under/Overspend

	Controllable Budget	Projected Actuals	Forecast Over/ Under(-) Spend	Percentage Over/ Under(-) Spend	Budget Performance
	£m	£m	£m	%	
Item 1 Description	X.XXX	X.XXX	X.XXX	X.X%	
Item 2 Description	X.XXX	X.XXX	X.XXX	X.X%	
Other minor balances	X.XXX	X.XXX	X.XXX	X.X%	
Total	**X.XXX**	**X.XXX**	**X.XXX**	X.X%	
Use of Reserve 1 Description	(X.XXX)	0.000	(X.XXX)		
Use of Reserve 2 Description	(X.XXX)	0.000	(X.XXX)		
Total After Use of Reserves	**X.XXX**	**X.XXX**	**X.XXX**	X.X%	

Example Graphic



2.4 Key Variances

2.4.1 Item 1 Description, over/underspend £X.XXXm
<Explanation of reason for item 1 variance>

2.4.2 Item 2 Description, over/underspend £X.XXXm
<Explanation of reason for item 2 variance>

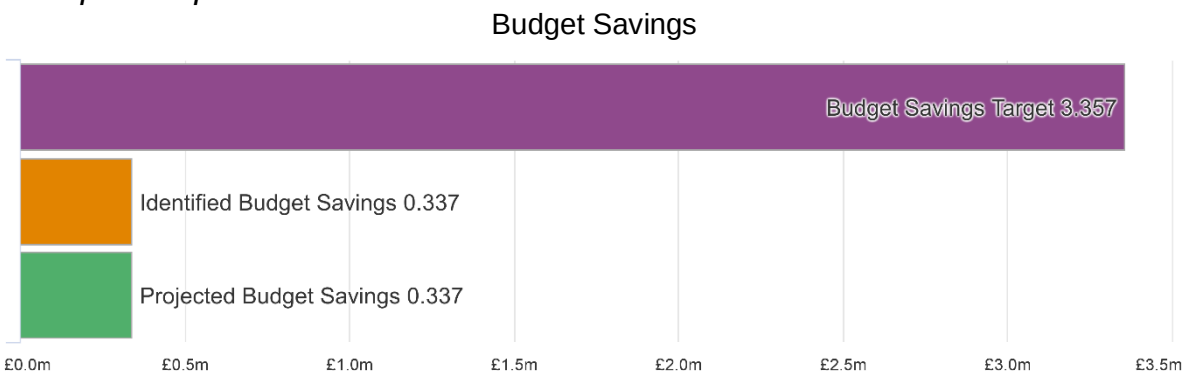
2.5 Budget Savings

Budget reductions totalling £X.XXXm were allocated for the year. Further reductions allocated in prior years, totalling £X.XXXm, had not been achieved and were brought forward to the current year. This has resulted in total reductions target to be achieved of £X.XXXm at the start of the year.

The value of the savings initiatives which have been identified for implementation in the current year is £X.XXXm. In addition, there are £X.XXXm of savings initiatives identified in previous years which had not been achieved at the start of the year, but that are still expected to be achieved within the year.

The shortfall between the total reductions target to be achieved and the identified savings initiatives at the start of the year is £X.XXXm.

Example Graphic



It is forecast that £X.XXXm of savings will have been achieved by the year-end. The table below shows performance against the target.

Identified Savings Initiatives	**Budget Reduction Amount £m**	**Forecast to be Achieved by the end of 20Y1-Y2 £m**	**(Shortfall)/ Additional Savings Achieved £m**	**Performance**
Initiative 1 Description	X.XXX	X.XXX	X.XXX	
Initiative 2 Description	X.XXX	X.XXX	X.XXX	
Total of Identified Savings Initiatives	**X.XXX**	**X.XXX**	**X.XXX**	
Shortfall/(Surplus) of Identified Savings	X.XXX/ (X.XXX)			
Total Savings Target	**X.XXX**	**X.XXX**	**X.XXX**	

Budget Reductions	**£m**
Prior Year B/f	X.XXX
Current Year	X.XXX
Total Savings Target	**X.XXX**

2.6 Growth Items and One-Off Funding

The portfolio received the following additional budget allocations in 20Y1-Y2:

2.4.1 Item 1 Description - £X.XXXm ongoing, plus £X.XXXm one-off

<Explanation of how additional budget for Item 1 is being used>

<Detail of what has been spent on item 1 to date and the impact that the additional funding has had on the variance between forecast actual and budgeted expenditure on this item>

2.4.2 Item 2 Description - £X.XXXm ongoing, plus £X.XXXm one-off

<Explanation of how additional budget for Item 2 is being used>

<Detail of what has been spent on item 2 to date and the impact that the additional funding has had on the variance between forecast actual and budgeted expenditure on this item>

2.7 Risks

There is a risk that the following issues could negatively impact on the portfolio's forecast outturn position reported in the Forecast Summary above:

Service	**Risk**	**Sensitivity*** **£m**	**Likelihood** **1 = Low, 5 = High**
Service 1 Description	Explanation of what the risk is	X.XXX	X
Service 2 Description	Explanation of what the risk is	X.XXX	X
Service 3 Description	Explanation of what the risk is	X.XXX	X

*Sensitivity represents the potential negative impact on the outturn position should the event occur.

2.8 Earmarked Reserves

Earmarked reserves totalling £X.XXXm are currently held to support future expenditure. Details of these reserves are as follows:

Example Graphic

Reserves

		£m
Older People's Housing Strategy	=	30.000
Healthy Homes	=	0.046
Total Reserves	=	**30.046**

Key

- ↑ Reserve has increased over the quarter
- = Reserve is unchanged over the quarter
- ↓ Reserved has decreased over the quarter

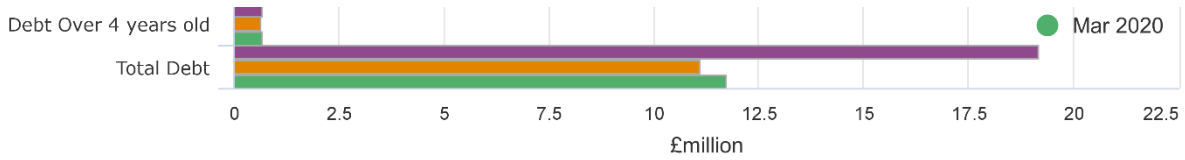
2.9 Debt Position

The profile of the debt raised, relating to income receivable by services within the <name> department, is as follows:

Example Graphics

Debt Position

0-30 days £m	31-365 days £m	1-2 years £m	2-3 years £m	3-4 years £m	Over 4 years £m	Total £m
9.175	6.994	1.403	0.534	0.385	0.685	19.176
↑	↓	↑	↓	↓	↑	↑
47.8%	36.5%	7.3%	2.8%	2.0%	3.6%	100.0%



Aged Debt over Time

In the year up to the end of <Date> the value of debt that has been written off totals £X.XXXm.

2.10 Traded Services

A trading area is where the Council receives income in return for providing discretionary services to external organisations and/or individuals.

Fully Traded Areas

'Fully traded' trading areas are separately identifiable and have a net controllable budget of £0, i.e. there is an expectation that on average all the controllable expenditure within this area will be funded from external income. The financial performance of these areas is as follows:

		A	B	B - A		
Service Area	**Trading Area**	**Projected Gross Controllable Expenditure* £m**	**Projected Gross Controllable Income £m**	**Forecast Contribution/ Deficit(-) to General Overheads £m**	**Performance**	**Is Contribution/ Deficit transferred to Earmarked Reserves?**
Service Area 1	Trading Area 1	X.XXX	X.XXX	X.XXX		Yes/No
Service Area 1	Trading Area 2	X.XXX	X.XXX	X.XXX		Yes/No
Service Area2	Trading Area 3	X.XXX	X.XXX	X.XXX		Yes/No

*This is the expenditure remaining after any costs have been recharged to other service areas internal to the Council.

Partially Traded Areas

'Partially traded' trading areas do not have a net controllable budget of £0, but they do receive income from external entities which contributes to funding some of the discretionary services they provide. The financial performance of these areas is as follows:

		A	B	B - A	
Service Area	**Trading Area**	**Budgeted Income Target £m**	**Projected Actual Income £m**	**Forecast Excess/ Shortfall(-) compared to Target £m**	**Performance**
Service Area 1	Trading Area 1	X.XXX	X.XXX	X.XXX	
Service Area 1	Trading Area 2	X.XXX	X.XXX	X.XXX	
Service Area2	Trading Area 3	X.XXX	X.XXX	X.XXX	

3 Financial Considerations

As detailed in the report.

4 Other Considerations

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

5 Key Decision

No.

6 Call-In

Is it required that call-in be waived in respect of the decisions proposed in the report? No.

7 Background Papers

Held on file within the <name> Department. Officer contact details – <name>, extension 3XXXX.

8 Officer Recommendations

That the Cabinet Member notes the report.

<Name> **Executive Director** **<Department>**	**Peter Handford** **Director of Finance** **& ICT**

Appendix A

Example Performance Report and Graphics

<Portfolio Name> Quarter X Performance Report 2021/2022

Progress on Council Plan deliverables and key measures

Empowered and self-sufficient communities

Co-designed the Council's offer to people with learning disabilities, focusing on their strengths to help them achieve their personal goals utilising the community networks built during the pandemic

During quarter 2 there has been a continued focus on the Better LIves programme of work. All people with learning disability and / or Autism who have used building-based services and their carers / families have been written to and communication is ongoing to co-produce a new offer. This includes both those who attend directly provided day centres and those who attend day services in the private, voluntary and independent sector, a total number of 742 people. The new offer will focus on different ways of working to enable people with a learning disability to achieve personal goals, learn new skills, gain employment or volunteering opportunities and be more involved in their local communities. A central team of practitioners has now been established to work directly with people and their families / carers to co-produce the new offer. The team are currently actively working with 80 people. Recognising the need to have a range of services available plans are in place to re-open 3 building based offers within DCC and create the community offer. Progress is being made to support people with a learning disability to move from a short-term residential placement to a supported living long term home within local communities. 4 people have moved in this quarter.

A focus on prevention and early intervention

Better supported people to live at home longer and feel part of their local communities using the thriving communities approach

The Better Lives programme work has continued in quarter 2 with a particular focus on supporting timely discharges from hospital which ensure older people are supported to return home and the creation of an enhanced reablement offer. The prototype of this new offer has been trialled with successful results and will be rolled out across the County during quarter 3.

The performance for those remaining within their own homes for 91 days following discharge from hospital has remained stable. Data since April has been available on a monthly basis with the latest figure for July of 73.5% .

The admissions figures shown for the first quarter of 2020/21 are lower than previous years. It is anticipated that these figures will increase slightly, but will remain less than previous years. It is not currently possible to state with absolute certainty why this figure is lower, but highly likely that this is due to the impact of Covid-19. The first quarter of the current financial year saw the peak of Covid-19 and the ensuing significant restrictions placed on care homes. The impact that Covid-19 had on hospital throughput likely effected the number of long term placements into care homes, as hospital discharges are a key source of care home admissions.

17.8

Admissions to residential and nursing homes (18-64)

30 JUN 20

674.6

Admissions to residential and nursing homes (65+)

30 JUN 20

75.0%

People still at home 91 days after discharge

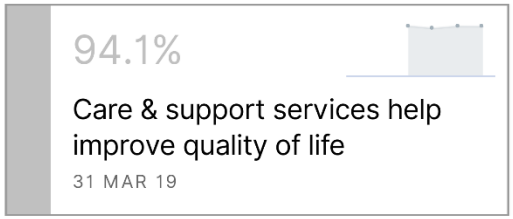
31 JUL 20

Reviewed the Council's care and support offer for children with special educational needs and disabilities and adults to improve efficiency, value for money and customer outcomes

The achieving great futures (AGF) workstream has been impacted by Covid-19. Delays to the workstream have been mitigated in the overall delivery plan. Learning from AGF has been used in the Children's Diagnostic and there are opportunities for greater impact working across the whole life pathway. In addition there is a Special Educational Needs and Disabilities (SEND) action plan which is currently being led by the Local Area SEND Board.

Rating set at 'Review' as there is still a risk to the timetable which is dependent on timing of the restart of this programme.

In the previous two years over 94% of clients responding to our Adult Care survey have agreed that care and support services help improve their quality of life. Results of the survey in 2019/20 will be published later in 2020.



Continued the implementation of the Older People's Housing, Accommodation and Support Strategy

Collaboratively working alongside partners regarding opportunities for housing for older people, and the development of Local Plans and other strategic documents to ensure that housing for an ageing population is reflected as a key issue. We have reviewed the programme of activity in light of the impact of Covid-19 .

Commissioned a new approach to provide innovative technological solutions to support people with social care needs to maintain their independence and reduce our carbon footprint

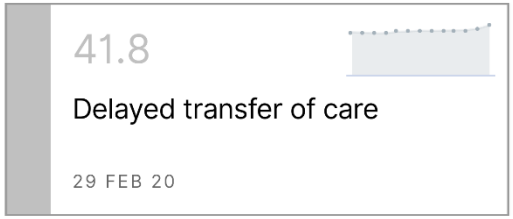
Proposals on the next steps for Assistive technology have been reviewed in line with the Council's wider transformation and the future model for AT is being developed using models from other Councils and learning from diagnostic report. The Brain in Hand pilot has been reviewed and we are currently working with the provider to commence the 12 months pilot in October 2020 Brain in hand is a digital support system designed to help people to navigate day-to-day difficulties and to problem solve; support can also be accessed at any time from the individual's mobile. The Remote Assessments for Equipment and Adaptations pilot project continues to be rolled out; will implement digital solutions to reduce the number of visits for Occupational Therapist's and other professionals and to prescribe more adaptations and equipment through Call Derbyshire to improve the speed with which referrals are dealt with and to release capacity for more complex situations.

High performing council services

Maintained the Council's high performance in reducing delayed transfers of care from hospital

During the Covid-19 pandemic a new national approach to discharge from hospital was introduced across the country. The Council in partnership with Health has successfully implemented the new national guidelines. This has been further enhanced by the Better Lives workstream. This has resulted in people being able to leave hospitals earlier with higher numbers of people returning back to their own homes with community support. Work has continued in quarter 2. We remain focused on supporting timely discharges from hospital through the Better Lives programme and the creation of an enhanced reablement offer has delivered successful results which will be rolled out across the County during quarter 3.

National publication of data has been suspended since February due to the impact of Covid-19.



Ensured all Council run adult care homes have Quality of Care graded as 'Good' or 'Outstanding' by the Care Quality Commission

The Council has 27 residential care homes, of these 23 are homes for older people and 4 specialising in learning difficulties. Current performance shows that 85% of those homes are rated as good for quality of care.

Currently on site Care Quality Commission inspections have ceased due to Covid-19 but the services are still being monitored at arm's length by the regulator through their Emergency Support Framework and the in house Quality and Compliance Team auditing processes. Feedback via the Quality Improvement Board which is responsible for the oversight of all the quality assurance and improvement work within directly provided regulated services is positive and provides assurance that quality improvement continues to be addressed as a priority

Key Strong Good Review Action Data not available/Target not set

Agenda Item No.4 b

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

23 March 2021

Report of the Director of Finance & ICT

STATEMENT OF ACCOUNTS 2020-21

1 Purpose of the Report

To provide Members with details of proposed changes to the Accounts and Audit Regulations 2015 in respect of revised deadlines for publishing the pre-audited and audited Statement of Accounts.

2 Information and Analysis

Accounts and Audit Regulations

The Accounts and Audit Regulations 2015 set out detailed requirements on a relevant authority in relation to its annual audit and accounting processes. The Regulations set out details of the statutory reporting timeframes these being the publication of pre-audited accounts being no later than the 31 May with a requirement to publish the audited accounts by 31 July.

In anticipation of the potential disruption to relevant authorities caused by the spread of coronavirus, the regulations were amended in 2020 to extend the deadlines for relevant authorities to publish and make available for public inspection, their annual accounts and supporting documents in relation to the financial year ending 31 March 2020. These amendments extended the deadlines for publication of both the pre-audited and audited Statement of Accounts.

Following a consultation with authorities early in the 2021 calendar year, the Accounts and Audit Regulations 2021 were published in March 2021 to reflect recommendations made by Sir Tony Redmond in his review of the effectiveness of external audit and transparency of financial reporting. The amendments come into force on 31 March 2021 and allow authorities to publish their draft accounts for inspection on or before the first working day of August, this being an extension to the 2015 Regulations where the deadline was 31 May. Furthermore, the deadline for publishing audited accounts is extended to 30 September from 31 July each year. These extensions apply for both the 2020-21 and 2021-22 financial years.

Within the amended regulations there will be a requirement for authorities to publish a note on their website giving their reasons should they fail to meet the 1 August deadline for the period of inspection.

Valuations

Members will be aware of the complex nature in valuing the Council's land and buildings and the significant risk that is awarded to it by the Council's external auditors. In addressing the risk, Mazars will consider whether the revaluation methodologies used by the Council are in line with industry standards and comply with the CIPFA Code of Practice and the Council's accounting policies. Furthermore, they will critically assess the treatment of the upward and downward revaluation movements in the Council's Statement of Accounts.

Historically, the date used for valuation of the Council's property has been the 1 April, however, due to the material uncertainty in the market caused by the coronavirus pandemic, the valuations will now take place on the 31 March. In previous years, the information in respect of valuations has meant that the information has been provided to the finance teams by the middle of April, however, the transition to the 31 March valuation date means that the valuers cannot provide the required information to support accounts preparation until the middle of May 2021.

Therefore, the Council is committed to publishing the pre-audit Statement of Accounts by the revised statutory deadline of 1 August 2021, however, Members need to be aware that any slippage in providing the information beyond the middle of May is likely to result in the Council submitting its pre-audited Statement of Accounts beyond the 1 August 2021 deadline.

Historically, the Council has an excellent track record of submitting its pre-audit Statement of Accounts on time, ahead of the statutory deadline and for a number of years was seen as an exemplar in its approach to preparing its accounts. Despite extensions being offered to the statutory deadlines last year to reflect the impact of the coronavirus, the Council still submitted its pre-audited Statement of Accounts broadly in line with previous years' timetables. The processes which are in place within the finance function are robust and embedded which support the delivery of the published accounts. In preparing the accounts, there is a reliance on key stakeholders to provide information to support the drafting of the Statement of Accounts. The receipt of valuations information is the most significant element. The current closedown timetable for publication of the Statement of Accounts is 30 June 2021. This would be one month ahead of the revised statutory deadline.

There is a reputational risk to the Council in submitting its accounts late in that it is likely to be named in any Government reports in respect of local authorities who fail to meet the statutory deadlines.

The Director of Property is aware of the need to provide the valuations information by the middle of May and the subsequent impact in the event the deadline is not met. Assurance has been received that sufficient resource will be allocated to ensure delivery of the valuation's information by the middle of May 2021.

3 Considerations

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

4 Background Papers

MHCLG Letter dated 9 February – Consultation on Amendments to the Accounts and Audit Regulations 2015

5 Officer's Recommendation

That Members of the Audit Committee note:

i. The proposed revised reporting timeframes in respect of both the pre-audit and audited Statement of Accounts for the financial years ending 31 March 2021 and 31 March 2022 as set out in the Accounts and Audit Regulations 2021.
ii. The revised valuation date which will be used in preparing the 2020-21 Statement of Accounts.
iii. The reputational risk to the Council in the event that it fails to submit its pre-audited Statement of Accounts within the prescribed statutory timeframes.

PETER HANDFORD

Director of Finance & ICT

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Agenda Item No.4 c

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

23 March 2021

Report of the Director of Finance & ICT

EXTERNAL AUDIT - UPDATE ON 2019-20 INTERNAL CONTROL RECOMMENDATIONS

1 Purpose of the Report

To provide Audit Committee with an update of the actions taken in response to the recommendations outlined in the external auditor's Audit Completion Reports for 2019-20.

2 Information and Analysis

The external auditor presented its 2019-20 Audit Completion Reports at the Audit Committee meeting on 24 November 2020.

Six recommendations were raised in respect of the Council Accounts. Below is a summary and progress update:

- **Completeness of related party declarations –** One Councillor had not declared their membership of another public sector body. Whilst no inherent conflicts of interest were involved and it was acknowledged that this may simply have been an oversight, good practice encourages full disclosures to ensure transparency. A reminder e-mail has been sent to all Elected Members to ensure they keep their Register of Interests up to date. Following the Council elections in May 2021, a regular quarterly reminder will be sent.

- **Private Finance Initiative (PFI) records -** Original documents could not be located for PFI Phase 1 and no financial model was available for PFI Phase 3. Officers could not access physical documents located at the Council because of restrictions due to the Covid-19 pandemic. The Council will review the availability of supporting information in relation to the PFI and endeavour to locate these physical documents, as soon as restrictions are lifted, and officers are able to safely access the Council's buildings.

- **Property valuation** – Minor floor area data differences between the Computer Aided Design (CAD) plans and the Gross Internal Areas (GIAs) in the Asset Management System were noted, although there had been no physical changes. The Core Data team are currently in the process of carrying out full site inspections and re-measures of all Council owned sites. This is an ongoing process and generally is aligned to the rolling programme, so the most accurate data possible is used in the valuation. There is an audit trail of this process and subsequent updates following receipt of Property Notification System alerts.

- **Developer access rights** – Four Basis staff users can transport changes to the system which are fixes for issues or patches provided by SAP ('transports'). Any transports are subject to a division of duties to ensure that the change is not undertaken by a single individual. Transports are documented and authorised, like any other change that goes through the system. These transports will be reviewed at the end of the financial year, to ensure no 'developments' have been implemented. This review will also highlight any transporting of own changes, which is against policy. All roles and security access will be reviewed as part of the SAP upgrade project.

- **Response to IT incidents** - IT Incidents are not always followed up and resolved in a timely manner. The procurement of new IT service management software is in its final stages. Award of contract is expected before the end of March 2021. It is anticipated that implementation will commence in early April 2021 and will create better visibility of all incidents and problems for key stakeholders and resolution owners, enabling them to be clearly identified and reported on. Processes will be put in place to ensure incidents are dealt with in a timely manner.

- **User access reviews -** User access reviews, including reviews of user access rights, were recorded as not being performed in respect of SAP. However, reviews of user access are carried out and will continue to be performed. This includes inactive users, users that have not logged in, leavers and those with access to specific transactions. SAP access is assigned via position in the organisational ('org') structure. When a member of staff leaves a post or has an end date input, they immediately lose their access. This process and the reviews will be documented. All roles and security will be reviewed as part of the SAP upgrade project.

No recommendations were raised in respect of the Derbyshire Pension Fund Accounts.

A detailed update on the actions being taken in response to the 2019-20 control recommendations is attached at Appendix One.

3 Considerations

In preparing this report the relevance of the following factors has been considered:- financial, human resources, legal and human rights, equality of opportunity, health, environmental, transport, property, crime and disorder and social value considerations.

4 Background Papers

Papers held electronically by Technical Section, Finance & ICT Division, Room 137.

5 Officer's Recommendation

That Audit Committee notes the actions being taken in response to the recommendations outlined in the external auditor’s Audit Completion Reports for 2019-20.

PETER HANDFORD

Director of Finance & ICT

2019-20 Recommendations

Recommendation	Management Response	Responsible Officer	Update
Derbyshire County Council **Controls in place regarding the completeness of related party declarations** During our testing of related parties, it was found that a Councillor had not declared their membership of another public sector body. Whilst there were no inherent conflicts of interest involved and it is acknowledged that this may simply have been an oversight, good practice encourages full disclosures to ensure transparency. The Council should ensure that full disclosures are made and should emphasise the importance of full disclosures.	Agreed - Related party declarations should be complete, and the importance of full disclosures will be emphasised.	Helen Barrington	A reminder e-mail has been sent to all Elected Members to ensure they keep their Register of Interests up to date. Following the election in May 2021, a regular quarterly reminder will be sent.
Private Finance Initiative (PFI) records During the course of the audit it became apparent that no original documents had been kept for Phase 1 of the PFI and no financial model was available for Phase 3 of the PFI, leading to difficulty in substantiating the validity of PFI payments/costs. The Council should review the availability of supporting information in relation to the PFI.	Agreed - Whilst documents could not be located during the audit in respect of Phase 1 of PFI, this may have been because the relevant officers could not access physical documents located at the Council because of restrictions due to the Covid-19 pandemic. Electronic documents were located in respect of Phase 2 and BSF. The Council will review the availability of supporting information in relation to the PFI and endeavour to locate these physical documents, as soon as restrictions are lifted, and officers are able to safely access the Council's buildings.	-	Restrictions have yet to be lifted and officers are as yet unable to safely perform the search to try and locate these physical documents.

2019-20 Recommendations

Extension to a property In our testing of property valuations, we identified that extensions to buildings were not included in the valuation assessment as at 31 March 2020. Whilst the amount involved was below triviality the Council should have processes in place to identify any extensions and account for them correctly. This could lead to a failure to value properties that are extended. The Council should review its processes to identify any extensions and account for them correctly.	Rather than relating to extensions to buildings, the Council understands that the difference resulted from minor floor area data differences between the Computer Aided Design (CAD) plans and the Gross Internal Areas (GIAs) in the Asset Management System. There have been no physical changes. The Council (Property) has altered the data to match the CAD plans. In addition, a new Property Notification System is now in place to alert when re-measures are required.	Geraldine Massey	The Core Data team are currently in the process of carrying out full site inspections and re-measures of all the Council owned sites. This is an ongoing process and generally is aligned to the rolling programme so the most accurate data possible is used in the valuation. An audit trail of this process and subsequent updates following receipt of Property Notification is in place.
Developer access rights Users who have the ability to transport SAP changes to live are also involved in development of changes. Developers could promote changes to the live environment without oversight from senior management or approval from the Council. This could be exploited later in the live environment. Management should consider implementing and documenting a periodic review covering all users and their access rights within key applications and underlying infrastructure. The review should also include inactive users or those who have not logged on for a period of time (say 90 days), and generic accounts (if any).	Agreed - There are a limited number of four users who can transport changes to the system, these are Basis staff not developers. Developer staff do not transport changes through the system. The changes they transport are fixes for issues or patches provided by SAP. Any transports implemented by Basis staff are subject to a division of duties to ensure that the change is not undertaken by a single individual. Basis transports are documented and authorised, like any other change that goes through the system. The Council agrees to document the process and undertake periodic reviews.	Wayne Sutton	The transports that Basis staff have instigated will be reviewed at the end of the financial year. This will ensure they have not implemented any 'developments'. It will also highlight if they have transported any of their own changes. This would be against policy. All roles and security access will be reviewed as part of the SAP upgrade project.

2019-20 Recommendations

Response to IT incidents IT Incidents are not always followed up and resolved in a timely manner. Unresolved incidents could cause interruptions in the availability of key systems for prolonged periods. The Council should ensure that IT incidents are followed up in a timely manner.	Agreed - The Council is in the final stages of procurement of new IT Service Management Software. It is expected that this will be implemented in the first quarter of 2021. This software will create better visibility of all incidents and problems for key stakeholders and resolution owners, enabling them to be clearly identified and reported on. New operating procedures will also be introduced to enable key performance indicators (incident service level management and unresolved issues) to be reviewed and acted upon by the Service Desk Team. This should ensure that no incidents are left open for an unreasonable amount of time and that the assigned incident resolution team is clearly identifiable and accountable for each and every incident. The Council expects this work strand to be completed by April 2021 at the latest.	Rob Pearson	The procurement of the new IT service management software is in its final stages. Award of contract is expected before the end of March 2021. Despite a slight delay in completion, it is anticipated that implementation will commence in early April 2021 and will create better visibility of all incidents and problems for key stakeholders and resolution owners, enabling them to be clearly identified and reported on. Processes will be put in place to ensure incidents are dealt with in a timely manner.

2019-20 Recommendations

User access reviews User access reviews including reviews of user access rights were not performed for SAP. User access rights may not be up to date for all users. Management should consider implementing and documenting a periodic review covering all users and their access rights within key applications and underlying infrastructure. The review should also include inactive users or those who have not logged on for a period of time (say 90 days), and generic accounts (if any).	Agreed - Reviews of user access are carried out approximately every four months. This includes inactive users, users that have not logged in, leavers and access to specific transactions. SAP access is assigned via position in the organisational ("org") structure. When a member of staff leaves a post or has an end date input, they immediately lose their access. The Council agrees to document the process and to ensure that when reviews are undertaken they are recorded.	Wayne Sutton	User access reviews continue to be performed. All roles and security will be reviewed as part of the SAP upgrade project.

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Agenda Item No.4 d

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

23 March 2021

Report of the Director of Finance & ICT

TAX STRATEGY

1 Purpose of the Report

To advise Audit Committee of the latest review and update of the Council's Tax Strategy.

2 Information and Analysis

The Tax Strategy sets out the overall framework for the Council's management of its tax affairs, including tax compliance, policies and procedures, tax risk, tax planning and relationship with the tax authorities.

The Finance Act 2016 Schedule 19 sets out what should be included in a Tax Strategy. Whilst not required to publish a Tax Strategy by this legislation, the Council chooses to do so and to follow its principles, as it wishes to demonstrate transparency in its commitment to managing its tax affairs, taking into consideration its public purpose and balancing the interests of its stakeholders.
The key components of the Tax Strategy are:

- The Council's approach to risk management and governance arrangements in relation to taxation.
- The Council's attitude towards tax planning.
- The level of risk in relation to taxation that the Council is prepared to accept.
- The Council's approach towards its dealings with HMRC.

In line with the Council's governance framework and consistent with its wider values, the Council is committed to being fully compliant with all tax laws, rules and regulations. It will conduct its tax affairs in an open, honest and timely fashion.

The Council will not seek to gain a tax advantage through tax avoidance but will seek to manage its tax affairs in an efficient manner, whilst following both the letter and the spirit of the law.

In order to achieve this, the Council undertakes to:

- Take all reasonable steps to ensure that it is fully compliant with tax legislation and pays the right amount of tax at the right time.
- Maintain an open, honest, and collaborative relationship with the tax authorities.
- Respond to all queries and enquiries in a timely fashion.
- Where the correct tax treatment is ambiguous and where it is appropriate to do so, take the appropriate external advice and act in accordance with that advice, making disclosures to the tax authorities as appropriate.
- In cases of dispute, act transparently and fairly, aiming to resolve the dispute in a manner that preserves good working relationships.

The Council's overall management of tax risk and supporting governance framework is the responsibility of the Council's Director of Finance & ICT.

The Audit Committee independently contributes to the Council's process of ensuring internal control systems are maintained and approves the Annual Governance Statement.

It is, therefore, prudent and responsible practice for the Council to put in place and to keep up to date a Tax Strategy and for the Council's Tax Strategy to be reviewed and reported to Audit Committee on an annual basis.

The Council's Tax Strategy was approved by Audit Committee at its meeting on 27 May 2020.

Following a review of the Tax Strategy in February 2021, the following changes have been made to the Background section:

- Update to the companies in which the Council is involved.
- Update to clarify that the D2N2 LEP cannot become VAT registered as it makes no taxable supplies.

The Tax Strategy is attached in the Appendix to this report.

3 Considerations

In preparing this report the relevance of the following factors has been considered:- financial, human resources, legal and human rights, equality of opportunity, health, environmental, transport, property, crime and disorder and social value considerations.

4 Background Papers

Papers held electronically by Technical Section, Finance & ICT Division, Room 137.

5 Officer's Recommendation

That Audit Committee notes that a review and update of the Tax Strategy has taken place.

PETER HANDFORD

Director of Finance & ICT

Tax Strategy

Peter Handford BA(Hons) PGCert FCPFA
Director of Finance & ICT

Approval and Authentication

Version History			
Version	**Date**	**Detail**	**Author**
1.0	27 05 2020	Council's first Tax Strategy noted and approved by Members of Audit Committee on 27 May 2020.	E Scriven
2.0	01 03 2021	Tax Strategy Review. Background section updated: • Update to companies in which the Council is involved. • Clarification that D2N2 LEP cannot become VAT registered as it makes no taxable supplies	E Scriven

Introduction

The Tax Strategy of Derbyshire County Council sets out the overall framework for the Council's management of its tax affairs, including compliance, policies and procedures, tax risk, tax planning and relationship with the tax authorities.

Whilst not required to publish its Tax Strategy, the Council chooses to do so, as it wishes to demonstrate transparency in its commitment to managing its tax affairs, taking into consideration its public purpose and balancing the interests of its stakeholders.

The Tax Strategy is, by design, a brief document, presented as a series of linked elements. It will be reviewed and reported to Audit Committee on an annual basis.

Background

The Council is a Local Government body. It is exempt from Corporation Tax and is a Section 33 Body under the VAT Act 1994, which entitles it to recover VAT attributable to non-business activities and to exempt business activities, providing this is an insignificant proportion of the total tax incurred.

The Council is the administering authority of the Derbyshire Pension Fund under the Local Government Pension Scheme (Administration) Regulations 2013, which is also exempt from Corporation Tax and is a Section 33 Body.

Vertas (Derbyshire) Limited (VDL) and Concertus (Derbyshire) Limited (CDL) are private limited companies in which the Council has a 49% stake. VDL and CDL are run as Joint Venture companies with the other shareholders being part of Suffolk Group Holdings Limited, whose ultimate parent undertaking and controlling party is Suffolk County Council. The Council has Board representation at VDL and CDL. Vertas Group Limited (Vertas) and Concertus Design and Property Consultants Limited (Concertus), subsidiary undertakings of Suffolk Group Holdings Limited, have day to day financial control of VDL and CDL, respectively. Financial Governance is maintained via the production of monthly Management Accounts information, which is supplied to Board members and to Finance Officers of the Council. VDL and CDL are assessable to Corporation Tax and VAT in accordance with current legislation. All taxation related matters of VDL and CDL, including Corporation Tax, VAT and Income Tax are managed by Vertas and Concertus.

PSP (Derbyshire) LLP (PSPD) is a limited liability partnership (LLP) formed between the Council and PSP Facilitating Limited (PSPF), under the provisions of the Limited Liability Partnership Act 2000. PSPD will help the Council unlock value from its land and property portfolios; facilitate the promotion, development, asset management rationalisation and economic regeneration, on a project by project basis, of Council land; and utilise private sector funding, resources and skills; resourced through the operation of the partnership. As PSPD is an LLP, rather than a company, the parties to the Joint Venture are called Partners and their representatives are called 'Corporate Representatives', rather than Directors. Each Partner has up to six Corporate Representatives. However, each Partner has only one vote, and therefore PSPD decision making, ownership and profit share are 50/50. Financial Governance is maintained via a Members Agreement and a Procedure Agreement. All financial activities of PSPD are conducted by PSPF, including statutory compliance, audit, bank account management, VAT and other taxation matters, and all liaison with HMRC and other Government bodies.

D2N2 Local Enterprise Partnership (D2N2 LEP) is a private limited company, managed by a Board made up of Derby, Derbyshire, Nottingham and Nottinghamshire councils and private sector representatives. The Council is the Single Accountable Body for the D2N2 LEP. The D2N2 LEP is assessable to Corporation Tax and VAT in accordance with current legislation. As the D2N2 LEP does not make taxable supplies it cannot become VAT registered.

Governance

The Council's governance framework comprises the systems, processes and values by which the Council is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively, efficiently and economically.

Specific controls and procedures are in place at an operational level, to ensure compliance with relevant tax legislation and to mitigate tax risk.

The Council's overall management of tax risk and supporting governance framework is the responsibility of the Council's Director of Finance & ICT.

The Audit Committee independently contributes to the Council's process of ensuring internal control systems are maintained and approves the Annual Governance Statement.

Overriding Principals

In line with the Council's governance framework and consistent with its wider values, the Council is committed to being fully compliant with all tax laws, rules and regulations. It will conduct its tax affairs in an open, honest and timely fashion.

The Council will not seek to gain a tax advantage through tax avoidance but will seek to manage its tax affairs in an efficient manner, whilst following both the letter and the spirit of the law.

In order to achieve this, the Council undertakes to:

- Take all reasonable steps to ensure that it is fully compliant with tax legislation and pays the right amount of tax at the right time.
- Maintain an open, honest, and collaborative relationship with the tax authorities.
- Respond to all queries and enquiries in a timely fashion.
- Where the correct tax treatment is ambiguous and where it is appropriate to do so, take the appropriate external advice and act in accordance with that advice, making disclosures to the tax authorities as appropriate.
- In cases of dispute, act transparently and fairly, aiming to resolve the dispute in a manner that preserves good working relationships.

Management of Tax Risk

Tax risk falls into three broad categories:

- **Compliance Risk**
  Procedures or processes are deficient in ensuring that the right amount of tax is paid at the right time.

- **Transactional Risk**
  Transactions are entered into without fully considering and evaluating the immediate or wider tax implications.

- **Reputational Risk**
  The wider damage that risks may have on the Council's relationship with its stakeholders, including the tax authorities, staff, and the general public.

As with any organisation of this size and complexity, it is impossible to completely eliminate tax risk. However, with careful management, the incidence and impact of tax risks can be significantly reduced.

Policies and Procedures

The Council has a number of policies and procedures covering various aspects of its financial management. All such policies and procedures are formulated to ensure that the Council is fully compliant with its tax obligations. Such procedures are subject to regular review to ensure that they are, and remain, fit for purpose.

The Council has regular support from its external tax advisor, which includes access to a fast response helpline, as well as regular VAT and Employment Taxes Forums for Local Government.

For large, complex or unusual transactions the Council will engage additional specialist legal and tax advice when required, to ensure that the tax implications are identified and fully considered before approval is given.

Attitude to Tax Planning and Tax Risk

The Council will claim such reliefs and incentives as it is properly entitled to and will take reasonable steps to minimise its tax liabilities, where it is appropriate and responsible to do so.

The Council has a low risk appetite in relation to tax matters and does not use artificial tax structures or undertake transactions whose sole purpose is to create an abusive tax result. When evaluating tax planning the Council's reputation and corporate and social responsibilities are always considered.

Relationship with Tax Authorities

The Council is transparent about its approach to tax and where it is appropriate to do so will discuss the interpretation of tax legislation with HMRC, in real-time, particularly where the tax treatment is unclear. HMRC will be kept up to date regarding major changes or transactions within the business, so that any potential tax risks can be addressed at an early stage.

The Council seeks to develop and maintain a strong and mutually respectful relationship with HMRC. In March 2019 the Council was again given a 'Low Risk' tax status by HMRC. This followed the Council's HMRC Customer Relationship Manager meeting with key Council personnel to gain a greater understand of the Council as an organisation and to understand the day to day systems, controls, processes, checks and governance the Council adopts in meeting its statutory obligations to ensure the completeness and accuracy of its monthly and annual returns made to HMRC. Customers assessed as Low Risk benefit from no intervention work undertaken by HMRC (with the exception of significant issues and mandatory and national projects) for a given period across all taxes.

Peter Handford
S151 Officer
Derbyshire County Council

Reviewed and Updated March 2021
(Original 24 March 2020 based on the Finance Act 2016 Schedule 19)

Agenda Item No.4 e

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

23 March 2021

Report of the Director of Finance & ICT

ACCOUNTING POLICIES

1 Purpose of the Report

To provide Members with amendments to the Accounting Policies for 2020-21 and with the proposed Accounting Policies for 2021-22.

2 Information and Analysis

2020-21 Accounting Policies

On 27 May 2020 (meeting rescheduled from 24 March 2020 because of the Covid-19 pandemic), Audit Committee approved the proposed Accounting Policies for the 2020-21 financial year, including amendments for IFRS 16 Leases, which had a scheduled implementation date of 1 April 2020 at the time the Accounting Policies Report was circulated.

At its meeting on 27 March 2020, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Local Authority Accounting Code Board (CIPFA/LASAAC) agreed to defer the implementation of IFRS 16 Leases to the 2021-22 financial year, with an effective date of 1 April 2021. This decision aligned with the proposals across the public sector but needed to be agreed by the Government's Financial Reporting Advisory Board (FRAB).

In December 2020, CIPFA LASAAC announced a further delay to the implementation of IFRS 16 Leases in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), until the 2022-23 financial year. This aligns with the decision at FRAB to establish a new effective date of 1 April 2022 for the implementation of IFRS 16. CIPFA LASAAC has taken this decision in response to pressures on council finance teams as a result of the Covid-19 pandemic.

The updated 2020-21 Accounting Policies therefore reflect the removal of the IFRS 16 Leases updates, which were previously approved by Members, and the reinstatement of the existing lease accounting standards and interpretations: IAS 17, IFRIC 4, SIC 12 and SIC 27. The updated 2020-21 Accounting Policies are unchanged to those in the approved 2019-20 Statement of Accounts. The 2020-21 Accounting Policies are attached at Appendix One.

CIPFA LASAAC is encouraging finance teams to continue their preparations for implementation and to look to the adoption of this standard in the 2022-23 financial year. Preparations are underway to ensure that the Council is ready for the introduction of IFRS 16. There are significant implications for the accounting treatment of leases. All leases will be recognised in lessee accounts, with a lease liability and a corresponding right-of-use asset.

In preparation for the previous expected implementation date, amendments had been made to the Council's Accounting Policies, replacing existing lease accounting standards and interpretations: IAS 17, IFRIC 4, SIC 12 and SIC 27. These amendments will be reviewed in readiness for update and inclusion in the Accounting Policies for 2022-23, which will be provided to Members for approval in March 2022.

The transition to accounting for leases as required by IFRS 16 entails a significant amount of work:

- to identify all the arrangements which fall within its scope;
- to ensure that all right-of-use property assets are valued appropriately;
- to set up the necessary master data within the financial systems to separately identify right-of-use assets in the Council's accounts;
- to calculate and process the bookkeeping entries to correctly reflect the lease liability and right-of-use asset value; and
- to develop and maintain a system to record these lease arrangements.

Over 90 contracts which contain leases relating to land and buildings have been identified to date. There are also expected to be arrangements which will be identified where the Council is holding over on a lease after the term has expired. Furthermore, it is anticipated that a large number of contracts entered into by the Council's schools, which will be in the scope of IFRS 16, will be discovered. It is estimated that the lease liabilities reported on the balance sheet will increase by between £5m and £9m, with an equivalent or greater increase to the value of the reported assets relating to these leases. The scale of this change means that the risk of the Statement of Accounts for 2022-23 being materially misstated as a result of an incorrect implementation is not insignificant.

However, progress on implementation has already been made. Regular meetings between technical and capital accountants and the valuers are taking place, to agree approaches to identifying contracts referencing property assets which are in scope and suitable valuation methodologies for property right-of-use assets. The majority of the surveys required to value the property right-of-use assets which have already been identified have been undertaken. A model to determine the value of the lease liabilities and the necessary accounting adjustments is well developed.

It should also be acknowledged that the requirement in IFRS 16 to revalue the right-of-use assets for all property leases with sufficiently regularity and to adjust lease liabilities for any relevant changes in indices will place an additional and ongoing burden on the Council's valuers and accountants.

The 2020-21 Accounting Policies have also been updated to reflect a change in Section 1.14, Non-Current Asset Valuation Methodology. Previously the 20% of non-current assets revalued under the five-year rolling programme of revaluations were revalued at 1 April for the financial year, with an impairment review at 31 March to consider whether any material degradation or other impairment had occurred during the financial year. The date of this revaluation has been amended to 31 March for the financial year and the requirement for an impairment review at 31 March has been removed, as it is no longer required.

2021-22 Accounting Policies

Appendix Two includes the proposed 2021-22 Accounting Policies. No changes have been made to the 2020-21 Accounting Policies. Additional technical guidance is likely to be received and it is possible that this will also impact on the 2021-22 accounting policies. Any further proposed amendments will be reported to Audit Committee in due course.

3 Considerations

In preparing this report the relevance of the following factors has been considered:- financial, human resources, legal and human rights, equality of opportunity, health, environmental, transport, property, crime and disorder and social value considerations.

4 Background Papers

Papers held electronically by Technical Section, Finance & ICT, Room 137, County Hall.

5 Officer's Recommendation

That Audit Committee:

- Approves the changes outlined above in relation to the Accounting Policies for 2020-21; and

- Approves the Accounting Policies for 2021-22.

PETER HANDFORD

Director of Finance & ICT

Public

Statement of Accounting Policies

For the Year Commencing 1 April 2020

ACCOUNTING POLICIES

INTRODUCTION

The Accounting Policies for Derbyshire County Council (the Council) have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code for Local Authority Accounting (the Code). Where there is no specific guidance in the Code, the Council has developed its own accounting policy which is aimed at creating information which is:

- Relevant to the decision-making needs of users; and
- Reliable, in that the financial statements:
  - Represent fairly the financial position, financial performance and cash flows of the entity;
  - Reflect the economic substance of transactions, other events and conditions and not merely the legal form;
  - Are neutral i.e. free from bias;
  - Are prudent; and
  - Are complete in all material respects.

This document outlines how the Council will account for all income, expenditure, assets and liabilities held and incurred during the 2020-21 financial year.

The accounting policies of the Council are updated annually to reflect any changes in IFRS, including changes in International Public Sector Accounting Standards (IPSAS), HM Treasury guidance, CIPFA guidance or any other change in statute, guidance or framework impacting on the authority's accounts.

The Accounting Policies of the Council as far as possible have been developed to ensure that the accounts of the Council are understandable, relevant, free from material error or misstatement, reliable and comparable. A Glossary of Terms can be found at the end of this document.

The document has been divided into four distinct categories which are Accounting Principles, Capital Accounting, Revenue Accounting and Treasury Management, with each policy being assigned a policy number.

ACCOUNTING PRINCIPLES

1.1. Going Concern

The Council prepares its accounts on the basis that it remains a going concern; that is that there is the assumption that the functions of the Council will continue in operational existence. In the case of a pending local government reorganisation, where assets and liabilities are due to be redistributed, the Council would still account on the basis of going concern as the provision of services would continue in another Council.

1.2. Accruals Concept

The Council accounts for income and expenditure in the period in which the provision of goods or service has taken place, rather than when cash payments are received or made.

Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Equally, where cash has been received or paid which is not yet recognised as income or expenditure, a creditor (income in advance) or debtor (payment in advance) is recorded in the Balance Sheet.

1.3. Cost of Services

Internal support service costs (e.g. Human Resources) are apportioned across the core service areas to represent the total cost of delivering that service to the public, in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2020-21 (SerCOP).

Where possible the full cost of support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties, or any other operational cost that cannot be reasonably attributed to a specific service.

1.4. Value Added Tax

Income and expenditure treated as either capital or revenue, excludes any amounts related to VAT. All VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from the same. Any amounts outstanding (payment or receipt) at the year-end date is held as a creditor or debtor after netting off the amounts either due or owed.

1.5. Changes in Accounting Policy

Where there is a known future change in accounting policy required by the CIPFA Code, the Council will disclose the following in the notes to the accounts:

- The nature of the change in accounting policy;

- The reasons why applying the new accounting policy provides reliable and more relevant information;
- For both the current reporting period, and the previous year comparatives reported, the extent to which the change in accounting policy would have impacted on the financial statements if it had been adopted in that year;
- The amount of adjustment relating to years previous to those reported in the set of financial statements, had the proposed policy been adopted retrospectively;
- If retrospective application is impracticable for a particular period, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

The Council will also disclose information relating to an accounting standard which has been issued but not yet adopted.

1.6. Prior Year Adjustments

These typically arise from omissions and misstatements in the Council's financial statements for one or more prior periods. For the error to be a prior year adjustment, it would need to have arisen from a failure to use or misuse, reliable information that:

a) Was available when financial statements for those periods were authorised for issue; and
b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, misunderstanding in applying accounting policies, oversights or misinterpretations of facts, and fraud.

They may also arise for reasons such as changes in Accounting Standards, which are required to be applied retrospectively.

Where required changes are thought to be significant, an adjustment will be entered into the financial statement's comparative year balances, and the columns headed 'restated'. In addition, full disclosure as to the nature, circumstance and value of the adjustment will be disclosed in the notes to the accounts.

Errors which are found and are not significant will not result in a prior year adjustment and will be corrected as a current year entry. In addition, errors as a result of information which was not known to the Council or could not have reasonably been obtained by the Council when the accounts were authorised for issue will also be treated as an in year adjustment.

1.7. Unidentified Income

All unidentified income received is initially coded to an income suspense account. Individual amounts below £10 are written off due to immateriality. Weekly updates of the content of the suspense accounts are circulated to finance departments, to ensure the balances are cleared quickly. Any items of income below £10,000 which remain unidentified for six months will be written off. Items above £10,000 will be written off after 12 months.

1.8. Events after the Balance Sheet Date

Where there is a material post balance sheet event before the date the accounts are authorised for issue, a disclosure in the notes to the accounts will be included. If this event provides additional evidence of conditions that existed at the Balance Sheet date, and materially affects the amounts to be included in the accounts; adjusting items will be shown in the accounts.

1.9. Exceptional Items

Exceptional items will have been disclosed separately on the face of the Comprehensive Income and Expenditure Statement and details will be disclosed in the notes to the accounts.

1.10. Contingent Assets and Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably. They are not recognised in the Balance Sheet but disclosed in a note to the accounts.

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

CAPITAL ACCOUNTING

1.11. Recognition of Capital Expenditure (de-minimis Policy)

In accordance with International Accounting Standard 16 (IAS 16), the Council recognises non-current assets as:

- Assets where it is expected that future economic benefit or service potential will flow to the Council.
- Assets where the cost can be measured reliably.

and defines them as:-

- Assets held for use in the production or supply of goods or services, rental to others, or for administrative purposes.
- Assets expected to be used for more than one financial period.

The initial measurement of an asset is recognised to be:

- Purchase price, construction cost, minimum lease payments or equivalent including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

- Costs associated with bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- Initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located, the obligation for which the Council incurred either when the asset was acquired or as a consequence of having used the asset during a particular period for purposes other than producing inventories during that period.

Subsequent expenditure are costs incurred to add to, replace part of, or service the asset, but do not include day-to-day repairs and maintenance and are treated as capital when

- The expenditure will substantially increase the market value of the asset.
- The expenditure will substantially increase the extent to which the Council can use the asset for the purpose, or in conjunction with the functions of the Council.

Where a component is replaced, the carrying amount of the old component shall be derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the recognition principles as set out above.

The Council has two levels of de-minimis for recognition of capital expenditure, £10,000 and £500,000:

- £10,000 and below – all expenditure at this level is deemed to be non-enhancing unless funded by a Capital grant, and therefore is charged to revenue as it is incurred. This includes initial recognition of assets and subsequent asset expenditure.
- Above £500,000 - expenditure meeting the definitions above will be treated as capital expenditure, either as initial recognition or as an enhancement. However, in order to ensure that the subsequent asset expenditure is enhancing the value of the asset, the Council will instruct a valuation of the asset by a Royal Institute of Chartered Surveyors (RICS) qualified valuer, and any impairment or additional enhancement recognised as necessary.
- Any expenditure above £10,000 and below £500,000 will be treated as capital expenditure as the amount is significant enough to increase the useful life of an asset, however is not material enough to warrant individual impairment review, until the time the asset would normally be valued.

Capital Assets are held on the balance sheet as non-current assets, unless otherwise stated.

The Council has assessed whether Voluntary Aided, Voluntary Controlled and Foundation Schools should be included within the balance sheet, based upon an assessment of ownership and control of the assets. Maintained schools are already held on the balance sheet as the Council controls these entities and therefore all transactions relating to maintained schools are recognised in these accounts. Other types of schools such as Voluntary Aided, Voluntary Controlled and Foundation schools are subject to a test of ownership. The Council recognises a school's assets on its balance sheet where it directly owns them and/or the Council retains

substantive rights over the assets and the future economic benefits/service potential of school assets flow to the Council or rights to use the assets have been transferred from another entity.

1.12. **Donated Assets**

These are acquired at less than fair value or transferred for nil consideration. When the Council receives a donated non-current asset, the initial recognition of the asset will be at fair value.

Once any condition attached to the donation has been satisfied, the credit which is the difference between any cash payment and fair value will be treated as income in the Taxation and Non-Specific Grant Income and Expenditure line in the Comprehensive Income and Expenditure Statement. To ensure there is no impact on Council Tax this will then be reversed in the Movement in Reserves Statement and credited to the Capital Adjustment Account.

Until the condition has been satisfied the credit will be recognised in the Donated Assets account. If there is no condition, the recognition of the credit in the Comprehensive Income and Expenditure Statement will occur upon acquisition of the asset.

The fair value of an asset will be assessed upon acquisition; this will be provided by a RICS qualified valuer for property assets and another relevant valuation specialist for other types of asset. After initial recognition, donated assets are treated in the same way as similar owned assets.

1.13. **Non-Current Asset Classification**

The Council manages its assets in the following categories:

- **Intangible Assets**

  In line with International Accounting Standard 38 (IAS 38), the Council recognises intangible assets as non-monetary assets without physical substance, where that asset meets the capital expenditure criteria set out in Accounting Policy 1.11.

- **Property, Plant and Equipment Assets**

  Property Plant and Equipment Assets are subcategorised into Operational Land & Buildings, Community Assets, Vehicles Plant Furniture & Equipment, Infrastructure Assets, Non-Operational Assets, these being Surplus Assets and Assets under Construction.

  - Land and/or Buildings Assets.

    These assets are recorded, valued and accounted for based on their significant components in line with IAS 16. The Council recognises a significant asset to be 25% of the total asset base within an asset class. A component would be recognised if its expenditure in a given financial year exceeds 25% of the total value of the significant asset and has a substantially different life to the overall asset:

- Combined Group containing Flat Roof & Mechanical Engineering (Internal Works i.e. boiler system)
- Land
- Temporary Buildings (sheds / portacabins)
- Combined group containing permanent structure, external works (i.e. car park), pitched roof and components of less than 25% of the overall structure value
- Other unique features (e.g. a swimming pool)

- Community Assets
  These are assets that the Authority intends to hold in perpetuity, that have no determinable useful life and which may, in addition, have restrictions on their disposal. There is little prospect for sale or change of use.

  If the asset is used for a specific operational purpose, it does not qualify as a community asset and should be valued accordingly.

- Infrastructure Assets
  These include all tangible (physical) assets required within the Council's road networks. There is no prospect for sale or alternative use of infrastructure assets; expenditure is only recoverable through continued use of the asset.

- Vehicles, Plant Furniture and Equipment Assets and Assets Under Construction
  These assets are also classified as Property Plant and Equipment where they do not meet the criteria for Investment Property Assets or Assets Held for Sale.

- Non-Operational (Surplus) Assets
  Surplus assets are assets that are not being used to deliver services, and do not meet the criteria to be classified as either investment properties or held for sale. All surplus assets under IFRS13 which came into effect and were adopted by the Council from 1 April 2015 are to be valued at Fair Value and depreciated accordingly.

➢ **Investment Property Assets**

These are items of land and / or buildings held by the Council solely for the purpose of rental income generation or capital appreciation or both.

As such where there is a service of the Council being delivered from the property, this is not classified as Investment Property Assets. This includes where the intention of the asset is to generate economic growth to an area such as below market value rental.

Investment property that subsequently meets the criteria within the Code to be classified as held for sale shall continue to be accounted for as an investment property but may be reported separately as investment property held for sale.

Some Assets Under Construction may also be classified as Investment Properties where the intended eventual use is rental income generation or capital appreciation.

- **Heritage Assets**

  Assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations are classified as Heritage Assets.

- **Assets Held for Sale**

  The Council will classify assets as held for sale where all of the following criteria have been met:
  - The asset must be available for immediate sale in its present condition. However, if a sale is dependent on planning permission being obtained, reclassification is suspended until that permission has been given.
  - The asset's sale is highly probable.
  - The asset must be actively marketed for sale.
  - The completion of the sale is expected within 12 months from the date of classification.

In situations where it is not necessary to carry out active marketing, for example the Council is able to identify prospective purchases willing to pay a reasonable price without marketing or because the buyer initiates the transaction (such as a right-to-buy-sale) the actively marketed test is treated as 'not applicable', rather than failed.

Assets which become non-operational which do not meet all of the criteria set out as assets Held for Sale will be classified as surplus. If at a later point in time the asset no longer meets the criteria of Held for Sale, it is restored to its previous classification and all transactions which would have occurred shall be retrospectively applied as though the asset had never been held for sale.

Assets meeting the criteria as Held for Sale are held as current assets on the balance sheet as income is expected within 12 months.

It is possible that assets meeting the criteria to be Held for Sale; may undergo a change in circumstance beyond the control of the Council resulting in the sale being delayed beyond 12 months. In these instances, the Council follows the policies outlined for assets held for sale; however disclosure of the value for these assets is within non-current assets. Due to the circumstances around the definition, it is expected that this will occur very rarely.

1.14. **Non-Current Asset Valuation Methodology**

The various classifications of assets as outlined in Accounting Policy 1.13 are valued on a differing base. Where not explicitly stated otherwise, property revaluations are completed by a RICS qualified valuer (who is internal to the Council), over a 'short period', interpreted to mean on a five year rolling programme for each class of asset i.e. 20% of the Council's assets are revalued at 31 March for the financial year.

Where there is an upward revaluation, the carrying value is increased and the associated credit charged directly to the Revaluation Reserve. This is then reflected in the Comprehensive Income and Expenditure Statement as a revaluation gain. Where there is a revaluation resulting in a lower than carrying amount valuation, this is treated in line with Accounting Policy 1.15 – impairment of Non-Current Assets.

The Council, as per the reporting standard, values its assets and liabilities in accordance with section 2.10 of the Code of Practice on Local Authority Accounting in the United Kingdom to reflect the adoption of IFRS13 Fair Value Measurement at each reporting date except where adaptations to fit the public sector are detailed in the Code. However, Section 4.1 of the Code adapts IAS 16 to require that items of Property, Plant and Equipment that are operational and therefore providing a service potential for the authority are measured for their service potential at existing use value, existing use value – social housing, (depreciated) historic cost or depreciated replacement cost and not at fair value. Surplus assets are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
- In the absence of a principal market, in the most advantageous market for the asset or liability.

Fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participants ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Code requires all assets to be measured at Current Value and the basis of valuation will be determined using the following criteria:

- Depreciated replacement cost – specialised assets
- Existing use value – non-specialised assets
- Existing use value – social housing

Fair value for the following assets:

- Investment assets
- Surplus assets
- Assets Held for Sale (less costs to sell)

The Council uses valuation techniques, as required by the Code, which maximise the use of relevant observable inputs and minimise the use of unobservable inputs and that are appropriate in the circumstances and for which sufficient data is available.

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

Unobservable inputs are inputs for which market data is not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

The Council follows the fair value hierarchy which categorises inputs to the valuation techniques in respect of assets and liabilities into three levels for which fair value is measured or disclosed in the Council's financial statements, these include:

- Level 1 inputs – unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs – unobservable inputs for the asset or liability

Highest priority is given to Level 1 inputs (unadjusted) in active markets and lowest priority to Level 3.

Upon the revaluation of a Surplus Asset at the 31st March of the financial year, based on the inputs available at the date of valuation the valuer will establish the Code Valuation Input Level for the valuation and will compare this with the Code Valuation Input Level for the previous valuation. Where the Input Level is different from that of the previous valuation this will be specifically reported with the valuation together with a narrative description of the reasons and differing circumstances that have resulted in the change.

Valuations are completed under the Code as follows:

- **Intangible Assets –** the Council recognises Intangible Assets at cost. The Council will only revalue intangible assets annually where there is a determinable market value for the asset.

- **Property Plant and Equipment (PPE) –** Property Assets are held at current value which is the amount that would be paid for the asset in its existing use. This requirement is met by providing a valuation on the basis of Existing Use Value (EUV) in accordance with United Kingdom Practice Statement (UKPS) 1.3 of the RICS Valuation Standards. Where no other valuation method can be used because of the specialist nature of the asset, current value is estimated using a Depreciated Replacement Cost (DRC) approach. Vehicles, Plant, Furniture and Equipment, IT Hardware, and Assets Under Construction within PPE are held at historic cost (not valued).

- **Infrastructure Assets –** the Council recognises Infrastructure Assets at Depreciated Historical Cost.

- **Investment Property Assets –** Investment Properties are annually revalued at fair value which is interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value. An investment property under construction is measured at cost until such time as its fair value can be determined reliably or its construction us complete, whichever comes first. The fair value of Investment Property held under a lease is the lease interest.

- **Community Assets –** the Council recognises Community Assets at historic cost.

- **Heritage Assets –** where it is possible to determine a valuation for Heritage Assets, then the Council will recognise the asset in the Balance Sheet at that valuation. Where a valuation has been applied to this class of assets, other than a historic valuation, a range of valuation bases have been used which include external valuations, curatorial valuations and a limited number of cases of insurance valuations. Where a curatorial valuation has been applied the valuation is dependent upon the experience and knowledge of the Derbyshire Museums Manager. However, where it is not practicable to obtain a valuation the asset will be carried at historic cost. Where information on cost or value is not available all Heritage Assets will be disclosed in the notes to the accounts, even where they are not recognised in the Balance Sheet. Where there is evidence of impairment to Heritage Assets e.g. where an item has suffered a physical deterioration or breakage or new doubts arise as to its authenticity, any impairment is recognised and measured in accordance with the Council's general policies on impairment.

- **Assets Held for Sale –** Assets held for sale are, at initial classification and at the end of each reporting year, valued at the lower of carrying amount and fair value less costs to sell and depreciation on these assets should cease.

- **Surplus Assets** - Surplus assets are valued at Fair Value in accordance with the Code.

1.15. **Impairment of Non-Current Assets**

This accounting policy has been created in accordance with IAS 36.
Impairment is the amount to which the carrying value of an asset exceeds the recoverable amount.

At the end of each reporting period the Council assesses whether there is any indication that an asset may be impaired.

The Council recognises impairment as:

- A significant decline (i.e. more than expected as a result of the passage of time or normal use) in an asset's carrying amount during the period that is specific to the asset;
- Evidence of obsolescence or physical damage of an asset;
- A commitment by the Council to undertake a significant reorganisation; and
- A significant adverse change in the statutory or other regulatory environment in which the Council operates.

Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains). Any further impairment or if there has been no previous revaluation, the impairment is charged to revenue. This is then reversed through the Movement in Reserves Statement and charged to the Capital Adjustment Account.

1.16. **Disposal of Non-Current Assets**

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Sale proceeds in excess of £10,000 are categorised as Capital Receipts. Receipts are credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are transferred to the Reserve from the movement in reserves statement. The value of the asset is transferred to the Capital Adjustment Account via the Movement in Reserves Statement.
Sale proceeds of £10,000 and below are credited straight to the Comprehensive Income and Expenditure Statement.

1.17. **Depreciation / Amortisation Methodology**

In order to recognise the total cost of using fixed assets, the Council has a policy to depreciate assets on a straight line basis over their useful economic life, reducing the value of the asset, and charging the relevant revenue service expenditure. However, under statute, depreciation is not chargeable to the taxpayer, the Council removes

this charge through the Movement in Reserves Statement and charges it to the Capital Adjustment Account.

The Council charges depreciation on a pro-rata basis during the year i.e. from the month of acquisition to the month of disposal.

The economic lives of assets are:

- **Intangible Assets –** 5 years.

- **Property Plant and Equipment**
  - Combined Group for Flat Roof and Mechanical Engineering – 20 years
  - Land – not depreciated
  - Temporary Buildings – 15 years
  - Modular Buildings – 25 years
  - Combined group for structure, external works, pitched roof and components of less than 25% of the overall structure value – 40 years
  - Other unique features (i.e. a swimming pool) – as required
  - Fixtures and Fittings – 10 years
  - IT Hardware – 5 years
  - Vehicles – 3 to 10 years

- **Infrastructure Assets**
  - Carriage ways – 40 years
  - Footways and cycle tracks – 40 years
  - Structures – 40 years
  - Lighting – 25 years
  - Traffic management – 25 years
  - Street furniture – 25 years

- **Investment Property Assets –** not depreciated

- **Community Assets –** Community Assets are assets that an authority intends to hold to perpetuity which have no determinable useful lives and as such are not depreciated.

- **Assets Held for Sale –** are not depreciated

1.18. **Leases**

In line with IAS 17, the Council recognises a lease to be any agreement which transfers the right to use an asset for an agreed period in exchange for payment, or a series of payments.

This includes leases, hire purchase, rental, contracts of service, service level agreements and any other arrangement where the ability to use an asset is conveyed.

1.19. **Defining a Finance Lease**

A finance lease is where substantially all of the risks and rewards relating to ownership transfer to the lessee.

Tests to give an indication of the transfer of risk and reward are:

- If the lessee will gain ownership of the asset at the end of the lease term (e.g. hire purchase)
- If the lessee has an option to purchase the asset at a sufficiently favourable price that it is reasonably certain, at the inception of the lease, that it will be exercised
- If the lease term is for the major part of the economic life of the asset even if the title is not transferred. Measures to identify this are:
    - The economic life of the asset is deemed to be that which is consistent with the class of asset in the depreciation policy.
    - The Council recognises 'major part' to be 75% of the life of the asset, unless on an individual case basis this would not give a true representation of the substance of the transaction.
- At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. Measures to identify this are:
    - Fair value of the leased asset is assessed by a RICS qualified valuer.
    - The present value of the minimum lease payments is calculated by discounting at the rate inherent in the lease.
    - If this rate cannot be determined the incremental borrowing rate applicable for that year is used.
    - The Council recognises 'substantially all' to be 75% of the value of the asset, unless on an individual case basis this would not give a true representation of the substance of the transaction.
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.
- If the lessee cancels the lease, the losses of the lessor, associated with the cancellation are borne by the lessee.
- Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (e.g. in the form of a rent rebate equalling most of the sales proceeds at the end of the lease).
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

A suitably experienced accountant, with assistance from qualified valuers, will make a judgement based on the level of risk and reward held by the Council as to whether a lease is operating or finance.

1.20. **Defining an Operating Lease**

The Council recognises an operating lease to be a lease which is not a finance lease.

1.21. **Lessee Accounting for a Finance Lease**

Where the Council is tenant in a property, or is, by definition of IFRIC 4, leasing an asset which is deemed under IAS 17 to be a finance lease the Council will recognise that asset within the asset register, and account for that asset as though it were an owned asset.

The initial recognition of the asset is at the fair value of the property, or if lower, the present value of the minimum lease payments. A liability is also recognised at this value, which is reduced as lease payments are made.

1.22. **Lessor Accounting for a Finance Lease**

Where the Council is the lessor for a finance lease, the asset is not recognised in the asset register; however, a long term debtor at the present value of minimum lease payments is recognised. Income received is split between capital - credited against the debtor, and finance income – credited to the Comprehensive Income and Expenditure Statement as interest receivable.

1.23. **Lessor Accounting for an Operating Lease**

Where the Council is the lessor for an operating lease, it will retain the property as either an item of Property Plant and Equipment or as an Investment Property on the Balance Sheet. Any rental income is credited to the relevant service income.

1.24. **Service Concession Agreements (Private Finance Initiative (PFI) and other similar contracts)**

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. PFI and similar contracts are assessed against criteria within IFRIC 12 Service Concession Arrangements to determine whether the risks and rewards incidental to ownership lie with the Council or the contractor.

Those which lie with the contractor – payments made during the life of the contract are chargeable to revenue as incurred.

Those which lie with the Council – are recognised as an asset in the Balance Sheet for the construction costs of the asset. Once recognised this asset is treated in line with all capital assets. A corresponding long-term liability is also recognised at the construction value. Payments made during the life of the contract are split into finance costs, capital costs and service costs. Determining the split of payments is calculated at the inception of the contract and is based on the inherent interest rate within the original agreement. Finance costs are chargeable to the Comprehensive Income and Expenditure Statement as Interest payable. Capital Costs reduce the level of liability in the Balance Sheet. Service costs are chargeable to the relevant revenue service expenditure. Pre-payments or Dowry payments reduce the level of liability at the start of the contract.

PFI Credits are treated as general revenue government grants.

1.25. **Capital Grants and Contributions**

The Council recognises capital grants and contributions as being related to capital assets and uses them to fund capital expenditure on those assets. Grants, contributions and donations are recognised as income at the date that the Council has satisfied the conditions of entitlement, and there is reasonable assurance that the monies will be received.

Any grant received before these recognition criteria were satisfied would be held as a creditor. Any grant which had met the recognition criteria but had not been received would be shown as a debtor. This is in line with the Accruals Concept Policy.

Once the recognition criteria above have been satisfied, capital grants are recognised as income in the Comprehensive Income and Expenditure Statement.

In order to not impact on the level of Council Tax, the Council removes the credit from the General Reserves through the Movement in Reserves Statement and makes a credit to the Capital Grants Unapplied Reserve.

Once expenditure has been incurred on the related asset, the credit is removed from the Capital Grants Unapplied Reserve and credited to the Capital Adjustment Account.

1.26. **Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

Expenditure incurred that either may be capitalised under statutory provisions or is capital in nature but does not result in the creation of a fixed asset that is owned by the Council. REFCUS is charged as expenditure to the Comprehensive Income and Expenditure Statement in the year, however, is financed from existing capital resources or by borrowing. A transfer between the Capital Adjustment Account and the Movement in Reserves Statement then reverses out the impact on the general fund balance.

1.27. **Minimum Revenue Provision (MRP)**

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement.

The Council will provide for 2.5% of debt outstanding on all debt as at 31 March 2008. On any new debt since this date the Council will provide 2.5% of the balance on all borrowing, unless any unsupported borrowing relates to any significant assets with a life of less than 20 years. In this case an annual amount based on the expected useful life of the individual assets is used and where those assets are vehicles then an average life of five years is used.

The Council has adopted the policy of charging MRP for PFI and Leased Assets at the value of the associated loan liability repayment each year, thus mitigating the impact to the General Reserve.

1.28. **Capital Reserves**

The Council holds Capital Reserves for the purpose of financing capital expenditure. Reserves will be disclosed as either usable (available to fund capital expenditure) or unusable (reserves held as a result of timing differences associated with recognition of capital expenditure and related financing).

Movements in capital reserves are accounted through the Movement in Reserves Statement.

REVENUE ACCOUNTING

1.29. **Recognition of Revenue Expenditure**

The Council recognises revenue expenditure as expenditure which is not capital.

1.30. **Employee Costs**

In accordance with IAS 19, the Council accounts for the total benefit earned by employees during the financial year.

Employee Costs are split into 3 categories; short term benefits, termination benefits and pensions costs.

Short Term Employee Benefits

- **Salaries and Wages –** The total salary and wages earned by employees during the financial year are charged to the Comprehensive Income and Expenditure Statement. Where the amount accrued exceeds the amount paid at the 31 March, a creditor will be reflected in the accounts.

- **Leave Owed, Accumulating Absences –** The Council allows employees to earn time off in one period with the resulting cost to the Council in a later period when that time is either taken off or paid to the employee. Examples of this accumulating leave are annual leave, flexi-time and time off in lieu.

  If an employee were to leave the Council, cash payment would be made for entitlements such as annual leave; this leave is termed vesting. Where no cash payment would be due, the leave is termed non-vesting.

  In order to correctly reflect the cost of time owed to staff, a charge has been made to the Comprehensive Income and Expenditure Statement and a creditor accrual has been reflected in the Balance Sheet. This charge is reflective of the estimated time cost value of all accumulating leave owed to employees. Vesting leave will be charged in full; however non-vesting leave has been adjusted to reflect the turnover of staff.

- **Easter Bank Holiday –** When Good Friday and/or Easter Monday fall in April, the preceding financial year only accounts for 6 or 7 bank holidays rather than the statutory 8. When this occurs, a charge is made to the Comprehensive

Income and Expenditure Statement and a creditor accrual is reflected in the Balance Sheet.

- **Non-accumulating Absences –** are periods of leave that cannot be carried forward for use in future periods. Examples include Maternity Leave, Special Leave, Sick Leave and Jury Service. The Council does not recognise non-accumulating compensated absences until the time that the absence occurs.

- **Non-monetary Benefits –** Where employees have non-monetary benefits (e.g. retirement benefits or life insurance), the associated cost of providing that benefit has been charged to the Comprehensive Income and Expenditure Statement.

Termination Benefits

- **Redundancy Costs –** The obligation to pay redundancy costs occurs when there is a formal plan to create redundancies. The plan would include the location, function and approximate number of employees affected; the termination benefits offered; and the time of implementation. When these recognition criteria have been met the Council recognises the costs associated with this in the service revenue expenditure and creates a creditor in the Balance Sheet. Where the payable amount is due in more than 12 months from the year end date, the costs are discounted at the rate determined by reference to market yields. In the case of an offer to encourage voluntary redundancy, the Council has recognised the estimated cost based on the expected number of employees taking the offer.

The Council will disclose details of exit packages within the notes to the accounts.

Pensions Costs

- **Teachers' Pension Scheme –** is a defined benefit scheme administered by the Department for Education. The assets and liabilities of the Teachers' Pension Scheme are not attributable to the Council, therefore the Council accounts for the scheme as if it were a defined contribution scheme. This means that the Children and Education Services line in the Comprehensive Income and Expenditure Statement will only include the Council's contributions payable to the scheme.

- **Local Government Pension Scheme –** is a defined benefit scheme. The liabilities of the scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions such as mortality rates and employee turnover rates, and projections of earnings for current employees.

  Pension liabilities are measured using the projected unit method, discounted using the rate on high quality corporate bonds of equivalent term to the liabilities. The discount rate is the weighted average of "spot yields" on AA rated corporate bonds.

The change in the net pension liability is analysed into seven components:

- Current Service Cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement within the relevant service area dependant on staff employed at the Council. The current service cost includes an allowance for administration expenses
- Past Service Cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- Gains/Losses on Settlements and Curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Interest Cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement
- Interest Income on Plan Assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement
- Actuarial Gains and Losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Movement in Reserves Statement.
- Employer Contributions – cash paid by the Council to the Pension Fund.

In relation to retirement benefits, statutory provisions require the General Reserve to be charged with the amount payable by the Council to the Pension Fund in the year, not the amount calculated according to the relevant accounting standards. Adjustments are therefore made in the Movement in Reserves Statement.

- **Early Retirement, Discretionary Payments –** the Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies which are applied to the Local Government Pension Scheme.

1.31. **Lessee Accounting for an Operating Lease**

Costs associated with operating leased assets where the Council is the lessee are charged immediately to the Comprehensive Income and Expenditure Statement within the Net Cost of Services on an accruals basis.

1.32. **Revenue Grants and Contributions**

Grants, contributions and donations (referred to as grants for the purposes of this policy) are recognised as income at the date that the Council has satisfied the conditions of entitlement, and there is reasonable assurance that the monies will be received. Any grant received before these recognition criteria were satisfied would be held as a creditor (income in advance). Any grant which had met the recognition criteria but had not been received would be shown as a debtor.

Revenue grants will either be received to be used only for a specific purpose or can be used for general purpose. Those for a specific purpose are recognised in the Comprehensive Income and Expenditure Statement within the Net Cost of Services. Those which are for general purpose are shown within Other Operating (Income) and Expenditure in the Comprehensive Expenditure and Income Statement.

1.33. **Income from Service Recipients**

Income from service recipients is defined as consideration that a party, which has contracted with the Council, has given in exchange for goods or services that are the output of the Council's normal operating activities. Such a contract may be in writing, orally or in accordance with customary business practices. These may include:

- Charges for service provided by the Council.
- Sale of goods provided by the Council.
- Fees and charges for services under statutory requirements where there is an exchange of assets or services, such as the issuing of a licence or processing of an application.

In such cases the Council recognises income when it has satisfied the performance obligation by transferring the promised goods or services to the service recipient. The point of transfer is when the service recipient takes control of the goods or benefits from the service.

The Council deems performance obligations to be satisfied over time, rather than at a point in time if any of the following criteria are met:

- The service recipient simultaneously receives and consumes the benefits of a service.
- The Council's performance enhances an asset that the service recipient controls.
- The Council has an enforceable right to payment for performance completed to date and that performance does not create an asset for which it has an alternative use.

Such income is recognised in the Comprehensive Income and Expenditure Statement within the Net Cost of Services.

1.34. **Provisions**

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.
Provisions are charged to the appropriate service revenue account in the year that the Council recognises an obligation, based on the best estimate of the likely settlement. When payments are eventually made, it is charged to the provision. Where payment is not expected for more than 365 days after the balance sheet date, the provision has been discounted using the rate of a high quality corporate bond.

Estimated settlements are reviewed at the end of each financial year and adjustments with the Comprehensive Income and Expenditure Statement are made as required.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income if it is virtually certain that reimbursement will be received if the obligation is settled.

The Council does not hold any general provisions.

1.35. **Revenue Reserves**

The Council holds usable revenue reserves for the purpose of funding future expenditure. The General Reserve represents the balance of reserves to meet short term, unforeseeable expenditure and to enable significant changes in resources or expenditure to be properly managed over the period of the Five Year Financial Plan. Earmarked Reserves represent balances where approval has been received to use the reserve for a specific purpose.

Unusable revenue reserves represent timing differences such as those associated with the recognition of retirement benefits, Council tax income and financial instruments.

Movement in reserves are accounted through the Movement in Reserves Statement.

The Council publishes a separate Reserves Policy document, which is reviewed by Cabinet at least annually.

1.36. **Research Costs**

Research costs should be treated as revenue expenditure at the point in which they are incurred and charged to the Comprehensive Income and Expenditure Statement.

1.37. **Members' Allowances**

The Council in exercise of the powers and duties conferred by the Local Authorities (Members' Allowances) (England) Regulations 2003, has established a Members Allowance Scheme, outlining the allowances payable to Members of the Council.
Members are reminded of the need to keep detailed supporting information, such as a diary, about every attendance for which they claim. This information should be

available for scrutiny by the Council's Auditors or other relevant persons as and when required. The scheme is updated annually, and full details are available on the Council's website.

The total amount paid in terms of Members Allowances is disclosed in the notes to the accounts.

1.38. **Council Tax and Business Rates Recognition**

Council Tax and Business Rates income included in the Comprehensive Income and Expenditure Statement includes the Council's share of accrued income recognised by billing authorities in the production of the Collection Fund Statements.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Reserve is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement.

1.39. **Inventories and Work in Progress**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Inventory is recorded in terms of average cost, with the exception of fleet parts where the cost is recorded on a first in, first out basis.

Work in progress is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

1.40. **Loss Allowance for Expected Credit Losses**

The Council maintains a loss allowance for any amounts it is due to receive from its debtors or investments which might become uncollectable.

Credit risk is assessed based on the expectation of a debtor's or an investment issuer's ability to pay future cash flows due under the contractual terms. This risk is estimated, where possible, based on historical loss experience, the debtor's or investment issuer's credit rating and other impacting factors including forward-looking information.

The loss allowance for an investment is initially measured at an amount equal to the portion of the lifetime credit losses which might be expected from a default event within 12 months of the balance sheet date. If the Council considers that the risk of default on an investment has increased significantly since the investment was initially recognised it will measure the loss allowance at an amount equal to the total lifetime credit losses expected from a default event.

At each Balance Sheet date, the Council makes a two-stage assessment of significant increases in credit risk since initial recognition:

- Firstly, whether there is evidence of a significant increase for an individual debtor or investment that is significant, and

- Secondly, whether there is evidence of a significant increase for groups of similar debtors or investments.

The Council adopts the simplified approach of measuring the loss allowance for debtors at an amount equal to the total lifetime credit losses expected from a default event, from the time a debtor is initially recognised.

No loss allowance is recognised for expected credit losses where the debtor or investment issuer is central government or another local authority for which relevant statutory provisions prevent default.

Loss allowances are offset against the debtor or investment amount shown as an asset. The movement in the allowance is charged to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

TREASURY MANAGEMENT

1.41. **Definition of Treasury Management Activities**

The Council has adopted the following definition of Treasury Management activities:

The management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

The Council acknowledges that effective treasury management will provide support towards the achievement of its service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

1.42. **Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in the value.

1.43. **Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised cost.

Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus any interest accrued to 31 March and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Any premiums or discounts, incurred on the early repayment of loan debt, arising from 1 April 2007 are taken immediately to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement in the year of repayment. However, the amount is then credited or debited to the General Reserve and transferred to the Financial Instruments Adjustment Account via the Movement in Reserves Statement as required by statute.

The regulations allow that the premium or discount is amortised over periods specified in the statutory guidance. In accordance with the guidance the Council has a policy of spreading the premium or discount over the remaining term of the original loan, or a minimum of 10 years in the case of discounts. This amortisation is managed by a transfer from the Financial Instruments Adjustment Account to the General Reserve via the Movement in Reserves Statement.

Where a loan has been restructured, by a modification to the terms of the existing loan or by an exchange of debt instruments with the existing lender, and the terms are substantially different, the original financial liability is extinguished and a new financial liability is recognised. The difference between the carrying amount of the new and extinguished liability and any consideration transferred is recognised in Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Where the terms of a loan debt exchange or the modification to the terms of an existing loan are not substantial, the carrying amount of the liability is adjusted to the value of the remaining cash flows required by the new terms, including any premiums or discounts paid/received, discounted to present value at the original loan's effective interest rate. Any gain or loss on modification is credited and debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

A modification of terms is deemed to be substantially different if the present value of the cash flows under the new terms, including any premiums or discounts paid/received, is at least 10% different from the present value of the cash flows under the old terms. In both cases the present value is calculated by reference to original loan's effective interest rate.

1.44. **Financial Assets**

Financial assets are classified into three types according to the Council's business model for managing those assets and the characteristics of the cash flows of the asset:

1) **Financial Assets Measured at Amortised Cost** – assets where it is the Council's intention to hold the asset to collect the contractual cash flows and those cash flows consist solely of payments of principal and interest which arise on specified dates

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus any interest accrued to 31 March and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. However, the Council could make loans to organisations at less than market rates (soft loans).

When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Reserves is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Reserves is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. Any gains and losses that arise on the derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

Investments are represented on the balance sheet depending on their remaining life at the Balance Sheet date:

- Investments entered into for 90 days or less - debited to the cash balance as cash equivalents and represented within the cash flow statement.
- Investments entered into for more than 90, with less than 365 days until maturity – debited to current asset investments
- Investments due to expire in more than 365 days – debited to non-current asset investments

2) **Financial Assets Measured at Fair Value Through Other Comprehensive Income** – assets where it is the Council's intention to hold the asset both to sell the asset and to collect the contractual cash flows and those cash flows consist solely of payments of principal and interest which arise on specified dates, or assets which are equity instruments which it is the Council's intention to hold for more than 12 months and which the Council has irrevocably elected to present changes to their fair value in Other Comprehensive Income and Expenditure

These assets are initially measured and carried at fair value. Where the asset has determinable payments of dividends or interest, these are credited to the Comprehensive Income and Expenditure Statement. Interest receivable is based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Dividends are recognised when the Council's right to receive the payment has been established and the amount can be measured reliably.

Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis

Changes in fair value are balanced by an entry in the Financial Instrument Revaluation Reserve and the gain/loss is recognised in Other Comprehensive Income and Expenditure and the Movement in Reserves Statement. Impairment of these assets, due to expected credit losses, is charged to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement and credited to a loss allowance account which reduces the carrying value of the financial asset. Any gains and losses that arise on de-recognition of the asset are credited/debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

3) **Financial Assets Measured at Fair Value Through Profit or Loss** – assets which are neither measured at amortised cost nor where changes to fair value are presented in Other Comprehensive Income and Expenditure

These assets are initially measured and carried at fair value. Where the asset has determinable payments of dividends or interest, these are credited to the Comprehensive Income and Expenditure Statement. Interest receivable is based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Dividends are recognised when the Council's right to receive the payment has been established and the amount can be measured reliably.

Values are based on the following principles:

- instruments with quoted market prices – the market price

- other instruments with fixed and determinable payments – discounted cash flow analysis

Changes in fair value are balanced by an entry in Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

1.45. **Interests in Companies and Other Entities**

Where the Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures, it is required to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses.

AA rated corporate bonds

Financial indicator of very good quality, low risk debt securities. These are assigned by credit rating agencies such as Moody's, Standard & Poor's and Fitch Ratings to have letter designations (such as AAA, B, CC).

Account

A group of expenditure items or balances with similar qualities will be summated into an ‘account’ balance such as an individual reserve account, or revenue expenditure account.

Accounting Policies

The Councils document outlining how it will account for all of its operations.

Accounting Principles

Commonly accepted set of concepts or assumptions that have to be followed when producing financial statements.

Accounting Standard

Statutory guidelines which explain how to treat financial activities in the financial statements. See International Financial Reporting Standards (IFRS).

Accrual

The accruals concept requires that the cost or benefit of a transaction is shown in the period to which the goods or services are received or provided, rather than when the cash is paid or received.

Accruals Concept

Requires operations of the Council to be reported in the financial statements at the point which they took place, rather than when the cash was paid or received.

Accumulating Absences

Types of leave which employees are entitled to each year; which if untaken in one financial year will be added to the entitlement for the following year.

Acquired / Acquisition

Operations or assets which have become the responsibility of the Council, such as through purchase, a Government reorganisation, donation or merger.

Actuarial

The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation.

Actuaries

An actuary is a professional who deals with the financial impact of risk and uncertainty. Actuaries provide assessments of financial systems and balances.

Amortisation

The term used to describe the charge made for the cost of using intangible fixed assets. The charge for the year will represent the amount of economic benefits consumed for example wear and tear.

Amortised Cost – Financial Instruments

The valuation of a financial asset or liability based on repayments of principal, interest accrued at a constant rate and the difference between the initial amount recognised and the maturity amount. For financial assets this is adjusted by any loss allowance.

Amortised Cost – Other Non-Current Assets

The cost of intangible assets reduced by the amount of amortisation charged to date.

Annual Leave

Yearly entitlement of paid time off for Council staff.

Asset Register

Listing of all property (for example land, buildings, furniture, infrastructure, software) owned by the Council. The register holds all financial information relating to the asset.

Assets

Right or other access to future economic benefits.

Assets Held For Sale

Non-Current Assets which meet the relevant criteria to be classified as held for sale.

Assets Under Construction

Assets which are in the process of being constructed and are not yet operational.

Associates

An entity (including partnerships) which is not a subsidiary or joint venture, where the Council has significant influence.

Authorised For Issue

The date which the financial statements have been certified by External Audit and signed the relevant Officers and Members of the Council.

Balance Sheet

Shows all balances including reserves, long-term debt, fixed and net current assets, together with summarised information on the fixed assets held.

Balance Sheet Date

The date at which the Council reports its financial statements. For Derbyshire County Council, this date is the 31 March.

Bias

Influence or direction.

Billing Authorities

Councils who are responsible for issuing Council Tax Invoices and collection of income from local residents. The relevant share of that income is then transferred to the Council**.**

Borrowing Requirement

The amount required to be loaned from Money Markets or other financial institutions or Councils in order to support capital expenditure.

Business Rates

Local property taxation issued to businesses, similar to Council Tax on residential properties. Also known as National Non Domestic Rates (NNDR).

Cabinet

Sub-committee of elected Councillors representing the functions and portfolios of the Council.

Capital

Assets which have a long term value (more than one year) to the Council such as Buildings.

Capital Adjustment Account

Capital reserve largely comprising of resource applied to capital financing and is not available to the Council to support new investment.

Capital Appreciation

Increase in the worth of assets over time due to changes in market conditions or enhancements to the asset.

Capital Costs

Reflects the element of annual payment for PFI or Leased assets which is in relation to the reduction in the long term debt associated with the asset.

Capital Expenditure

Expenditure on the acquisition of, or enhancement to fixed assets. This cannot be merely to maintain the value of an existing asset.

Capital Financing Requirement

The Capital Financing Requirement measures the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It is a measure of the underlying need to borrow for a capital purpose.

Capital Grant

Grant which is intended to fund capital expenditure.

Capital Grants Unapplied Reserve

Balance of capital grants received which is available to finance future capital expenditure.

Capital Receipts

Income received from the sale or utilisation of property, such as sale proceeds or rental income on finance leases.

Capital Reserves

Reserve balances held for capital purposes.

Carrying Value

The amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.

Cash Flow Statement

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

Cash Flows

Monies received or paid either as cash or bank transactions. Cash inflow denotes money received, cash outflow denotes money paid.

Chartered Institute of Public Finance And Accountancy (CIPFA)

The main authority on accountancy and financial management for the public services in the UK.

CIPFA Code

A publication produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) that provides comprehensive guidance on the content of a Council's Statement of Accounts

Collection Fund

The fund maintained by authorities who have responsibility to bill Council Tax and Non-Domestic Rate payers (billing authorities).

Collection Fund Adjustment Account

Revenue reserve to represent the difference between the income received by a local authority in Council Tax and the amount attributable to them.

Collection Fund Statements

The statutory financial statements produced as part of the Statement of Accounts by authorities who have responsibility to bill Council Tax and Non-Domestic Rate payers (billing authorities).

Community Assets

Assets which are held for the benefit of the community where there is no determinable useful life.

Comparative Year

The previous year to that which is being reported.

Component Accounting

The concept that individual parts of an asset (such as land, building, roof, sheds) should be treated differently in the financial statements dependent on the expected useful life or value of those individual parts. The concept expects that some parts of an asset require repair or replacement sooner than others.

Comprehensive Income And Expenditure Statement

Financial Statement detailing the revenue operations of the Council. This represents the private sector equivalent of a Profit and Loss Statement.

Condition

A requirement which must be met for an asset or liability to be recognised by the Council. For example, a donation which can only be spent within a specific service area such as museums or to support children.

Contingent Assets And Liabilities

A possible asset or obligation that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council.

Contract Asset

The Council's right to receive consideration in exchange for goods or services that it has transferred to a service recipient where that right is conditional on something other than the passage of time (such as the Council's future performance).

Contract Liability

The Council's obligation to deliver goods or services to a service recipient for which it has already received consideration.

Contributions

Income received by the council which is not a grant, donation, fine, or in direct exchange for goods or services.

Core Service Areas

The services provided by the Council externally, such as education, highway maintenance and adult social care.

Corporate And Democratic Core

Costs associated with maintaining a democratic representation and management within the Council. For example Members Allowances and administrative costs associated with supporting elected Members.

Council

The Council comprises all of the democratically elected Councillors who represent the various electoral divisions.

Council Tax

Council Tax is a local taxation that is levied on dwellings within the local Council area, and funds all Council services.

Credit

A credit represents income to a revenue account.

Credit Loss

The difference between contractual amounts due to the Council and the amounts it expects to receive.

Creditor

Represents the amount that the Council owes other parties.

Current Service Cost

The current service cost is the increase in the value of the pension schemes future pension liabilities arising from the employees on-going membership of the pension scheme.

Current Value

IFRS13 introduces the concept of current value and defines it as the measurements that reflect the economic environment prevailing for a service or function the asset is supporting at the reporting date. Current value can be fair value, existing use value, existing use value – Social Housing and depreciable replacement cost.

Current Year Entry

A transaction which has occurred in the financial year being reported.

Curtailments

Materially reducing the expected years of future services of current employees or eliminating for a significant number of employees the accrual of defined benefits for some or all of their future services.

Debit

A debit represents expenditure against a revenue account.

Debt Outstanding

The remaining principal balance owed on a loans or investments.

Debtors

Represents the amounts owed to the Council.

Equity Instrument

A contract which evidences a residual interest in the assets of another entity after deducting all of its liabilities. Examples include shares and derivatives that give the Council the right to receive a fixed number of shares for a fixed amount of cash (or another financial asset) in an exchange which is expected to be favourable to the Council.

Defined Benefit Scheme

Also known as a Final Salary Scheme. Pension scheme arrangement where the benefits payable to the members are determined by the scheme rules. In most cases there is a compulsory members' contribution but over and above this all costs of meeting the quoted benefits are the responsibility of the employer.

Defined Contribution Scheme

Also known as a Money Purchase Scheme. Pension scheme arrangement where the employer's liability is restricted to the amount that they contribute. Benefits payable to the members depend on the performance of the invested contributions of the members and the employer, the level of contributions invested, the charges deducted by the product provider and the annuity rate at retirement.

De-Minimis

Minimum level required. For example expenditure below the capital de-minimis is below the minimum level required to be treated as a capital expenditure item.

Department For Education

Central Government Department, responsible for education and children's services in England.

Depreciable Replacement Cost (DRC)

DRC is a method of valuation that provides the current cost of replacing an asset with its Modern Equivalent Asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation.

Depreciation

The term used to describe the charge made for the cost of using tangible fixed assets. The charge for the year will represent the amount of economic benefits consumed by, for example, wear and tear.

Derecognition

The process whereby a component is replaced to avoid double counting when no future economic benefits or service potential are expected from its use or upon disposal.

Discount

An allowance received through the early repayment of debt.

Discounted

Reflecting the equivalent value today of a payment or income made or due in the past or future.

Discounted Cash Flow

A method of analysing future cash flows, by removing the impact time has on the value of money, and producing an equivalent current value (present value).

Discretionary Benefits

Benefits given to employees which are not statutorily obliged.

Disposal

Operations or assets which have left the responsibility of the Council, such as through sale, a Government reorganisation, donation or merger.

Donated Assets

Assets which have been acquired at below market cost.

Dowry

One off payment made as donation, contribution or pre-payment of an obligation.

Earmarked Reserves

Reserve balances which have been set aside for future spending in a specific area.

Economic Life

The number of years the Council is expected to receive economic benefits to deliver services.

Effective Rate

The interest rate embedded within a contract or lease, allowing for regular annual payments and the time value of money.

Employee

A person who holds an office within the Council, but does not include a person who is an elected Councillor.

Employee Benefits

Monetary or other awards to employees of the Council in exchange for services provided. For example, pay, holidays, and pensions.

Employee Costs

The costs directly associated with employees, including but not exhaustively salaries and wages, National Insurance contributions and pension's costs.

Employer Contributions

The payments made to an employee's pension scheme by the Council.

Enhancement Expenditure

Expenditure which increases the value of an asset.

Entity

Something with a legal status such as the Council, a company, or an individual.

Events After The Balance Sheet Date

An event which occurs between 31 March and the date that the accounts are signed which would alter the conclusion reached by any reader of the accounts.

Exceptional Items

Material items that result from the ordinary activities of the Council, but to a value so significantly abnormal that is not expected to recur at that level.

Existing Use Value (EUV)

The value of an asset based on what it is currently being used for. For example, two identical buildings in construction and design may have different values where one is used as a school and another is used as offices.

Exit Packages

The payment made to an employee upon leaving the Council.

Expenditure

Payments made of goods or services.

Fair Value

The income that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair Value Through Other Comprehensive Income (FVOCI)

Measurement of a financial asset at fair value where any gain or loss on revaluation is recognised in other comprehensive income and expenditure and taken to the Financial Instrument Revaluation Reserve.

Fair Value Through Profit or Loss

Measurement of a financial asset at fair value where any gain or loss on revaluation is recognised as a credit or charge to Surplus or Deficit on Provision of Services within the CIES.

Finance Income

Interest receipts.

Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

Financial Assets

A type of financial instrument which gives the Council the right to receive future economic benefits.

Financial Instruments

An umbrella term to describe all financial services and trading with which the Council may operate, including loans, borrowings, bank accounts and debtors.

Financial Instruments Adjustment Account

Revenue reserve which records the timing differences between the rate at which gains and losses are recognised and the rate at which debits and credits are required to be made against Council tax.

Financial Instruments Revaluation Reserve

This reserve contains the cumulative gains and losses relating to the valuation of financial assets held at fair value through other comprehensive income. When the underlying financial assets are de-recognised any gains or losses held in this reserve are credited or expensed to the Surplus or Deficit on Provision of Services.

Financial Liabilities

A type of financial instrument that confers an obligation on the Council to transfer economic benefits under its control.

Financial Statements

Published document, consisting of the Balance Sheet, Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Cash Flow Statement and Notes to the Accounts.

Financial Year

The current year being reported upon running from 1 April to 31 March.

Five Year Financial Plan

The Councils Medium Term Financial Plan, setting out the financial projection for the Council over the coming 5 years.

Fixed Assets

See Non-Current Assets.

Flexi-Time

Time owed to employees who have worked above the contracted hours.

Gain

Where income exceeds expenditure.

General Provisions

Money set aside in the Balance Sheet where its future use is not known.

General Reserve

The reserve held by the County Council for general purposes, i.e. against which there are no specific commitments.

General Revenue Government Grants

Grant income received from Central Government (or Government Department) which is not restricted in its use.

Going Concern

The going concern accounting concept assumes that the organisation will not significantly curtail the scale of its operation in the foreseeable future.

Goods Or Services

Supplies required by the Council to perform its operations. Examples of goods; paper, bricks or light bulbs, and services; electricity, petrol or agency staff.

Grants

Payment towards the cost of local authority services. These are either for particular purposes or services (specific grants) or in aid of local services generally (formula grant).

Group Accounts

Where a Council has a controlling interest in another organisation, group accounts have to be produced. These accounts report the financial position of all of the group entities.

Hire Purchase

A contract for the provision of an asset which becomes the property of the lessee at the end of the contract period.

Historic Cost

The cash paid in obtaining an asset in its current form. Inclusive of purchase price and enhancement expenditure.

HM Revenue & Customs

Her Majesty's Revenue and Customs is a non-ministerial department of the UK Government responsible for the collection of taxes, the payment of some forms of state support, and the administration of other regulatory regimes including the national minimum wage.

HM Treasury

Her Majesty's Treasury, sometimes referred to as the Exchequer, or more informally the Treasury, is the United Kingdom government department responsible for developing and executing the British government's public finance policy and economic policy.

IFRIC

International Financial Reporting Interpretation Committee.

Immateriality

Immateriality is an expression of the relative insignificance or unimportance of a particular matter in the context of the financial statements as a whole.

Impairment

Impairment is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Inception

The point in time which something began such as a project, contract or lease.

Income

Cash flows into the Council.

Income From Service Recipients

Consideration a party, that has contracted with the Council, has given in exchange for goods or services that are the output of the Council's normal operating activites. Such a contract may be in writing, orally or in accordance with customary business practices.

Income In Advance

Income received before the point at which an obligation to receive it has occurred.

Infrastructure

A network and grouping of inalienable components, expenditure on which is only recoverable by continued use of the asset created i.e. there is no prospect of sale or alternative use. The inalienable components include carriageways, footways, cycle tracks, structures, street furniture, street lighting, traffic management systems and land.

Intangible Asset

Non-current assets which do not have physical form such as software.

Interest Accrued

Accrued interest is the interest on a bond or loan that has accumulated since the principal investment or since the previous coupon payment if there has been one already.

Interest Payable

The amount of interest due for payment within a financial year.

Interest Rate

The rate at which interest is calculated on a loan or investment.

Interest Receivable

The amount of interest due for receipt within a financial year.

International Accounting Standards (IAS)

Regulations outlining the method of accounting for activities, IAS's are currently being replaced with International Financial Reporting Standards (IFRS's) issued by the International Accounting Standards Board.

International Financial Reporting Standards (IFRS)

Regulations outlining the method of accounting for activities, issued by the International Accounting Standards Board.

International Public Sector Accounting Standards (IPSAS)

Public Sector regulations outlining the method of accounting for activities.

Inventories

Goods purchased in advance of their use which are held in store.

Investment Property

Assets held solely for the purposes of rental generation or for increasing the value pre-sale (capital appreciation) or both.

Joint Venture

An organisation which the Council has partial control and ownership, but decisions require the consent of all participants.

Lease

Financial contract for the continuing use of an asset.

Lease Interest

The interest rate inherent within a lease allowing for regular rental payments and an adjustment for the time value of money.

Lease Payments

Regular payment made in exchange for the use of an asset.

Leases

A method of funding expenditure by payment over a defined period of time.

Lessee

The person or organisation that is using or occupying an asset under lease (tenant).

Lessor

The person or organisation that owns an asset under lease (landlord).

Liabilities

An obligation to transfer economic benefits. Current liabilities are payable within one year.

Loans And Receivables

Financial assets which are not quoted in an active market and have either a fixed or determinable payment.

Loan Modification

A change to the terms of an existing loan. Changes may include a reduction in the interest rate, an extension of the loan term, or a reduction in the principal balance.

Loan Modification Gain/Loss

An amount arising from adjusting the carrying value of a loan to reflect the cash flows under the renegotiated terms of the loan, but accruing interest at the rate specified in the original loan terms.

Long Term Debtor

Income due in more than 365 days of the balance sheet date.

Long Term Liability

Payment due in more than 365 days of the balance sheet date.

Loss

Where expenditure exceeds income.

Loss Allowance

A reduction to the value of financial assets for the expected credit losses relating to those assets.

Materiality / Material

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

Maternity Leave

Statutory time off due to pregnant women and new mothers.

Members

Elected Councillors responsible for the democratic leadership of the Council.

Members Allowances

Allowances paid to members in association with their roles and responsibilities.

Minimum Lease Payments

The minimum which will be paid or received over the life of a lease agreement.

Minimum Revenue Provision (MRP)

A prudent amount of revenue set aside to contribute towards capital expenditure which has been financed by borrowing or credit arrangements.

Misstatement

An error whereby something was included in the accounts wrongly.

Modern Equivalent Asset (MEA)

The MEA should give the same service and performance as the existing asset, but should use modern materials and technology.

Movement In Reserves Statement (MiRS)

The statement detailing the movement in the reserves of the Council.

Net Cost Of Services

The direct cost of delivering the Councils services after allowing for specific income received by those services.

Net Operating Expenditure

The cost of operational items which are not direct services, such as disposing of the Councils assets, after allowing for specific income received.

Net Realisable Value

The estimated selling price of an asset in the ordinary course of operations less any completion costs and costs to make the sale, exchange or distribution.

Non Distributed Costs

The value of revenue operating expenditure that is not able to be apportioned to one of the authorities core service areas.

Non-Accumulating Absences

Types of leave an employee may take in a financial year, which if are not taken do not get added to the following year’s entitlement. For example Sick Leave.

Non-Current Assets

Assets that yield benefits to the Council for a period of more than one year, examples include land, buildings and vehicles.

Non-Vesting

An obligation which cannot be settled by a monetary payment.

Notes To The Accounts

A set of supplementary comments, tables and information which further explains the main Financial Statements.

Obligation

The requirement to transfer economic benefits.

Operating Lease

A lease where an asset is used only for a small proportion of its economic life.

Operational

The normal activities of the Council.

Past Service Cost

Past service cost is the change in the present value of defined benefit obligations caused by employee service in prior periods.

Payment In Advance

A payment made which is before the point of any obligation.

Pension Liabilities

The cost, calculated by an Actuary, of providing the current members of a pension scheme with retirement benefits as set out in the pension scheme rules.

Pensions Costs

The benefits paid by the Council which are accrued during the period of employment and paid to ex-employees after retirement.

PFI

See Private Finance Initiative.

PFI Credits

The financial support provided to Local Authorities to part fund PFI capital projects.

Pooled Investment Funds Adjustment Account

This reserve contains the cumulative gains and losses related to pooled investment funds measured at FVPL as required by the statutory override effective for financial years 2018-19 to 2022-23.

Premium

A payment made in association with the early repayment of debt.

Pre-Payments

See payment in advance.

Present Value

See Discounted.

Previous Year Adjustments

These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors.

Principal

The amount of repayment to a lender which relates to the reduction in the loan, rather than the interest paid on the loan.

Private Finance Initiative (PFI)

A Government initiative that enables, through the provision of financial support, Authorities to carry out capital projects through partnership with the private sector.

Projected Unit Method

This is a common actuarial funding method to value pension scheme liabilities.

Property, Plant And Equipment Assets (PPE)

Assets with a long Term value and physical substance such as buildings, land, IT equipment or vehicles.

Provisions

Potential costs that the Council may incur in the future because of something that happened in the past, which are likely or certain to be incurred and a reliable estimate can be made to the costs.

Prudent

A cautious approach to present the Financial Statements without significant risk of failure to achieve the assets presented.

Quoted Market Prices

A method of determining the fair value of financial assets via prices quoted on an active market.

Recognition

The process upon which assets are deemed to belong to the Council ether by purchase, construction or other form of acquisition.

Receivable

The Council's unconditional right to receive consideration in exchange for goods or services that it has transferred to a service recipient.

Residual

The remaining value in an asset at the end of a contract or lease.

Retirement Benefits

Remuneration package received by employees after their retirement from the Council.

Retrospectively

Changes made to previous years accounts to alter the treatment which has previously been reported.

Revaluation Gain

The increase to the fair value of an asset following a valuation.

Revaluation Reserve

This reserve contains revaluation gains on assets recognised since 1 April 2007 only, the date of its formal implementation.

Revenue

The cost associated with providing Council services.

Revenue Expenditure

Expenditure which is not capital.

Revenue Expenditure Funded From Capital Under Statute (REFCUS)

This is expenditure that is classified as capital although it does not result in the creation of a fixed asset.

Revenue Grant

Grant which is not capital.

Risk

The chance of an asset not coming to fruition or a liability being greater than anticipated.

Royal Institute Or Chartered Surveyors (RICS)

An international organisation who represent everything professional and ethical in land, property and construction.

Salaries And Wages

Payments made to employees in exchange for service worked at the Council.

Service Concession Arrangements

Arrangements which involve the supply and maintenance of assets and service delivery.

Service Costs

Reflects the element of annual payment for PFI or Leased assets which is in relation to services provided within the contract.

Service Expenditure Reporting Code of Practice (SERCOP)

CIPFA guidelines on reporting revenue expenditure.

Service Level Agreements

Contract of service.

Short Term

Less than 365 days from the balance sheet date.

Short Term Benefits

Employee benefits earned and consumed during employment.

Significant

A measure of materiality where the value is deemed to be almost all of the total value in question.

Soft Loans

Low interest rate loans.

Spot Yields

A calculation of the projected return on bonds if held to maturity.

Staff

See employee.

Statute

Set out in legislation.

Straight Line Basis

The method of calculation of depreciation to allocate an equal amount of depreciation each year over an asset’s useful life.

Support Services

Indirect costs of providing Council services including HR, Finance, Legal and Property Maintenance.

Surplus
Arises when income exceeds expenditure or when expenditure is less than available budget.

Surplus Assets
Assets which are no longer in operation.

Tangible
Physical, can be touched.

Tenant
The person or organisation that is occupying an asset under lease.

Termination Benefits
Employee benefits paid upon termination of employment such as redundancy.

The Code
CIPFA guidelines on accounting within Local Government.

Transactions
Individual items of income or expenditure.

Treasury Management
Utilisation of cash flows through investments and loans.

Unidentified Income
Income received by the Council where the reason for the income is unknown.

Unusable
Balances which are not available to support future spending.

Usable
Balances which are available to support future spending.

Useful Life
The period with which an asset is expected to be useful to the Council in its current state.

Value Added Tax
National taxation charged on goods and services.

Vesting
Obligation due which can be paid in cash.

Work In Progress
The fair value of incomplete contracts for goods and services which are to be charged to external customers.

Public

Statement of Accounting Policies

For the Year Commencing 1 April 2021

ACCOUNTING POLICIES

INTRODUCTION

The Accounting Policies for Derbyshire County Council (the Council) have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code for Local Authority Accounting (the Code). Where there is no specific guidance in the Code, the Council has developed its own accounting policy which is aimed at creating information which is:

- Relevant to the decision-making needs of users; and
- Reliable, in that the financial statements:
  - Represent fairly the financial position, financial performance and cash flows of the entity;
  - Reflect the economic substance of transactions, other events and conditions and not merely the legal form;
  - Are neutral i.e. free from bias;
  - Are prudent; and
  - Are complete in all material respects.

This document outlines how the Council will account for all income, expenditure, assets and liabilities held and incurred during the 2021-22 financial year.

The accounting policies of the Council are updated annually to reflect any changes in IFRS, including changes in International Public Sector Accounting Standards (IPSAS), HM Treasury guidance, CIPFA guidance or any other change in statute, guidance or framework impacting on the authority's accounts.

The Accounting Policies of the Council as far as possible have been developed to ensure that the accounts of the Council are understandable, relevant, free from material error or misstatement, reliable and comparable. A Glossary of Terms can be found at the end of this document.

The document has been divided into four distinct categories which are Accounting Principles, Capital Accounting, Revenue Accounting and Treasury Management, with each policy being assigned a policy number.

ACCOUNTING PRINCIPLES

1.1. Going Concern

The Council prepares its accounts on the basis that it remains a going concern; that is that there is the assumption that the functions of the Council will continue in operational existence. In the case of a pending local government reorganisation, where assets and liabilities are due to be redistributed, the Council would still account on the basis of going concern as the provision of services would continue in another Council.

1.2. Accruals Concept

The Council accounts for income and expenditure in the period in which the provision of goods or service has taken place, rather than when cash payments are received or made.

Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Equally, where cash has been received or paid which is not yet recognised as income or expenditure, a creditor (income in advance) or debtor (payment in advance) is recorded in the Balance Sheet.

1.3. Cost of Services

Internal support service costs (e.g. Human Resources) are apportioned across the core service areas to represent the total cost of delivering that service to the public, in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2021-22 (SerCOP).

Where possible the full cost of support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties, or any other operational cost that cannot be reasonably attributed to a specific service.

1.4. Value Added Tax

Income and expenditure treated as either capital or revenue, excludes any amounts related to VAT. All VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from the same. Any amounts outstanding (payment or receipt) at the year-end date is held as a creditor or debtor after netting off the amounts either due or owed.

1.5. Changes in Accounting Policy

Where there is a known future change in accounting policy required by the CIPFA Code, the Council will disclose the following in the notes to the accounts:

- The nature of the change in accounting policy;

- The reasons why applying the new accounting policy provides reliable and more relevant information;
- For both the current reporting period, and the previous year comparatives reported, the extent to which the change in accounting policy would have impacted on the financial statements if it had been adopted in that year;
- The amount of adjustment relating to years previous to those reported in the set of financial statements, had the proposed policy been adopted retrospectively;
- If retrospective application is impracticable for a particular period, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

The Council will also disclose information relating to an accounting standard which has been issued but not yet adopted.

1.6. Prior Year Adjustments

These typically arise from omissions and misstatements in the Council's financial statements for one or more prior periods. For the error to be a prior year adjustment, it would need to have arisen from a failure to use or misuse, reliable information that:

a) Was available when financial statements for those periods were authorised for issue; and
b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, misunderstanding in applying accounting policies, oversights or misinterpretations of facts, and fraud.

They may also arise for reasons such as changes in Accounting Standards, which are required to be applied retrospectively.

Where required changes are thought to be significant, an adjustment will be entered into the financial statement's comparative year balances, and the columns headed 'restated'. In addition, full disclosure as to the nature, circumstance and value of the adjustment will be disclosed in the notes to the accounts.

Errors which are found and are not significant will not result in a prior year adjustment and will be corrected as a current year entry. In addition, errors as a result of information which was not known to the Council or could not have reasonably been obtained by the Council when the accounts were authorised for issue will also be treated as an in-year adjustment.

1.7. Unidentified Income

All unidentified income received is initially coded to an income suspense account. Individual amounts below £10 are written off due to immateriality. Weekly updates of the content of the suspense accounts are circulated to finance departments, to ensure the balances are cleared quickly. Any items of income below £10,000 which remain unidentified for six months will be written off. Items above £10,000 will be written off after 12 months.

1.8. Events after the Balance Sheet Date

Where there is a material post balance sheet event before the date the accounts are authorised for issue, a disclosure in the notes to the accounts will be included. If this event provides additional evidence of conditions that existed at the Balance Sheet date, and materially affects the amounts to be included in the accounts; adjusting items will be shown in the accounts.

1.9. Exceptional Items

Exceptional items will have been disclosed separately on the face of the Comprehensive Income and Expenditure Statement and details will be disclosed in the notes to the accounts.

1.10. Contingent Assets and Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably. They are not recognised in the Balance Sheet but disclosed in a note to the accounts.

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

CAPITAL ACCOUNTING

1.11. Recognition of Capital Expenditure (de-minimis Policy)

In accordance with International Accounting Standard 16 (IAS 16), the Council recognises non-current assets as:

- Assets where it is expected that future economic benefit or service potential will flow to the Council.
- Assets where the cost can be measured reliably.

and defines them as:-

- Assets held for use in the production or supply of goods or services, rental to others, or for administrative purposes.
- Assets expected to be used for more than one financial period.

The initial measurement of an asset is recognised to be:

- Purchase price, construction cost, minimum lease payments or equivalent including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

- Costs associated with bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- Initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located, the obligation for which the Council incurred either when the asset was acquired or as a consequence of having used the asset during a particular period for purposes other than producing inventories during that period.

Subsequent expenditure are costs incurred to add to, replace part of, or service the asset, but do not include day-to-day repairs and maintenance and are treated as capital when

- The expenditure will substantially increase the market value of the asset.
- The expenditure will substantially increase the extent to which the Council can use the asset for the purpose, or in conjunction with the functions of the Council.

Where a component is replaced, the carrying amount of the old component shall be derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the recognition principles as set out above.

The Council has two levels of de-minimis for recognition of capital expenditure, £10,000 and £500,000:

- £10,000 and below – all expenditure at this level is deemed to be non-enhancing unless funded by a Capital grant, and therefore is charged to revenue as it is incurred. This includes initial recognition of assets and subsequent asset expenditure.
- Above £500,000 - expenditure meeting the definitions above will be treated as capital expenditure, either as initial recognition or as an enhancement. However, in order to ensure that the subsequent asset expenditure is enhancing the value of the asset, the Council will instruct a valuation of the asset by a Royal Institute of Chartered Surveyors (RICS) qualified valuer, and any impairment or additional enhancement recognised as necessary.
- Any expenditure above £10,000 and below £500,000 will be treated as capital expenditure as the amount is significant enough to increase the useful life of an asset, however is not material enough to warrant individual impairment review, until the time the asset would normally be valued.

Capital Assets are held on the balance sheet as non-current assets, unless otherwise stated.

The Council has assessed whether Voluntary Aided, Voluntary Controlled and Foundation Schools should be included within the balance sheet, based upon an assessment of ownership and control of the assets. Maintained schools are already held on the balance sheet as the Council controls these entities and therefore all transactions relating to maintained schools are recognised in these accounts. Other types of schools such as Voluntary Aided, Voluntary Controlled and Foundation schools are subject to a test of ownership. The Council recognises a school's assets on its balance sheet where it directly owns them and/or the Council retains

substantive rights over the assets and the future economic benefits/service potential of school assets flow to the Council or rights to use the assets have been transferred from another entity.

1.12. **Donated Assets**

These are acquired at less than fair value or transferred for nil consideration. When the Council receives a donated non-current asset, the initial recognition of the asset will be at fair value.

Once any condition attached to the donation has been satisfied, the credit which is the difference between any cash payment and fair value will be treated as income in the Taxation and Non-Specific Grant Income and Expenditure line in the Comprehensive Income and Expenditure Statement. To ensure there is no impact on Council Tax this will then be reversed in the Movement in Reserves Statement and credited to the Capital Adjustment Account.

Until the condition has been satisfied the credit will be recognised in the Donated Assets account. If there is no condition, the recognition of the credit in the Comprehensive Income and Expenditure Statement will occur upon acquisition of the asset.

The fair value of an asset will be assessed upon acquisition; this will be provided by a RICS qualified valuer for property assets and another relevant valuation specialist for other types of asset. After initial recognition, donated assets are treated in the same way as similar owned assets.

1.13. **Non-Current Asset Classification**

The Council manages its assets in the following categories:

- **Intangible Assets**

  In line with International Accounting Standard 38 (IAS 38), the Council recognises intangible assets as non-monetary assets without physical substance, where that asset meets the capital expenditure criteria set out in Accounting Policy 1.11.

- **Property, Plant and Equipment Assets**

  Property Plant and Equipment Assets are subcategorised into Operational Land & Buildings, Community Assets, Vehicles Plant Furniture & Equipment, Infrastructure Assets, Non-Operational Assets, these being Surplus Assets and Assets under Construction.

  - Land and/or Buildings Assets.

    These assets are recorded, valued and accounted for based on their significant components in line with IAS 16. The Council recognises a significant asset to be 25% of the total asset base within an asset class. A component would be recognised if its expenditure in a given financial year exceeds 25% of the total value of the significant asset and has a substantially different life to the overall asset:

- Combined Group containing Flat Roof & Mechanical Engineering (Internal Works i.e. boiler system)
- Land
- Temporary Buildings (sheds / portacabins)
- Combined group containing permanent structure, external works (i.e. car park), pitched roof and components of less than 25% of the overall structure value
- Other unique features (e.g. a swimming pool)

- Community Assets
  These are assets that the Authority intends to hold in perpetuity, that have no determinable useful life and which may, in addition, have restrictions on their disposal. There is little prospect for sale or change of use.

  If the asset is used for a specific operational purpose, it does not qualify as a community asset and should be valued accordingly.

- Infrastructure Assets
  These include all tangible (physical) assets required within the Council's road networks. There is no prospect for sale or alternative use of infrastructure assets; expenditure is only recoverable through continued use of the asset.

- Vehicles, Plant Furniture and Equipment Assets and Assets Under Construction
  These assets are also classified as Property Plant and Equipment where they do not meet the criteria for Investment Property Assets or Assets Held for Sale.

- Non-Operational (Surplus) Assets
  Surplus assets are assets that are not being used to deliver services, and do not meet the criteria to be classified as either investment properties or held for sale. All surplus assets under IFRS13 which came into effect and were adopted by the Council from 1 April 2015 are to be valued at Fair Value and depreciated accordingly.

➢ **Investment Property Assets**

These are items of land and / or buildings held by the Council solely for the purpose of rental income generation or capital appreciation or both.

As such where there is a service of the Council being delivered from the property, this is not classified as Investment Property Assets. This includes where the intention of the asset is to generate economic growth to an area such as below market value rental.

Investment property that subsequently meets the criteria within the Code to be classified as held for sale shall continue to be accounted for as an investment property but may be reported separately as investment property held for sale.

Some Assets Under Construction may also be classified as Investment Properties where the intended eventual use is rental income generation or capital appreciation.

- **Heritage Assets**

  Assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations are classified as Heritage Assets.

- **Assets Held for Sale**

  The Council will classify assets as held for sale where all of the following criteria have been met:
  - The asset must be available for immediate sale in its present condition. However, if a sale is dependent on planning permission being obtained, reclassification is suspended until that permission has been given.
  - The asset's sale is highly probable.
  - The asset must be actively marketed for sale.
  - The completion of the sale is expected within 12 months from the date of classification.

In situations where it is not necessary to carry out active marketing, for example the Council is able to identify prospective purchases willing to pay a reasonable price without marketing or because the buyer initiates the transaction (such as a right-to-buy-sale) the actively marketed test is treated as 'not applicable', rather than failed.

Assets which become non-operational which do not meet all of the criteria set out as assets Held for Sale will be classified as surplus. If at a later point in time the asset no longer meets the criteria of Held for Sale, it is restored to its previous classification and all transactions which would have occurred shall be retrospectively applied as though the asset had never been held for sale.

Assets meeting the criteria as Held for Sale are held as current assets on the balance sheet as income is expected within 12 months.

It is possible that assets meeting the criteria to be Held for Sale; may undergo a change in circumstance beyond the control of the Council resulting in the sale being delayed beyond 12 months. In these instances, the Council follows the policies outlined for assets held for sale; however, disclosure of the value for these assets is within non-current assets. Due to the circumstances around the definition, it is expected that this will occur very rarely.

1.14. **Non-Current Asset Valuation Methodology**

The various classifications of assets as outlined in Accounting Policy 1.13 are valued on a differing base. Where not explicitly stated otherwise, property revaluations are completed by a RICS qualified valuer (who is internal to the Council), over a 'short period', interpreted to mean on a five year rolling programme for each class of asset i.e. 20% of the Council's assets are revalued at 31 March for the financial year.

Where there is an upward revaluation, the carrying value is increased and the associated credit charged directly to the Revaluation Reserve. This is then reflected in the Comprehensive Income and Expenditure Statement as a revaluation gain. Where there is a revaluation resulting in a lower than carrying amount valuation, this is treated in line with Accounting Policy 1.15 – impairment of Non-Current Assets.

The Council, as per the reporting standard, values its assets and liabilities in accordance with section 2.10 of the Code of Practice on Local Authority Accounting in the United Kingdom to reflect the adoption of IFRS13 Fair Value Measurement at each reporting date except where adaptations to fit the public sector are detailed in the Code. However, Section 4.1 of the Code adapts IAS 16 to require that items of Property, Plant and Equipment that are operational and therefore providing a service potential for the authority are measured for their service potential at existing use value, existing use value – social housing, (depreciated) historic cost or depreciated replacement cost and not at fair value. Surplus assets are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
- In the absence of a principal market, in the most advantageous market for the asset or liability.

Fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participants ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Code requires all assets to be measured at Current Value and the basis of valuation will be determined using the following criteria:

- Depreciated replacement cost – specialised assets
- Existing use value – non-specialised assets
- Existing use value – social housing

Fair value for the following assets:

- Investment assets
- Surplus assets
- Assets Held for Sale (less costs to sell)

The Council uses valuation techniques, as required by the Code, which maximise the use of relevant observable inputs and minimise the use of unobservable inputs and that are appropriate in the circumstances and for which sufficient data is available.

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

Unobservable inputs are inputs for which market data is not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

The Council follows the fair value hierarchy which categorises inputs to the valuation techniques in respect of assets and liabilities into three levels for which fair value is measured or disclosed in the Council's financial statements, these include:

- Level 1 inputs – unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs – unobservable inputs for the asset or liability

Highest priority is given to Level 1 inputs (unadjusted) in active markets and lowest priority to Level 3.

Upon the revaluation of a Surplus Asset at the 31st March of the financial year, based on the inputs available at the date of valuation the valuer will establish the Code Valuation Input Level for the valuation and will compare this with the Code Valuation Input Level for the previous valuation. Where the Input Level is different from that of the previous valuation this will be specifically reported with the valuation together with a narrative description of the reasons and differing circumstances that have resulted in the change.

Valuations are completed under the Code as follows:

- **Intangible Assets –** the Council recognises Intangible Assets at cost. The Council will only revalue intangible assets annually where there is a determinable market value for the asset.

- **Property Plant and Equipment (PPE) –** Property Assets are held at current value which is the amount that would be paid for the asset in its existing use. This requirement is met by providing a valuation on the basis of Existing Use Value (EUV) in accordance with United Kingdom Practice Statement (UKPS) 1.3 of the RICS Valuation Standards. Where no other valuation method can be used because of the specialist nature of the asset, current value is estimated using a Depreciated Replacement Cost (DRC) approach. Vehicles, Plant, Furniture and Equipment, IT Hardware, and Assets Under Construction within PPE are held at historic cost (not valued).

- **Infrastructure Assets –** the Council recognises Infrastructure Assets at Depreciated Historical Cost.

- **Investment Property Assets –** Investment Properties are annually revalued at fair value which is interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value. An investment property under construction is measured at cost until such time as its fair value can be determined reliably or its construction us complete, whichever comes first. The fair value of Investment Property held under a lease is the lease interest.

- **Community Assets –** the Council recognises Community Assets at historic cost.

- **Heritage Assets –** where it is possible to determine a valuation for Heritage Assets, then the Council will recognise the asset in the Balance Sheet at that valuation. Where a valuation has been applied to this class of assets, other than a historic valuation, a range of valuation bases have been used which include external valuations, curatorial valuations and a limited number of cases of insurance valuations. Where a curatorial valuation has been applied the valuation is dependent upon the experience and knowledge of the Derbyshire Museums Manager. However, where it is not practicable to obtain a valuation the asset will be carried at historic cost. Where information on cost or value is not available all Heritage Assets will be disclosed in the notes to the accounts, even where they are not recognised in the Balance Sheet. Where there is evidence of impairment to Heritage Assets e.g. where an item has suffered a physical deterioration or breakage or new doubts arise as to its authenticity, any impairment is recognised and measured in accordance with the Council's general policies on impairment.

- **Assets Held for Sale –** Assets held for sale are, at initial classification and at the end of each reporting year, valued at the lower of carrying amount and fair value less costs to sell and depreciation on these assets should cease.

- **Surplus Assets** - Surplus assets are valued at Fair Value in accordance with the Code.

1.15. **Impairment of Non-Current Assets**

This accounting policy has been created in accordance with IAS 36.
Impairment is the amount to which the carrying value of an asset exceeds the recoverable amount.

At the end of each reporting period the Council assesses whether there is any indication that an asset may be impaired.

The Council recognises impairment as:

- A significant decline (i.e. more than expected as a result of the passage of time or normal use) in an asset's carrying amount during the period that is specific to the asset;
- Evidence of obsolescence or physical damage of an asset;
- A commitment by the Council to undertake a significant reorganisation; and
- A significant adverse change in the statutory or other regulatory environment in which the Council operates.

Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains). Any further impairment or if there has been no previous revaluation, the impairment is charged to revenue. This is then reversed through the Movement in Reserves Statement and charged to the Capital Adjustment Account.

1.16. **Disposal of Non-Current Assets**

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Sale proceeds in excess of £10,000 are categorised as Capital Receipts. Receipts are credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are transferred to the Reserve from the movement in reserves statement. The value of the asset is transferred to the Capital Adjustment Account via the Movement in Reserves Statement.
Sale proceeds of £10,000 and below are credited straight to the Comprehensive Income and Expenditure Statement.

1.17. **Depreciation / Amortisation Methodology**

In order to recognise the total cost of using fixed assets, the Council has a policy to depreciate assets on a straight line basis over their useful economic life, reducing the value of the asset, and charging the relevant revenue service expenditure. However, under statute, depreciation is not chargeable to the taxpayer, the Council removes

this charge through the Movement in Reserves Statement and charges it to the Capital Adjustment Account.

The Council charges depreciation on a pro-rata basis during the year i.e. from the month of acquisition to the month of disposal.

The economic lives of assets are:

- **Intangible Assets –** 5 years.

- **Property Plant and Equipment**
  - Combined Group for Flat Roof and Mechanical Engineering – 20 years
  - Land – not depreciated
  - Temporary Buildings – 15 years
  - Modular Buildings – 25 years
  - Combined group for structure, external works, pitched roof and components of less than 25% of the overall structure value – 40 years
  - Other unique features (i.e. a swimming pool) – as required
  - Fixtures and Fittings – 10 years
  - IT Hardware – 5 years
  - Vehicles – 3 to 10 years

- **Infrastructure Assets**
  - Carriage ways – 40 years
  - Footways and cycle tracks – 40 years
  - Structures – 40 years
  - Lighting – 25 years
  - Traffic management – 25 years
  - Street furniture – 25 years

- **Investment Property Assets –** not depreciated

- **Community Assets –** Community Assets are assets that an authority intends to hold to perpetuity which have no determinable useful lives and as such are not depreciated.

- **Assets Held for Sale –** are not depreciated

1.18. **Leases**

In line with IAS 17, the Council recognises a lease to be any agreement which transfers the right to use an asset for an agreed period in exchange for payment, or a series of payments.

This includes leases, hire purchase, rental, contracts of service, service level agreements and any other arrangement where the ability to use an asset is conveyed.

1.19. **Defining a Finance Lease**

A finance lease is where substantially all of the risks and rewards relating to ownership transfer to the lessee.

Tests to give an indication of the transfer of risk and reward are:

- If the lessee will gain ownership of the asset at the end of the lease term (e.g. hire purchase)
- If the lessee has an option to purchase the asset at a sufficiently favourable price that it is reasonably certain, at the inception of the lease, that it will be exercised
- If the lease term is for the major part of the economic life of the asset even if the title is not transferred. Measures to identify this are:
    - The economic life of the asset is deemed to be that which is consistent with the class of asset in the depreciation policy.
    - The Council recognises 'major part' to be 75% of the life of the asset, unless on an individual case basis this would not give a true representation of the substance of the transaction.
- At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. Measures to identify this are:
    - Fair value of the leased asset is assessed by a RICS qualified valuer.
    - The present value of the minimum lease payments is calculated by discounting at the rate inherent in the lease.
    - If this rate cannot be determined the incremental borrowing rate applicable for that year is used.
    - The Council recognises 'substantially all' to be 75% of the value of the asset, unless on an individual case basis this would not give a true representation of the substance of the transaction.
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.
- If the lessee cancels the lease, the losses of the lessor, associated with the cancellation are borne by the lessee.
- Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (e.g. in the form of a rent rebate equalling most of the sales proceeds at the end of the lease).
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

A suitably experienced accountant, with assistance from qualified valuers, will make a judgement based on the level of risk and reward held by the Council as to whether a lease is operating or finance.

1.20. **Defining an Operating Lease**

The Council recognises an operating lease to be a lease which is not a finance lease.

1.21. **Lessee Accounting for a Finance Lease**

Where the Council is tenant in a property, or is, by definition of IFRIC 4, leasing an asset which is deemed under IAS 17 to be a finance lease the Council will recognise that asset within the asset register, and account for that asset as though it were an owned asset.

The initial recognition of the asset is at the fair value of the property, or if lower, the present value of the minimum lease payments. A liability is also recognised at this value, which is reduced as lease payments are made.

1.22. **Lessor Accounting for a Finance Lease**

Where the Council is the lessor for a finance lease, the asset is not recognised in the asset register; however, a long-term debtor at the present value of minimum lease payments is recognised. Income received is split between capital - credited against the debtor, and finance income – credited to the Comprehensive Income and Expenditure Statement as interest receivable.

1.23. **Lessor Accounting for an Operating Lease**

Where the Council is the lessor for an operating lease, it will retain the property as either an item of Property Plant and Equipment or as an Investment Property on the Balance Sheet. Any rental income is credited to the relevant service income.

1.24. **Service Concession Agreements (Private Finance Initiative (PFI) and other similar contracts)**

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. PFI and similar contracts are assessed against criteria within IFRIC 12 Service Concession Arrangements to determine whether the risks and rewards incidental to ownership lie with the Council or the contractor.

Those which lie with the contractor – payments made during the life of the contract are chargeable to revenue as incurred.

Those which lie with the Council – are recognised as an asset in the Balance Sheet for the construction costs of the asset. Once recognised this asset is treated in line with all capital assets. A corresponding long-term liability is also recognised at the construction value. Payments made during the life of the contract are split into finance costs, capital costs and service costs. Determining the split of payments is calculated at the inception of the contract and is based on the inherent interest rate within the original agreement. Finance costs are chargeable to the Comprehensive Income and Expenditure Statement as Interest payable. Capital Costs reduce the level of liability in the Balance Sheet. Service costs are chargeable to the relevant revenue service expenditure. Pre-payments or Dowry payments reduce the level of liability at the start of the contract.

PFI Credits are treated as general revenue government grants.

1.25. **Capital Grants and Contributions**

The Council recognises capital grants and contributions as being related to capital assets and uses them to fund capital expenditure on those assets. Grants, contributions and donations are recognised as income at the date that the Council has satisfied the conditions of entitlement, and there is reasonable assurance that the monies will be received.

Any grant received before these recognition criteria were satisfied would be held as a creditor. Any grant which had met the recognition criteria but had not been received would be shown as a debtor. This is in line with the Accruals Concept Policy.

Once the recognition criteria above have been satisfied, capital grants are recognised as income in the Comprehensive Income and Expenditure Statement.

In order to not impact on the level of Council Tax, the Council removes the credit from the General Reserves through the Movement in Reserves Statement and makes a credit to the Capital Grants Unapplied Reserve.

Once expenditure has been incurred on the related asset, the credit is removed from the Capital Grants Unapplied Reserve and credited to the Capital Adjustment Account.

1.26. **Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

Expenditure incurred that either may be capitalised under statutory provisions or is capital in nature but does not result in the creation of a fixed asset that is owned by the Council. REFCUS is charged as expenditure to the Comprehensive Income and Expenditure Statement in the year, however, is financed from existing capital resources or by borrowing. A transfer between the Capital Adjustment Account and the Movement in Reserves Statement then reverses out the impact on the general fund balance.

1.27. **Minimum Revenue Provision (MRP)**

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement.

The Council will provide for 2.5% of debt outstanding on all debt as at 31 March 2008. On any new debt since this date the Council will provide 2.5% of the balance on all borrowing, unless any unsupported borrowing relates to any significant assets with a life of less than 20 years. In this case an annual amount based on the expected useful life of the individual assets is used and where those assets are vehicles then an average life of five years is used.

The Council has adopted the policy of charging MRP for PFI and Leased Assets at the value of the associated loan liability repayment each year, thus mitigating the impact to the General Reserve.

1.28. **Capital Reserves**

The Council holds Capital Reserves for the purpose of financing capital expenditure. Reserves will be disclosed as either usable (available to fund capital expenditure) or unusable (reserves held as a result of timing differences associated with recognition of capital expenditure and related financing).

Movements in capital reserves are accounted through the Movement in Reserves Statement.

REVENUE ACCOUNTING

1.29. **Recognition of Revenue Expenditure**

The Council recognises revenue expenditure as expenditure which is not capital.

1.30. **Employee Costs**

In accordance with IAS 19, the Council accounts for the total benefit earned by employees during the financial year.

Employee Costs are split into 3 categories; short term benefits, termination benefits and pensions costs.

Short Term Employee Benefits

- **Salaries and Wages –** The total salary and wages earned by employees during the financial year are charged to the Comprehensive Income and Expenditure Statement. Where the amount accrued exceeds the amount paid at the 31 March, a creditor will be reflected in the accounts.

- **Leave Owed, Accumulating Absences –** The Council allows employees to earn time off in one period with the resulting cost to the Council in a later period when that time is either taken off or paid to the employee. Examples of this accumulating leave are annual leave, flexi-time and time off in lieu.

  If an employee were to leave the Council, cash payment would be made for entitlements such as annual leave; this leave is termed vesting. Where no cash payment would be due, the leave is termed non-vesting.

  In order to correctly reflect the cost of time owed to staff, a charge has been made to the Comprehensive Income and Expenditure Statement and a creditor accrual has been reflected in the Balance Sheet. This charge is reflective of the estimated time cost value of all accumulating leave owed to employees. Vesting leave will be charged in full; however non-vesting leave has been adjusted to reflect the turnover of staff.

- **Easter Bank Holiday –** When Good Friday and/or Easter Monday fall in April, the preceding financial year only accounts for 6 or 7 bank holidays rather than the statutory 8. When this occurs, a charge is made to the Comprehensive

Income and Expenditure Statement and a creditor accrual is reflected in the Balance Sheet.

- **Non-accumulating Absences –** are periods of leave that cannot be carried forward for use in future periods. Examples include Maternity Leave, Special Leave, Sick Leave and Jury Service. The Council does not recognise non-accumulating compensated absences until the time that the absence occurs.

- **Non-monetary Benefits –** Where employees have non-monetary benefits (e.g. retirement benefits or life insurance), the associated cost of providing that benefit has been charged to the Comprehensive Income and Expenditure Statement.

Termination Benefits

- **Redundancy Costs –** The obligation to pay redundancy costs occurs when there is a formal plan to create redundancies. The plan would include the location, function and approximate number of employees affected; the termination benefits offered; and the time of implementation. When these recognition criteria have been met the Council recognises the costs associated with this in the service revenue expenditure and creates a creditor in the Balance Sheet. Where the payable amount is due in more than 12 months from the year end date, the costs are discounted at the rate determined by reference to market yields. In the case of an offer to encourage voluntary redundancy, the Council has recognised the estimated cost based on the expected number of employees taking the offer.

The Council will disclose details of exit packages within the notes to the accounts.

Pensions Costs

- **Teachers' Pension Scheme –** is a defined benefit scheme administered by the Department for Education. The assets and liabilities of the Teachers' Pension Scheme are not attributable to the Council, therefore the Council accounts for the scheme as if it were a defined contribution scheme. This means that the Children and Education Services line in the Comprehensive Income and Expenditure Statement will only include the Council's contributions payable to the scheme.

- **Local Government Pension Scheme –** is a defined benefit scheme. The liabilities of the scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions such as mortality rates and employee turnover rates, and projections of earnings for current employees.

  Pension liabilities are measured using the projected unit method, discounted using the rate on high quality corporate bonds of equivalent term to the liabilities. The discount rate is the weighted average of "spot yields" on AA rated corporate bonds.

The change in the net pension liability is analysed into seven components:

- Current Service Cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement within the relevant service area dependant on staff employed at the Council. The current service cost includes an allowance for administration expenses
- Past Service Cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- Gains/Losses on Settlements and Curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Interest Cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement
- Interest Income on Plan Assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement
- Actuarial Gains and Losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Movement in Reserves Statement.
- Employer Contributions – cash paid by the Council to the Pension Fund.

In relation to retirement benefits, statutory provisions require the General Reserve to be charged with the amount payable by the Council to the Pension Fund in the year, not the amount calculated according to the relevant accounting standards. Adjustments are therefore made in the Movement in Reserves Statement.

- **Early Retirement, Discretionary Payments –** the Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies which are applied to the Local Government Pension Scheme.

1.31. **Lessee Accounting for an Operating Lease**

Costs associated with operating leased assets where the Council is the lessee are charged immediately to the Comprehensive Income and Expenditure Statement within the Net Cost of Services on an accruals basis.

1.32. **Revenue Grants and Contributions**

Grants, contributions and donations (referred to as grants for the purposes of this policy) are recognised as income at the date that the Council has satisfied the conditions of entitlement, and there is reasonable assurance that the monies will be received. Any grant received before these recognition criteria were satisfied would be held as a creditor (income in advance). Any grant which had met the recognition criteria but had not been received would be shown as a debtor.

Revenue grants will either be received to be used only for a specific purpose or can be used for general purpose. Those for a specific purpose are recognised in the Comprehensive Income and Expenditure Statement within the Net Cost of Services. Those which are for general purpose are shown within Other Operating (Income) and Expenditure in the Comprehensive Expenditure and Income Statement.

1.33. **Income from Service Recipients**

Income from service recipients is defined as consideration that a party, which has contracted with the Council, has given in exchange for goods or services that are the output of the Council's normal operating activities. Such a contract may be in writing, orally or in accordance with customary business practices. These may include:

- Charges for service provided by the Council.
- Sale of goods provided by the Council.
- Fees and charges for services under statutory requirements where there is an exchange of assets or services, such as the issuing of a licence or processing of an application.

In such cases the Council recognises income when it has satisfied the performance obligation by transferring the promised goods or services to the service recipient. The point of transfer is when the service recipient takes control of the goods or benefits from the service.

The Council deems performance obligations to be satisfied over time, rather than at a point in time if any of the following criteria are met:

- The service recipient simultaneously receives and consumes the benefits of a service.
- The Council's performance enhances an asset that the service recipient controls.
- The Council has an enforceable right to payment for performance completed to date and that performance does not create an asset for which it has an alternative use.

Such income is recognised in the Comprehensive Income and Expenditure Statement within the Net Cost of Services.

1.34. **Provisions**

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.
Provisions are charged to the appropriate service revenue account in the year that the Council recognises an obligation, based on the best estimate of the likely settlement. When payments are eventually made, it is charged to the provision. Where payment is not expected for more than 365 days after the balance sheet date, the provision has been discounted using the rate of a high quality corporate bond.

Estimated settlements are reviewed at the end of each financial year and adjustments with the Comprehensive Income and Expenditure Statement are made as required.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income if it is virtually certain that reimbursement will be received if the obligation is settled.

The Council does not hold any general provisions.

1.35. **Revenue Reserves**

The Council holds usable revenue reserves for the purpose of funding future expenditure. The General Reserve represents the balance of reserves to meet short term, unforeseeable expenditure and to enable significant changes in resources or expenditure to be properly managed over the period of the Five Year Financial Plan. Earmarked Reserves represent balances where approval has been received to use the reserve for a specific purpose.

Unusable revenue reserves represent timing differences such as those associated with the recognition of retirement benefits, Council tax income and financial instruments.

Movement in reserves are accounted through the Movement in Reserves Statement.

The Council publishes a separate Reserves Policy document, which is reviewed by Cabinet at least annually.

1.36. **Research Costs**

Research costs should be treated as revenue expenditure at the point in which they are incurred and charged to the Comprehensive Income and Expenditure Statement.

1.37. **Members' Allowances**

The Council in exercise of the powers and duties conferred by the Local Authorities (Members' Allowances) (England) Regulations 2003, has established a Members Allowance Scheme, outlining the allowances payable to Members of the Council.
Members are reminded of the need to keep detailed supporting information, such as a diary, about every attendance for which they claim. This information should be

available for scrutiny by the Council's Auditors or other relevant persons as and when required. The scheme is updated annually, and full details are available on the Council's website.

The total amount paid in terms of Members Allowances is disclosed in the notes to the accounts.

1.38. **Council Tax and Business Rates Recognition**

Council Tax and Business Rates income included in the Comprehensive Income and Expenditure Statement includes the Council's share of accrued income recognised by billing authorities in the production of the Collection Fund Statements.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Reserve is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement.

1.39. **Inventories and Work in Progress**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Inventory is recorded in terms of average cost, with the exception of fleet parts where the cost is recorded on a first in, first out basis.

Work in progress is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

1.40. **Loss Allowance for Expected Credit Losses**

The Council maintains a loss allowance for any amounts it is due to receive from its debtors or investments which might become uncollectable.

Credit risk is assessed based on the expectation of a debtor's or an investment issuer's ability to pay future cash flows due under the contractual terms. This risk is estimated, where possible, based on historical loss experience, the debtor's or investment issuer's credit rating and other impacting factors including forward-looking information.

The loss allowance for an investment is initially measured at an amount equal to the portion of the lifetime credit losses which might be expected from a default event within 12 months of the balance sheet date. If the Council considers that the risk of default on an investment has increased significantly since the investment was initially recognised it will measure the loss allowance at an amount equal to the total lifetime credit losses expected from a default event.

At each Balance Sheet date, the Council makes a two-stage assessment of significant increases in credit risk since initial recognition:

- Firstly, whether there is evidence of a significant increase for an individual debtor or investment that is significant, and

- Secondly, whether there is evidence of a significant increase for groups of similar debtors or investments.

The Council adopts the simplified approach of measuring the loss allowance for debtors at an amount equal to the total lifetime credit losses expected from a default event, from the time a debtor is initially recognised.

No loss allowance is recognised for expected credit losses where the debtor or investment issuer is central government or another local authority for which relevant statutory provisions prevent default.

Loss allowances are offset against the debtor or investment amount shown as an asset. The movement in the allowance is charged to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

TREASURY MANAGEMENT

1.41. **Definition of Treasury Management Activities**

The Council has adopted the following definition of Treasury Management activities:

The management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

The Council acknowledges that effective treasury management will provide support towards the achievement of its service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

1.42. **Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in the value.

1.43. **Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised cost.

Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus any interest accrued to 31 March and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Any premiums or discounts, incurred on the early repayment of loan debt, arising from 1 April 2007 are taken immediately to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement in the year of repayment. However, the amount is then credited or debited to the General Reserve and transferred to the Financial Instruments Adjustment Account via the Movement in Reserves Statement as required by statute.

The regulations allow that the premium or discount is amortised over periods specified in the statutory guidance. In accordance with the guidance the Council has a policy of spreading the premium or discount over the remaining term of the original loan, or a minimum of 10 years in the case of discounts. This amortisation is managed by a transfer from the Financial Instruments Adjustment Account to the General Reserve via the Movement in Reserves Statement.

Where a loan has been restructured, by a modification to the terms of the existing loan or by an exchange of debt instruments with the existing lender, and the terms are substantially different, the original financial liability is extinguished and a new financial liability is recognised. The difference between the carrying amount of the new and extinguished liability and any consideration transferred is recognised in Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Where the terms of a loan debt exchange or the modification to the terms of an existing loan are not substantial, the carrying amount of the liability is adjusted to the value of the remaining cash flows required by the new terms, including any premiums or discounts paid/received, discounted to present value at the original loan’s effective interest rate. Any gain or loss on modification is credited and debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

A modification of terms is deemed to be substantially different if the present value of the cash flows under the new terms, including any premiums or discounts paid/received, is at least 10% different from the present value of the cash flows under the old terms. In both cases the present value is calculated by reference to original loan’s effective interest rate.

1.44. **Financial Assets**

Financial assets are classified into three types according to the Council's business model for managing those assets and the characteristics of the cash flows of the asset:

1) **Financial Assets Measured at Amortised Cost** – assets where it is the Council's intention to hold the asset to collect the contractual cash flows and those cash flows consist solely of payments of principal and interest which arise on specified dates

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus any interest accrued to 31 March and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. However, the Council could make loans to organisations at less than market rates (soft loans).

When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Reserves is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Reserves is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. Any gains and losses that arise on the derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

Investments are represented on the balance sheet depending on their remaining life at the Balance Sheet date:

- Investments entered into for 90 days or less - debited to the cash balance as cash equivalents and represented within the cash flow statement.
- Investments entered into for more than 90, with less than 365 days until maturity – debited to current asset investments
- Investments due to expire in more than 365 days – debited to non-current asset investments

2) **Financial Assets Measured at Fair Value Through Other Comprehensive Income** – assets where it is the Council's intention to hold the asset both to sell the asset and to collect the contractual cash flows and those cash flows consist solely of payments of principal and interest which arise on specified dates, or assets which are equity instruments which it is the Council's intention to hold for more than 12 months and which the Council has irrevocably elected to present changes to their fair value in Other Comprehensive Income and Expenditure

These assets are initially measured and carried at fair value. Where the asset has determinable payments of dividends or interest, these are credited to the Comprehensive Income and Expenditure Statement. Interest receivable is based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Dividends are recognised when the Council's right to receive the payment has been established and the amount can be measured reliably.

Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis

Changes in fair value are balanced by an entry in the Financial Instrument Revaluation Reserve and the gain/loss is recognised in Other Comprehensive Income and Expenditure and the Movement in Reserves Statement. Impairment of these assets, due to expected credit losses, is charged to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement and credited to a loss allowance account which reduces the carrying value of the financial asset. Any gains and losses that arise on de-recognition of the asset are credited/debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

3) **Financial Assets Measured at Fair Value Through Profit or Loss** – assets which are neither measured at amortised cost nor where changes to fair value are presented in Other Comprehensive Income and Expenditure

These assets are initially measured and carried at fair value. Where the asset has determinable payments of dividends or interest, these are credited to the Comprehensive Income and Expenditure Statement. Interest receivable is based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Dividends are recognised when the Council's right to receive the payment has been established and the amount can be measured reliably.

Values are based on the following principles:

- instruments with quoted market prices – the market price

- other instruments with fixed and determinable payments – discounted cash flow analysis

Changes in fair value are balanced by an entry in Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

1.45. **Interests in Companies and Other Entities**

Where the Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures, it is required to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses.

AA rated corporate bonds

Financial indicator of very good quality, low risk debt securities. These are assigned by credit rating agencies such as Moody's, Standard & Poor's and Fitch Ratings to have letter designations (such as AAA, B, CC).

Account

A group of expenditure items or balances with similar qualities will be summated into an ‘account’ balance such as an individual reserve account, or revenue expenditure account.

Accounting Policies

The Councils document outlining how it will account for all of its operations.

Accounting Principles

Commonly accepted set of concepts or assumptions that have to be followed when producing financial statements.

Accounting Standard

Statutory guidelines which explain how to treat financial activities in the financial statements. See International Financial Reporting Standards (IFRS).

Accrual

The accruals concept requires that the cost or benefit of a transaction is shown in the period to which the goods or services are received or provided, rather than when the cash is paid or received.

Accruals Concept

Requires operations of the Council to be reported in the financial statements at the point which they took place, rather than when the cash was paid or received.

Accumulating Absences

Types of leave which employees are entitled to each year; which if untaken in one financial year will be added to the entitlement for the following year.

Acquired / Acquisition

Operations or assets which have become the responsibility of the Council, such as through purchase, a Government reorganisation, donation or merger.

Actuarial

The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation.

Actuaries

An actuary is a professional who deals with the financial impact of risk and uncertainty. Actuaries provide assessments of financial systems and balances.

Amortisation

The term used to describe the charge made for the cost of using intangible fixed assets. The charge for the year will represent the amount of economic benefits consumed for example wear and tear.

Amortised Cost – Financial Instruments

The valuation of a financial asset or liability based on repayments of principal, interest accrued at a constant rate and the difference between the initial amount recognised and the maturity amount. For financial assets this is adjusted by any loss allowance.

Amortised Cost – Other Non-Current Assets

The cost of intangible assets reduced by the amount of amortisation charged to date.

Annual Leave

Yearly entitlement of paid time off for Council staff.

Asset Register

Listing of all property (for example land, buildings, furniture, infrastructure, software) owned by the Council. The register holds all financial information relating to the asset.

Assets

Right or other access to future economic benefits.

Assets Held For Sale

Non-Current Assets which meet the relevant criteria to be classified as held for sale.

Assets Under Construction

Assets which are in the process of being constructed and are not yet operational.

Associates

An entity (including partnerships) which is not a subsidiary or joint venture, where the Council has significant influence.

Authorised For Issue

The date which the financial statements have been certified by External Audit and signed the relevant Officers and Members of the Council.

Balance Sheet

Shows all balances including reserves, long-term debt, fixed and net current assets, together with summarised information on the fixed assets held.

Balance Sheet Date

The date at which the Council reports its financial statements. For Derbyshire County Council, this date is the 31 March.

Bias

Influence or direction.

Billing Authorities

Councils who are responsible for issuing Council Tax Invoices and collection of income from local residents. The relevant share of that income is then transferred to the Council**.**

Borrowing Requirement

The amount required to be loaned from Money Markets or other financial institutions or Councils in order to support capital expenditure.

Business Rates

Local property taxation issued to businesses, similar to Council Tax on residential properties. Also known as National Non Domestic Rates (NNDR).

Cabinet

Sub-committee of elected Councillors representing the functions and portfolios of the Council.

Capital

Assets which have a long term value (more than one year) to the Council such as Buildings.

Capital Adjustment Account

Capital reserve largely comprising of resource applied to capital financing and is not available to the Council to support new investment.

Capital Appreciation

Increase in the worth of assets over time due to changes in market conditions or enhancements to the asset.

Capital Costs

Reflects the element of annual payment for PFI or Leased assets which is in relation to the reduction in the long term debt associated with the asset.

Capital Expenditure

Expenditure on the acquisition of, or enhancement to fixed assets. This cannot be merely to maintain the value of an existing asset.

Capital Financing Requirement

The Capital Financing Requirement measures the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It is a measure of the underlying need to borrow for a capital purpose.

Capital Grant

Grant which is intended to fund capital expenditure.

Capital Grants Unapplied Reserve

Balance of capital grants received which is available to finance future capital expenditure.

Capital Receipts

Income received from the sale or utilisation of property, such as sale proceeds or rental income on finance leases.

Capital Reserves

Reserve balances held for capital purposes.

Carrying Value

The amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.

Cash Flow Statement

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

Cash Flows

Monies received or paid either as cash or bank transactions. Cash inflow denotes money received, cash outflow denotes money paid.

Chartered Institute of Public Finance And Accountancy (CIPFA)

The main authority on accountancy and financial management for the public services in the UK.

CIPFA Code

A publication produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) that provides comprehensive guidance on the content of a Council's Statement of Accounts

Collection Fund

The fund maintained by authorities who have responsibility to bill Council Tax and Non-Domestic Rate payers (billing authorities).

Collection Fund Adjustment Account

Revenue reserve to represent the difference between the income received by a local authority in Council Tax and the amount attributable to them.

Collection Fund Statements

The statutory financial statements produced as part of the Statement of Accounts by authorities who have responsibility to bill Council Tax and Non-Domestic Rate payers (billing authorities).

Community Assets

Assets which are held for the benefit of the community where there is no determinable useful life.

Comparative Year

The previous year to that which is being reported.

Component Accounting

The concept that individual parts of an asset (such as land, building, roof, sheds) should be treated differently in the financial statements dependent on the expected useful life or value of those individual parts. The concept expects that some parts of an asset require repair or replacement sooner than others.

Comprehensive Income And Expenditure Statement

Financial Statement detailing the revenue operations of the Council. This represents the private sector equivalent of a Profit and Loss Statement.

Condition

A requirement which must be met for an asset or liability to be recognised by the Council. For example, a donation which can only be spent within a specific service area such as museums or to support children.

Contingent Assets And Liabilities

A possible asset or obligation that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council.

Contract Asset

The Council's right to receive consideration in exchange for goods or services that it has transferred to a service recipient where that right is conditional on something other than the passage of time (such as the Council's future performance).

Contract Liability

The Council's obligation to deliver goods or services to a service recipient for which it has already received consideration.

Contributions

Income received by the council which is not a grant, donation, fine, or in direct exchange for goods or services.

Core Service Areas

The services provided by the Council externally, such as education, highway maintenance and adult social care.

Corporate And Democratic Core

Costs associated with maintaining a democratic representation and management within the Council. For example Members Allowances and administrative costs associated with supporting elected Members.

Council

The Council comprises all of the democratically elected Councillors who represent the various electoral divisions.

Council Tax

Council Tax is a local taxation that is levied on dwellings within the local Council area, and funds all Council services.

Credit

A credit represents income to a revenue account.

Credit Loss

The difference between contractual amounts due to the Council and the amounts it expects to receive.

Creditor

Represents the amount that the Council owes other parties.

Current Service Cost

The current service cost is the increase in the value of the pension schemes future pension liabilities arising from the employees on-going membership of the pension scheme.

Current Value

IFRS13 introduces the concept of current value and defines it as the measurements that reflect the economic environment prevailing for a service or function the asset is supporting at the reporting date. Current value can be fair value, existing use value, existing use value – Social Housing and depreciable replacement cost.

Current Year Entry

A transaction which has occurred in the financial year being reported.

Curtailments

Materially reducing the expected years of future services of current employees or eliminating for a significant number of employees the accrual of defined benefits for some or all of their future services.

Debit

A debit represents expenditure against a revenue account.

Debt Outstanding

The remaining principal balance owed on a loans or investments.

Debtors

Represents the amounts owed to the Council.

Equity Instrument

A contract which evidences a residual interest in the assets of another entity after deducting all of its liabilities. Examples include shares and derivatives that give the Council the right to receive a fixed number of shares for a fixed amount of cash (or another financial asset) in an exchange which is expected to be favourable to the Council.

Defined Benefit Scheme

Also known as a Final Salary Scheme. Pension scheme arrangement where the benefits payable to the members are determined by the scheme rules. In most cases there is a compulsory members' contribution but over and above this all costs of meeting the quoted benefits are the responsibility of the employer.

Defined Contribution Scheme

Also known as a Money Purchase Scheme. Pension scheme arrangement where the employer's liability is restricted to the amount that they contribute. Benefits payable to the members depend on the performance of the invested contributions of the members and the employer, the level of contributions invested, the charges deducted by the product provider and the annuity rate at retirement.

De-Minimis

Minimum level required. For example expenditure below the capital de-minimis is below the minimum level required to be treated as a capital expenditure item.

Department For Education

Central Government Department, responsible for education and children's services in England.

Depreciable Replacement Cost (DRC)

DRC is a method of valuation that provides the current cost of replacing an asset with its Modern Equivalent Asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation.

Depreciation

The term used to describe the charge made for the cost of using tangible fixed assets. The charge for the year will represent the amount of economic benefits consumed by, for example, wear and tear.

Derecognition

The process whereby a component is replaced to avoid double counting when no future economic benefits or service potential are expected from its use or upon disposal.

Discount

An allowance received through the early repayment of debt.

Discounted

Reflecting the equivalent value today of a payment or income made or due in the past or future.

Discounted Cash Flow

A method of analysing future cash flows, by removing the impact time has on the value of money, and producing an equivalent current value (present value).

Discretionary Benefits

Benefits given to employees which are not statutorily obliged.

Disposal

Operations or assets which have left the responsibility of the Council, such as through sale, a Government reorganisation, donation or merger.

Donated Assets

Assets which have been acquired at below market cost.

Dowry

One off payment made as donation, contribution or pre-payment of an obligation.

Earmarked Reserves

Reserve balances which have been set aside for future spending in a specific area.

Economic Life

The number of years the Council is expected to receive economic benefits to deliver services.

Effective Rate

The interest rate embedded within a contract or lease, allowing for regular annual payments and the time value of money.

Employee

A person who holds an office within the Council, but does not include a person who is an elected Councillor.

Employee Benefits

Monetary or other awards to employees of the Council in exchange for services provided. For example, pay, holidays, and pensions.

Employee Costs

The costs directly associated with employees, including but not exhaustively salaries and wages, National Insurance contributions and pension's costs.

Employer Contributions

The payments made to an employee's pension scheme by the Council.

Enhancement Expenditure

Expenditure which increases the value of an asset.

Entity

Something with a legal status such as the Council, a company, or an individual.

Events After The Balance Sheet Date

An event which occurs between 31 March and the date that the accounts are signed which would alter the conclusion reached by any reader of the accounts.

Exceptional Items

Material items that result from the ordinary activities of the Council, but to a value so significantly abnormal that is not expected to recur at that level.

Existing Use Value (EUV)

The value of an asset based on what it is currently being used for. For example, two identical buildings in construction and design may have different values where one is used as a school and another is used as offices.

Exit Packages

The payment made to an employee upon leaving the Council.

Expenditure

Payments made of goods or services.

Fair Value

The income that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair Value Through Other Comprehensive Income (FVOCI)

Measurement of a financial asset at fair value where any gain or loss on revaluation is recognised in other comprehensive income and expenditure and taken to the Financial Instrument Revaluation Reserve.

Fair Value Through Profit or Loss

Measurement of a financial asset at fair value where any gain or loss on revaluation is recognised as a credit or charge to Surplus or Deficit on Provision of Services within the CIES.

Finance Income

Interest receipts.

Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

Financial Assets

A type of financial instrument which gives the Council the right to receive future economic benefits.

Financial Instruments

An umbrella term to describe all financial services and trading with which the Council may operate, including loans, borrowings, bank accounts and debtors.

Financial Instruments Adjustment Account

Revenue reserve which records the timing differences between the rate at which gains and losses are recognised and the rate at which debits and credits are required to be made against Council tax.

Financial Instruments Revaluation Reserve

This reserve contains the cumulative gains and losses relating to the valuation of financial assets held at fair value through other comprehensive income. When the underlying financial assets are de-recognised any gains or losses held in this reserve are credited or expensed to the Surplus or Deficit on Provision of Services.

Financial Liabilities

A type of financial instrument that confers an obligation on the Council to transfer economic benefits under its control.

Financial Statements

Published document, consisting of the Balance Sheet, Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Cash Flow Statement and Notes to the Accounts.

Financial Year

The current year being reported upon running from 1 April to 31 March.

Five Year Financial Plan

The Councils Medium Term Financial Plan, setting out the financial projection for the Council over the coming 5 years.

Fixed Assets

See Non-Current Assets.

Flexi-Time

Time owed to employees who have worked above the contracted hours.

Gain

Where income exceeds expenditure.

General Provisions

Money set aside in the Balance Sheet where its future use is not known.

General Reserve

The reserve held by the County Council for general purposes, i.e. against which there are no specific commitments.

General Revenue Government Grants

Grant income received from Central Government (or Government Department) which is not restricted in its use.

Going Concern

The going concern accounting concept assumes that the organisation will not significantly curtail the scale of its operation in the foreseeable future.

Goods Or Services

Supplies required by the Council to perform its operations. Examples of goods; paper, bricks or light bulbs, and services; electricity, petrol or agency staff.

Grants

Payment towards the cost of local authority services. These are either for particular purposes or services (specific grants) or in aid of local services generally (formula grant).

Group Accounts

Where a Council has a controlling interest in another organisation, group accounts have to be produced. These accounts report the financial position of all of the group entities.

Hire Purchase

A contract for the provision of an asset which becomes the property of the lessee at the end of the contract period.

Historic Cost

The cash paid in obtaining an asset in its current form. Inclusive of purchase price and enhancement expenditure.

HM Revenue & Customs

Her Majesty's Revenue and Customs is a non-ministerial department of the UK Government responsible for the collection of taxes, the payment of some forms of state support, and the administration of other regulatory regimes including the national minimum wage.

HM Treasury

Her Majesty's Treasury, sometimes referred to as the Exchequer, or more informally the Treasury, is the United Kingdom government department responsible for developing and executing the British government's public finance policy and economic policy.

IFRIC

International Financial Reporting Interpretation Committee.

Immateriality

Immateriality is an expression of the relative insignificance or unimportance of a particular matter in the context of the financial statements as a whole.

Impairment

Impairment is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Inception

The point in time which something began such as a project, contract or lease.

Income

Cash flows into the Council.

Income From Service Recipients

Consideration a party, that has contracted with the Council, has given in exchange for goods or services that are the output of the Council's normal operating activites. Such a contract may be in writing, orally or in accordance with customary business practices.

Income In Advance

Income received before the point at which an obligation to receive it has occurred.

Infrastructure

A network and grouping of inalienable components, expenditure on which is only recoverable by continued use of the asset created i.e. there is no prospect of sale or alternative use. The inalienable components include carriageways, footways, cycle tracks, structures, street furniture, street lighting, traffic management systems and land.

Intangible Asset

Non-current assets which do not have physical form such as software.

Interest Accrued

Accrued interest is the interest on a bond or loan that has accumulated since the principal investment or since the previous coupon payment if there has been one already.

Interest Payable

The amount of interest due for payment within a financial year.

Interest Rate

The rate at which interest is calculated on a loan or investment.

Interest Receivable

The amount of interest due for receipt within a financial year.

International Accounting Standards (IAS)

Regulations outlining the method of accounting for activities, IAS's are currently being replaced with International Financial Reporting Standards (IFRS's) issued by the International Accounting Standards Board.

International Financial Reporting Standards (IFRS)

Regulations outlining the method of accounting for activities, issued by the International Accounting Standards Board.

International Public Sector Accounting Standards (IPSAS)

Public Sector regulations outlining the method of accounting for activities.

Inventories

Goods purchased in advance of their use which are held in store.

Investment Property

Assets held solely for the purposes of rental generation or for increasing the value pre-sale (capital appreciation) or both.

Joint Venture

An organisation which the Council has partial control and ownership, but decisions require the consent of all participants.

Lease

Financial contract for the continuing use of an asset.

Lease Interest

The interest rate inherent within a lease allowing for regular rental payments and an adjustment for the time value of money.

Lease Payments

Regular payment made in exchange for the use of an asset.

Leases

A method of funding expenditure by payment over a defined period of time.

Lessee

The person or organisation that is using or occupying an asset under lease (tenant).

Lessor

The person or organisation that owns an asset under lease (landlord).

Liabilities

An obligation to transfer economic benefits. Current liabilities are payable within one year.

Loans And Receivables

Financial assets which are not quoted in an active market and have either a fixed or determinable payment.

Loan Modification

A change to the terms of an existing loan. Changes may include a reduction in the interest rate, an extension of the loan term, or a reduction in the principal balance.

Loan Modification Gain/Loss

An amount arising from adjusting the carrying value of a loan to reflect the cash flows under the renegotiated terms of the loan, but accruing interest at the rate specified in the original loan terms.

Long Term Debtor

Income due in more than 365 days of the balance sheet date.

Long Term Liability

Payment due in more than 365 days of the balance sheet date.

Loss

Where expenditure exceeds income.

Loss Allowance

A reduction to the value of financial assets for the expected credit losses relating to those assets.

Materiality / Material

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

Maternity Leave

Statutory time off due to pregnant women and new mothers.

Members

Elected Councillors responsible for the democratic leadership of the Council.

Members Allowances

Allowances paid to members in association with their roles and responsibilities.

Minimum Lease Payments

The minimum which will be paid or received over the life of a lease agreement.

Minimum Revenue Provision (MRP)

A prudent amount of revenue set aside to contribute towards capital expenditure which has been financed by borrowing or credit arrangements.

Misstatement

An error whereby something was included in the accounts wrongly.

Modern Equivalent Asset (MEA)

The MEA should give the same service and performance as the existing asset, but should use modern materials and technology.

Movement In Reserves Statement (MiRS)

The statement detailing the movement in the reserves of the Council.

Net Cost Of Services

The direct cost of delivering the Councils services after allowing for specific income received by those services.

Net Operating Expenditure

The cost of operational items which are not direct services, such as disposing of the Councils assets, after allowing for specific income received.

Net Realisable Value

The estimated selling price of an asset in the ordinary course of operations less any completion costs and costs to make the sale, exchange or distribution.

Non Distributed Costs

The value of revenue operating expenditure that is not able to be apportioned to one of the authorities core service areas.

Non-Accumulating Absences

Types of leave an employee may take in a financial year, which if are not taken do not get added to the following year’s entitlement. For example Sick Leave.

Non-Current Assets

Assets that yield benefits to the Council for a period of more than one year, examples include land, buildings and vehicles.

Non-Vesting

An obligation which cannot be settled by a monetary payment.

Notes To The Accounts

A set of supplementary comments, tables and information which further explains the main Financial Statements.

Obligation

The requirement to transfer economic benefits.

Operating Lease

A lease where an asset is used only for a small proportion of its economic life.

Operational

The normal activities of the Council.

Past Service Cost

Past service cost is the change in the present value of defined benefit obligations caused by employee service in prior periods.

Payment In Advance

A payment made which is before the point of any obligation.

Pension Liabilities

The cost, calculated by an Actuary, of providing the current members of a pension scheme with retirement benefits as set out in the pension scheme rules.

Pensions Costs

The benefits paid by the Council which are accrued during the period of employment and paid to ex-employees after retirement.

PFI

See Private Finance Initiative.

PFI Credits

The financial support provided to Local Authorities to part fund PFI capital projects.

Pooled Investment Funds Adjustment Account

This reserve contains the cumulative gains and losses related to pooled investment funds measured at FVPL as required by the statutory override effective for financial years 2018-19 to 2022-23.

Premium

A payment made in association with the early repayment of debt.

Pre-Payments

See payment in advance.

Present Value

See Discounted.

Previous Year Adjustments

These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors.

Principal

The amount of repayment to a lender which relates to the reduction in the loan, rather than the interest paid on the loan.

Private Finance Initiative (PFI)

A Government initiative that enables, through the provision of financial support, Authorities to carry out capital projects through partnership with the private sector.

Projected Unit Method

This is a common actuarial funding method to value pension scheme liabilities.

Property, Plant And Equipment Assets (PPE)

Assets with a long Term value and physical substance such as buildings, land, IT equipment or vehicles.

Provisions

Potential costs that the Council may incur in the future because of something that happened in the past, which are likely or certain to be incurred and a reliable estimate can be made to the costs.

Prudent

A cautious approach to present the Financial Statements without significant risk of failure to achieve the assets presented.

Quoted Market Prices

A method of determining the fair value of financial assets via prices quoted on an active market.

Recognition

The process upon which assets are deemed to belong to the Council ether by purchase, construction or other form of acquisition.

Receivable

The Council's unconditional right to receive consideration in exchange for goods or services that it has transferred to a service recipient.

Residual

The remaining value in an asset at the end of a contract or lease.

Retirement Benefits

Remuneration package received by employees after their retirement from the Council.

Retrospectively

Changes made to previous years accounts to alter the treatment which has previously been reported.

Revaluation Gain

The increase to the fair value of an asset following a valuation.

Revaluation Reserve

This reserve contains revaluation gains on assets recognised since 1 April 2007 only, the date of its formal implementation.

Revenue

The cost associated with providing Council services.

Revenue Expenditure

Expenditure which is not capital.

Revenue Expenditure Funded From Capital Under Statute (REFCUS)

This is expenditure that is classified as capital although it does not result in the creation of a fixed asset.

Revenue Grant

Grant which is not capital.

Risk

The chance of an asset not coming to fruition or a liability being greater than anticipated.

Royal Institute Or Chartered Surveyors (RICS)

An international organisation who represent everything professional and ethical in land, property and construction.

Salaries And Wages

Payments made to employees in exchange for service worked at the Council.

Service Concession Arrangements

Arrangements which involve the supply and maintenance of assets and service delivery.

Service Costs

Reflects the element of annual payment for PFI or Leased assets which is in relation to services provided within the contract.

Service Expenditure Reporting Code of Practice (SERCOP)

CIPFA guidelines on reporting revenue expenditure.

Service Level Agreements

Contract of service.

Short Term

Less than 365 days from the balance sheet date.

Short Term Benefits

Employee benefits earned and consumed during employment.

Significant

A measure of materiality where the value is deemed to be almost all of the total value in question.

Soft Loans

Low interest rate loans.

Spot Yields

A calculation of the projected return on bonds if held to maturity.

Staff

See employee.

Statute

Set out in legislation.

Straight Line Basis

The method of calculation of depreciation to allocate an equal amount of depreciation each year over an asset’s useful life.

Support Services

Indirect costs of providing Council services including HR, Finance, Legal and Property Maintenance.

Surplus
Arises when income exceeds expenditure or when expenditure is less than available budget.

Surplus Assets
Assets which are no longer in operation.

Tangible
Physical, can be touched.

Tenant
The person or organisation that is occupying an asset under lease.

Termination Benefits
Employee benefits paid upon termination of employment such as redundancy.

The Code
CIPFA guidelines on accounting within Local Government.

Transactions
Individual items of income or expenditure.

Treasury Management
Utilisation of cash flows through investments and loans.

Unidentified Income
Income received by the Council where the reason for the income is unknown.

Unusable
Balances which are not available to support future spending.

Usable
Balances which are available to support future spending.

Useful Life
The period with which an asset is expected to be useful to the Council in its current state.

Value Added Tax
National taxation charged on goods and services.

Vesting
Obligation due which can be paid in cash.

Work In Progress
The fair value of incomplete contracts for goods and services which are to be charged to external customers.

Agenda Item No.4 f

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

23 March 2021

Report of the Director of Finance & ICT

PSAA UPDATE

1 Purpose of the Report

To provide Audit Committee with an update from the Public Sector Audit Appointments (PSAA) Advisory Panel meeting on 1 February 2021, which covered an update and discussion on the Redmond Review, progress on issuing 2018-19 and 2019-20 audit opinions, audit fees and audit procurement.

2 Information and Analysis

Redmond Review Update

An overview of the Redmond Review (Review), the recommendations arising from it and comments on the Council's position, where relevant, were set out in a Report to Audit Committee on 8 December 2020. The Council has commenced a dialogue with its external auditors to discuss the findings of the Review.

MHCLG contacted several stakeholders, including PSAA, before issuing its response to the Review in December 2020. Some matters were reflected in the detail of MHCLG's response that were not the subject of a direct recommendation, or which were clarified in briefings after the issue of the Review report. The MHCLG response to each of the Review's recommendations is included alongside those recommendations and comments on the Council's position, from the previous Audit Committee report, at Appendix One.

MHCLG's response refers to £15m funding to help deliver recommendations for 2020-21 and support for the three main strands of the recommendations:

- Action required to support immediate external audit market stability.
- Enhancing the functioning of local audit, and the governance of responding to its findings.
- Improving the transparency of local authorities' accounts for the public.

In particular, MHCLG is supportive of:

- Training and skills uplift.
- Reform of Appointing Person Regulations.
- Improving the long-term supply of local auditors.
- Two-year extension of target audit deadline to 30 September, then a review.
- Accessible financial statements.
- Independent Audit Committee member.
- Auditor/statutory officers to meet annually.
- Audit presentation to main body.
- CIPFA/LASAAC to review simplification options.

In many of their responses, MHCLG has indicated that they will work with other parties to deliver the recommendations, including the LGA, NAO, CIPFA and PSAA. However, several of the Review's recommendations are centered around the establishment of a new body called the Office of Local Audit and Regulation (OLAR), a point which MHCLG is currently not persuaded on. There are three possible reasons for this:

- Centralised arms-length bodies are not favoured.
- Wariness about creating a new Audit Commission.
- Primary legislation is needed, so it would take too long.

MHCLG deferred six of the recommendations, five relating to OLAR, and will respond by Spring 2021. MHCLG is working through these, talking to stakeholders and exploring the alternatives to OLAR, including examining other options to deliver effective system leadership and reviewing how functions and responsibilities will be allocated in any new model. PSAA has stressed its view to MHCLG that a clear direction of what the objectives of public audit are is required to focus solutions.

The PSAA discussion that followed included the following matters of note:

- The regulator must have an understanding of local government audit and focus more on financial sustainability. The distinctive nature of local authorities is not properly recognised by the private sector audit model.
- A simplified statement of accounts has been in the pipeline for a while, but will add to the workload around audited accounts, rather than simplifying it. CIPFA did some work around this process and carried out a consultation in Autumn 2019.
- The FRC has taken the position that local government accounts should be on a par with company accounts, emphasising that the current accounting framework is the driver for what audit needs to do; and that it does not justify a different regulatory approach.

- 30 September is not a statutory date for audit sign off, it remains only a target date. The balance between timeliness of audit reporting and quality for local audit has been shifted. External audit firms' primary focus is on producing robust audit (based on FRC requirements) and they will only provide clean opinions once they have the necessary assurances, rather than qualified ones.
- Work on the next appointing person cycle must start imminently, but clarity is required around what the sector and its stakeholders need from audit and what the direction is.
- A question was posed as to whether getting the procurement right could be a solution to sustainability of the audit market. Changes in the private sector audit world will have an impact on public audit and on the firms. Potential suppliers may be looking at this market less favorably, given the pressures on current suppliers.
- FRC standards regarding the quality of external audits will not allow any reliance to be placed on internal audits for the financial statements work. When the NAO consulted on the new Code in 2019, one of the questions was: to what extent does the Code expect audit to have to comply with International Auditing Standards? It was agreed that alignment was important and should be maintained. Forums with CIPFA and internal auditors have encouraged auditors to look at how they can expand the relationship between internal and external audit, to help inform their commentary around VFM arrangements as this is not covered by the auditing standards.
- This is a very significant year, in which full responses to four reviews (Kingman, CMA, Brydon and Redmond) are awaited, the new Audit Code takes effect and further revised auditing standards are anticipated. The VFM commentary, for example, is designed to be more useful and to have more impact and has been welcomed accordingly but the current high levels of uncertainty and capacity challenges represent a tough environment for the successful introduction of this and other new requirements.
- It was noted that it is unlikely there will be a mandate for independent members on audit committees to be made compulsory. The sector can currently formulate its own governance structure.

In summary, PSAA are contributing to MHCLG's deliberations and await MHCLG's final response. Moving forward may be more about a suite of small changes, rather than a single radical proposal.

Audit Opinions Update

The table below shows progress in delivering 2019-20 public sector audit opinions, by audit firm. In summary, at the statutory deadline of 30 November 2020, there remained 264 opinions that had yet to be delivered, from a total of 479 audits (55%). A further 62 opinions, including the Council's, were signed off in December 2020. Of the audit opinions outstanding at 31 December 2020, the Council's auditor, Mazars, had proportionately the fewest (34%).

Firm	**Total Audits**	**Outstanding at 30 November 2020**		**Outstanding at 31 December 2020**	
BDO	25	14	56%	12	48%
DL	26	16	62%	15	58%
EY	161	103	64%	81	50%
GT	179	82	46%	64	36%
Mazars	88	49	56%	30	34%
Total	**479**	**264**	**55%**	**202**	**42%**

As at 31 December 2020, there remained eighteen objections under investigation in respect of the 2019-20 audits.

For 2018-19 public sector audits, there remained 26 opinions that had yet to be delivered and eighteen objections under investigation at 31 December 2020.

Audit Fees

PSAA is soon to issue a paper on a new approach to national fee variations.

2021-22 audit scale fees must be set by 31 March 2021. Once these fees are set and the financial year has started, PSAA cannot change them.

Audit Procurement

Arrangements for the next PSAA procurement have yet to be determined by MHCLG but the process will need to start very soon. The opt-in/opt-out model is expected to continue.

3 Considerations

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

4 Background Papers

Papers held electronically by Technical Section, Finance & ICT Division, Room 137.

5 Officers' Recommendation

That Audit Committee notes this PSAA Update in respect of the Redmond Review, issuance of audit opinions, audit fees and audit procurement.

PETER HANDFORD
Director of Finance & ICT

APPENDIX ONE

Redmond Review
– Recommendations, Council's Position and MHCLG Response

The recommendations of the Redmond Review are as follows, alongside comments - where relevant - on the Council's position *and MHCLG's response in December 2020:*

External Audit Regulation

1. A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit with the following key responsibilities:
    - procurement of local audit contracts;
    - producing annual reports summarising the state of local audit;
    - management of local audit contracts;
    - monitoring and review of local audit performance;
    - determining the code of local audit practice; and
    - regulating the local audit sector.

    ***MHCLG** – We are considering this recommendation further and will make a full response by Spring 2021.*

2. The current roles and responsibilities relating to local audit discharged by the:
    - Public Sector Audit Appointments (PSAA);
    - Institute of Chartered Accountants in England and Wales (ICAEW);
    - FRC/ARGA; and
    - The Comptroller and Auditor General (C&AG)

    to be transferred to the OLAR.

    ***MHCLG** – We are considering this recommendation further and will make a full response by Spring 2021.*

3. A Liaison Committee be established comprising key stakeholders and chaired by MHCLG, to receive reports from the new regulator on the development of local audit.

    ***MHCLG** – We are considering this recommendation further and will make a full response by Spring 2021.*

APPENDIX ONE

4. The governance arrangements within local authorities be reviewed by local councils with the purpose of:
   - an annual report being submitted to Full Council by the external auditor;
   - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
   - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

   The results of the annual audit are reported each year to Full Council. It has been agreed with Mazars that in future they will attend that meeting to present their report in person. In the past consideration has been given to the involvement of an independent member on the Audit Committee, perhaps now is the time to consider the option again, perhaps utilising a joint appointment with another public body but without compromising the role of elected representatives. At present the auditor meets frequently with the key statutory offices in the council, formalising this process will be a sensible move.

   ***MHCLG** – Agree; we will work with the LGA, NAO and CIPFA to deliver this recommendation.*

5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.

   ***MHCLG** – Agree; we will work with key stakeholders to deliver this recommendation.*

6. The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.

   Whilst this may mean an increase in costs it is time to reverse the recent decreases in fee levels as it has resulted in an unstable market for audit services and an audit that has, on occasion, not been fit for purpose across some parts of the local government sector.

   ***MHCLG** – Agree; we will look to revise regulations to enable PSAA to set fees that better reflect the cost to audit firms of undertaking additional work.*

APPENDIX ONE

7. That quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.

   MHCLG *– We are considering this recommendation further and will make a full response by Spring 2021.*

8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.

   MHCLG *- Part agree; we will work with the FRC and ICAEW to deliver this recommendation, including whether changes to statute are required.*

9. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.

   External Audit reliance on the work of Internal Audit has diminished over the years and now is an appropriate time to rebuild that relationship, to assess whether collaboration can assist External Audit in obtaining the assurance they require in respect of the accuracy and completeness of the statement of accounts. The Council has an established External and Internal Audit Protocol which provides a firm basis for further development of this relationship.

   MHCLG *– Agree; we will work with the NAO and CIPFA to deliver this recommendation.*

10. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.

    Whilst such a change is understandable due to the capacity issues in External Audit firms, it is regrettable that such a move is necessary and we would hope that when some element of stability has returned to the market then consideration may be given to a return to a July date.

    MHCLG *- Part agree; we will look to extend the deadline to 30 September for publishing audited local authority accounts for two years, and then review.*

APPENDIX ONE

11. The revised deadline for publication of audited local authority accounts be considered in consultation with NHSI(E) and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.

    ***MHCLG** – Agree.*

12. The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

    ***MHCLG** – Agree; we will work with the LGA, NAO and CIPFA and other key stakeholders to deliver this recommendation, including whether changes to statute are required.*

13. The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.

    ***MHCLG** – We are considering this recommendation further and will make a full response by Spring 2021.*

Smaller Authorities Audit Regulation

14. SAAA considers whether the current level of external audit work commissioned for Parish Councils, Parish Meetings and Internal Drainage Boards (IDBs) and Other Smaller Authorities is proportionate to the nature and size of such organisations.

15. SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.

16. SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.

APPENDIX ONE

Financial Resilience of local authorities

17. MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.

    This is welcomed in view of the recent financial failures in local authorities.

    ***MHCLG** – We are considering this recommendation further and will make a full response by Spring 2021.*

18. Key concerns relating to service and financial viability be shared between Local Auditors and Inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor's Annual Report.

    ***MHCLG** – Agree; we will work with other departments and the NAO to deliver this recommendation.*

Transparency of Financial Reporting

19. A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts.

    If such a statement can be made to simplify reporting into an easily understandable explanation of the Council's financial position, then it is to be welcomed.

    ***MHCLG** – Agree; we will look to CIPFA to develop a product through consultation with local government. We will work with CIPFA to deliver this recommendation.*

20. The standardised statement should be subject to external audit.

    ***MHCLG** – Agree; we will work with CIPFA, the LGA and the NAO to deliver this recommendation.*

21. The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.

    ***MHCLG** – Agree; we will work with the LGA and CIPFA to deliver this recommendation.*

APPENDIX ONE

22. CIPFA/LASAAC be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.

    Such a move has been required for a long time and it is hoped real simplification can be achieved.

    MHCLG *– Agree; we will look to CIPFA to deliver this recommendation.*

23. JPAG be required to review the Annual Governance and Accountability Return (AGAR) prepared by smaller authorities to see if it can be made more transparent to readers. In doing so the following principles should be considered:
    - Whether "Section 2 – the Accounting Statements" should be moved to the first page of the AGAR so that it is more prominent to readers;
    - Whether budgetary information along with the variance between outturn and budget should be included in the Accounting Statements; and
    - Whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the Accounting Statements.

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Agenda Item No

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

23 March 2021

Report of the Director of Finance and ICT

STRATEGIC RISK REGISTER REVIEW

1 Purpose of the Report

To request Audit Committee to review the Strategic Risk Register and to provide an update on progress of the 2019-2021 Risk Strategy.

2 Information and Analysis

Strategic Risk Register

The Strategic Risk Register has undergone an initial full review of both risks and actions that the Council is undertaking to manage the key risks that may have a significant impact on the Council's ability to deliver its services and the Council Plan.

The Strategic Risk Register is shown at Appendix A. Updates to the risk register are shown in purple text.

Provisional wordings have been included for risk reference 2020/01 relating to information governance and 2018/15 relating to changing legislation and regulation. Both risks will be updated for the next Audit review.

Several risks have been separated for clarity of actions and assessed risk associated with each: -

- Risk Ref: 2011/9 *Protection of Children and Vulnerable Adults*

Has been split into two risks separating children and adults

- Risk Ref: 2012/2 *Maintenance of Assets*

Has been split into two risks to differentiate between the assets managed by Property Division and ETE.

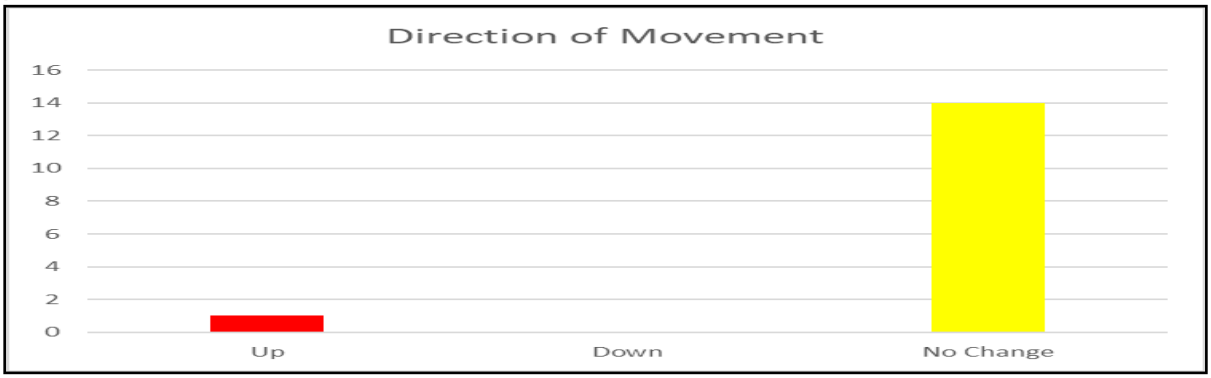
At present, all identified risks score 15 and above, putting these into the extreme high-risk category. These risks therefore all require significant

management action, control, evaluation or improvements with continued proactive monitoring.

The target scores demonstrate that the Council wishes to achieve a reduction from extreme to the moderate to high spectrums.

Following the review, risk reference 2011/11 relating to Adapting to Climate Change has increased scoring, with the remainder of the risks remaining static.

Ideally, over time, the Council will start to see an increased number of risks decreasing their risk score as actions identified become embedded into practice.



The corporate guide to assessing impact and likelihood is included within Appendix B to assist Audit Committee Members.

2019-21 Risk Strategy Update

The 2019-21 Risk Strategy is currently under review to align to the proposed new Council Plan and to incorporate the following considerations: -

- Greater emphasis on understanding risks as a tool to enable Directorates to achieve their goals
- Movement towards evaluating opportunity risk against hazard risks in business cases and forward planning
- Linking identified deliverables, risk and performance monitoring
- Reviewing the role of Risk Leads within Directorates to achieve greater engagement and the identification of cross cutting risks
- Ensuring Strategic Risk owners attend Audit Committee on an annual basis to provide Members with an update on their allocated risk to provide additional assurance
- Changing the static perception of Risk Registers to Risk Action Plans (RAPs) for a dynamic approach to risk management
- Improved visualization of risk by linking with APEX
- Introducing a “golden thread” linking all risks of a similar nature across the Council to enable risk owners to fully understand the significance and

impact of the whole risk. This will also link strategic risks with specific risks and actions identified within divisional or departmental RAPs

The revised Risk Strategy will be circulated for comment by April 2021.

3 Officer's Recommendation

That Audit Committee:

i) review the Strategic Risk Register to:
   a. note the key risks to the Council
   b. note the target scores as a reflection of the aims of the Council
   c. note the mitigations identified to achieve the target score

ii) note the proposals for the revised Risk Strategy

PETER HANDFORD

Director of Finance & ICT

DERBYSHIRE County Council

Strategic Risk Movement Report:

Report Date: February 2021 **Date of Previous Risk Score**: November 2020

Notes: References highlighted **Purple** have been added since the previous report.
Old Category is shown when there has been a change of category.
Previous Risk Score shows rating, probability and impact prior to the Current Risk Score

No Change Downwards movement Upwards movement

Risk Ref: *2011/1* **Category: Strategic**	**Risk Owner**	**Progress Update**	**Previous Risk Score**	**Movement Direction**	**Current Risk Score**	**Target Risk Score**
Risk Description ***Impact of a prolonged recovery and a funding gap*** In the event that the Authority does not develop sufficient and timely proposals to deal with the ongoing or further reductions in funding/resources, there is a risk that the need to close the funding gap may result in identifying measures for unplanned reductions in service spend leading to deterioration or interruption of front line service delivery.	**Peter Handford** Director of Finance and ICT	The Council has updated its Five-Year Financial Plan alongside the setting of the Revenue Budget 2021/22 in February 2021. The update reflects the outcomes of the Spending Round 2020 and the Local Government Finance Settlement 2021/22. The continuation of mainstream funding for local authorities at 2020/21 levels is welcome, together with the additional funding for social	**EXTREME 25** **Probability** Almost Certain 5 **Impact** Very High 5		**EXTREME 25** **Probability** Almost Certain 5 **Impact** Very High 5	**HIGH 12** **Probability** Probable 4 **Impact** Medium 3

		care including the option of the Adult Social Care precept. This additional funding has allowed the Council to invest in critical services, such as adults and children's' social care. However, savings of £72m+ are still required over the medium in order to maintain a balanced annual budget. There is a significant commitment in the Council's 2021/22 Revenue Budget to provide an additional £27m of ongoing funding and £15m to support service pressures. Given the uncertainty regarding Covid-19, the EU Exit, local government devolution and delays to the Fair Funding and Business Rates Reviews, consideration has been given to the longer-term financial sustainability of the Council in setting its 2021/22 budget.				

		There is a reliance on the achievement of a programme of budget savings. The Covid-19 pandemic has resulted in an economic shock from which it will take some time to recover.				
Controls:	**REF:**	**Control Description**		**Status**		**Owner**
	2011/1 FIN001	Five-Year Financial Plan is updated at least annually and following key Government announcements e.g. Spending Rounds.		In place/embedded		E Scriven
	2011/1 FIN002	Departmental budget reductions programmed developed together with a plan of lead-in times for consultation, where appropriate and the identification of workforce reductions.		In place/embedded		P Handford
	2011/1 FIN003	Budget Management Strategy Group established to ensure a cohesive approach to the monitoring of departmental budget saving targets, associated consultation activity and budget setting procedures. Departmental representatives following agreed terms of reference are meeting at least monthly with an expectation that the frequency of meetings will be more regular during the budget setting period.		In place/embedded		P Handford
	2011/1 FIN004			In place/embedded		E Scriven

		Budget Monitoring Policy ensures that there is regular reporting to SMTs and Members. The Director of Finance meets with Executive Directors and Cabinet Members to discuss the latest monitoring position. The position is reported to Cabinet and Council on a quarterly basis (effective from 1/4/2020) alongside departmental performance information.		
	2011/1 FIN005	The Reserves Policy stipulates that the Council's level of reserves will be reviewed at least annually. This includes a projection of the General Reserve balance to ensure that is maintained at an adequate risk assessed level.	In place/embedded	E Scriven
	2011/1 FIN006	Positive use of Better Care Fund and alignment of health and social care priorities for integrated working.	In progress/taking effect	H Jones
	2011/1 FIN007	Lobby Government in ensuring fair funding for Derbyshire. The Council responds to all key Government consultations in respect of the Funding Review which is currently ongoing.	In progress/taking effect	P Handford
	2011/1 FIN008	Monitor the impact of the National Funding Formula for schools and closely monitor the implications of the High Needs Block level of funding ensuring compliance with the revised Government regulations.	In progress/taking effect	C Allcock
		Departments have been asked to identify estimated Covid-19 costs for the 2021/22	In progress/taking effect	P Handford

		financial year in order to establish whether the £15m general Covid-19 funding allocation is sufficient to meet the estimated costs. A £15m recovery fund has been established to support the Derbyshire economy and recovery from Covid-19. It is expected that the majority of the scheme will each provide significant benefit to the local economy with a smaller portion for internal recovery.	In progress/taking effect	P Handford

Risk Ref: 2020/01 Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description ***Increase in Demand on Council Services*** As demand for services changes, the Council may need to adapt the services it currently offers in order to provide the new or additional services. Failing to manage the changes could lead to core services being reduced leading to significant impact upon stakeholders and partnerships; potential litigation; fines; risk of injury or death.	**Iain Little** Deputy Director of Public Health	Demand Management has been identified as a priority project within the Enterprising Council approach. An SRO has been identified, and next steps will include establishing a cross-council project team. This work has been delayed due to capacity pressures caused by the Council's Covid-19 response.	**EXTREME 20** **Probability** Probable 4 **Impact** Very High 5	⇦⇨	**EXTREME 20** **Probability** Probable 4 **Impact** Very High 5	**High 12** **Probability** Probable 4 **Impact** Medium 3

	Ref:	**Control Description**	**Status**	**Owner**
	To be added	SRO identified to lead work Demand management programme group established	In place/embedded In progress/taking effect	E Crapper I Little

Risk Ref: *2011/05* Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description ***Failure to have adequate business continuity plans in place*** The emerging risk environment, the number and type of emergency and the interdependencies of services is increasingly making business continuity or "resilience" a significant focus for the Council.	**Tim Gregory** Director of Environment, Transport and Economy	The Council's corporate business continuity plan provides a strategic framework around which staff can work to enable critical functions to be maintained, or quickly restored to minimise any effect on service delivery to the community. The plan concentrates on services provided at County Hall headquarters, Chatsworth Hall, John Hadfield House and Shand House. and identifies priority functions which need to be maintained or restored in order to provide critical services. Further work is being undertaken to look at services provided at other locations, partnership working and external suppliers.	**EXTREME 25** **Probability** Almost Certain 5 **Impact** Very High 5	⇔	**EXTREME 25** **Probability** Almost Certain 5 **Impact** Very High 5	**HIGH 10** **Probability** Unlikely 2 **Impact** Very High 5

		There is an established annual programme of training and exercises to ensure staff understand what their roles and responsibilities are, test the effectiveness of the plan and assist with future development. Following a Business Continuity exercise organised by Emergency Planning a revised priority functions spreadsheet for all service areas is in place. The document ensures that heads of service are actively considering and documenting their business continuity arrangements. The priority functions spreadsheet needs to be revisited throughout the year; the previous version was completed in Nov 2020. Following the outbreak of the coronavirus, the Council has engaged in significant scenario planning across all departments to ensure that the Council is equipped to				

		respond to ensure continuity of services on a priority basis.		
Controls:	**REF**	**Control Description**	**Status**	**Owner**
	2011/05 ETE001	Corporate Business Continuity Plans updated and tested on an annual basis. Plan is held on an external resilient portal (ResilienceDirect) to which staff with identified roles and responsibilities have access.	In place/embedded	E Partington
	2011/05 ETE002	In the event of an emergency, the Business Continuity Management Team (key strategic corporate staff) will meet at appropriate intervals to agree the strategic objectives and task the Business Continuity Support Team in order to ensure an effective co-ordinated response.	In place/embedded	E Crapper
	2011/05 ETE001	Departments hold in-depth reviews of their continuity arrangements to ensure key services can continue.	In progress/taking effect	E Crapper
	2011/05 ETE001	ICT and procurement to work with departments to ensure systems procured provide resilience.	In progress/taking effect	T Gerrard
	2011/05 ETE001	Cross departmental working in place to support key areas. Skills and training identified.	In progress/taking effect	E Crapper
		Business Continuity Policy – May 2018	In progress/taking effect	E Partington

Risk Ref: *2021/02* Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description ***Failure to have adequate emergency response arrangements in place*** The Council's ability to provide an effective response to an emergency situation, including major incidents such as severe weather (e.g. climate change-based flooding), fire, loss of utilities or pandemics, whilst maintaining its critical services to the public. The emerging risk environment, the number and type of emergencies is increasingly making continuity or "resilience" a significant focus for the Council. Budget cuts and rationalisation (including resourcing reductions) also challenge the	**Tim Gregory** Director of Environment, Transport and Economy	Derbyshire Local Resilience Forum (LRF) is a partnership of responder agencies who provide a strategic oversight and co-ordination of emergency planning arrangements in Derbyshire in accordance with the requirements of the Civil Contingencies Act 2004. The LRF is made up of the emergency services, local authorities, the Environment Agency, government agencies and utilities as appropriate. Derbyshire LRF is currently chaired by Chief Constable Rachel Swann of Derbyshire Constabulary. All designated Category 1 responders under the Civil Contingencies Act 2004, are	**EXTREME 20** **Probability** Probable 4 **Impact** Very High 5	⇔	**EXTREME 20** **Probability** Probable 4 **Impact** Very High 5	**HIGH 12** **Probability** Probable 4 **Impact** Medium 3

Council in its ability to fulfil its Category 1 Responder statutory duty under the Civil Contingencies Act 2004.		required to carry out risk assessments for their area. A Derbyshire wide community risk register (CRR) has been compiled along with supplementary registers for the eight district/boroughs and city within Derbyshire. Following the outbreak of the coronavirus, the Council and the LRF have reviewed its response arrangements to ensure that they can be delivered in a Covid-19 safe way. This includes holding virtual Strategic Co-ordinating and Tactical Co-ordinating Groups for emergencies.				
Controls:		**Control Description**		**Status**		**Owner**
	To be added	Corporate Emergency Plan updated and tested on an annual basis with multi agency training and exercises. Plan is held on an external resilient portal (ResilienceDirect) to which staff with identified roles and responsibilities have access.		In place/embedded		E Partington
		In the event of an emergency, key staff will attend multi agency Strategic Co-ordinating		In place/embedded		T Gregory

		and Tactical Co-ordinating Groups as appropriate.	In place/embedded	T Gregory
		Following emergencies departments review their response with internal debriefs that feed into LRF multi-agency debriefs as appropriate.	In place/embedded	T Gregory
		LRF multi-agency risk and capability plans are prepared and maintained to ensure an effective response by responding agencies including the County Council.	In place/embedded	C Brailsford
		Flood Risk Management Strategy and guidance notes - The flood risk management strategy sets out the Council's actions to help manage flood risk in Derbyshire. It also gives the role of our partners (such as district and borough councils, water companies, parish and town councils). The strategy is divided into 2 parts: • Part 1 provides information about flooding and flood risk - it covers who to call, and how local people can help themselves to become more resilient to the impacts of flooding • Part 2 covers the more technical details of understanding flood risk in Derbyshire - it has an action plan about how we will manage future risks and get money to cover costs	In place/embedded	C Brailsford

		Flood Risk Asset Register - register of structures or features in Derbyshire which are considered to have a significant impact on flood risk and requires permission if any changes are to be made. Owners of assets and features on the asset register must maintain their assets and ensure that they are working fully. The Council has the power to enforce the owners of registered assets to carry out this duty.		

Risk Ref: 2011/19 Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description ***Effective Change Management*** The Council is undergoing significant organisational change from financial pressure or political change which could create significant workforce issues around having the right skills, productivity and capacity, each of which may adversely impact upon service delivery if not managed. The effect of reducing the Council workforce and pressure for increased productivity without effective change management and employee engagement also carries health and attendance risks. The lack of effective change management can lead to significant impact upon	**Emma Crapper** Director of Organisation Development and Policy	Work is currently taking place on the development of a whole council strategic transformation case identified as a key priority to drive forward Phase 2 of the Council's Enterprising Council approach. Initial work has focused on developing a whole council view of change activity across the organisation which will support the identification of priority programmes of work and the targeting of resources. A new centralised programme management office is currently in the process of being developed and this will ensure that the council develops a consistent approach to project/programme management and business planning across the organisation. The PMO will also be responsible for	**EXTREME 20** **Probability** Probable 4 **Impact** Very High 5	⇔	**EXTREME 20** **Probability** Probable 4 **Impact** Very High 5	**MODERATE 9** **Probability** Possible 3 **Impact** Medium 3

stakeholders and partnerships; potential litigation; fines; risk of injury or death and unplanned spending increases.		ensuring the Council has the necessary skills, capacity and capability to deliver identify change. A new Assistant Director – Business Change has been appointed for twelve months creating additional capacity to support the effective implementation of the strategic transformation case and the PMO. Employee engagement and wellbeing is central to the development of the Council's people strategy and in the previous 12 months, the Council's has deployed a number of pulse surveys to seek views from its workforce. A cycle of regular pulse surveys has been approved which will complement the Council's wider approach to engagement (Listen and Engage, Shape and Respond). This is supported by internal communications narrative work centred on 'Our Spirit'.				

Page 177		Feedback from leadership forums also help inform and mitigate against potential concerns within the workforce and will shape the engagement approach further as we proceed, supported by a clear leadership development approach and leadership behavioural framework. The council recently reviewed its wellbeing strategy actions plans, refocusing on people, data and systems to ensure the strategy is successfully embedded, with deployment of new initiatives such as an employee assistance programme.				
	Ref:	**Control Description**		**Status**		**Owner**
	To be added	Development of strategic transformation case and prioritised council wide programme of transformation Creation of a centralised Programme Management Office for the Council		In progress/taking effect In progress/taking effect In progress/taking effect		E Crapper E Crapper E Crapper

		Development of effective governance arrangements to monitor and evaluate agreed change activity	In progress/taking effect	J Skila
		Deployment of the employee engagement pulse survey cycle as approved by CMT on 8 February 2020.	In progress/taking effect	J Skila
		Regular leadership forums / senior leadership forums to support leader development and information sharing, coupled with a leadership behavioural framework.	In progress/taking effect	J Skila
		Ongoing deployment and monitoring of the council's wellbeing strategy and associated action plans.		

Risk Ref: 2011/20 Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description ***Supply Chain Failure*** Failure to manage ~~outsourced~~ contracts effectively could lead to unforeseen increased costs; risk of contracts collapsing; increased carbon footprint.	**Peter Handford** Director of Finance and ICT	A Central Contract Management Support Team has been proposed to improve management of contracts across the Council. This is still subject to approval.	**EXTREME 25** **Probability** Almost Certain 5 **Impact** Very High 5		**EXTREME 25** **Probability** Almost Certain 5 **Impact** Very High 5	**MODERATE 6** **Probability** Unlikely 2 **Impact** Medium 3

	Ref:	**Control Description**	**Status**	**Owner**
	To be added	Proposed introduction of a standardised Contract Management Framework via a Central Management Professional Standards Team across the Council.	Proposed/not yet approved	T Gerrard
		Identification of high value/high risk contracts including partnerships and partners which	Proposed/not yet approved	T Gerrard

		demand a higher level of contract management.	Proposed/not yet approved	T Gerrard
		Understanding the flow of Council goods and services from our suppliers will help mitigate supply chain risk and identify any potential risk to supply and/or costs this should include the manufacturing, movement and storage of goods, right through to order fulfilment. This data should be captured and reported on centrally as part of robust contract/supply chain management.		
		Use of an external credit reference agency is proposed as part of contract management activity to check financial standing of providers during the life of the contract.	Proposed/not yet approved	T Gerrard
		Contract & provider knowledge sharing with other councils via the East Midlands Heads of Procurement and the national Public Sector Procurement Working Group.	Proposed/not yet approved	T Gerrard
		Reviewing and updating tender documentation and contracts to identify weaknesses which could contribute towards supply chain failure.	In progress/taking effect	T Gerrard
		Ensuring Business Continuity Plans are reviewed and tested with providers during the life of the contract as part of robust contract management activity	Proposed/not yet approved	T Gerrard

		County Procurement is an active member of the Council's Environmental Sustainability Group. As part of this Group proposals to embed sustainability into Procurement activities are being considered. The Social Value Portal organisation is being on-boarded to deliver sustainability as part of the Social Value framework. A Soft Market Testing exercise is also being undertaken to identify a sustainability partner.	In progress/taking effect	T Gerrard

Risk Ref: 2011/2 Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description ***Failure to achieve value for money for the Council's New Waste Treatment Facility; and failure to re-commission the facility and secure long-term operation*** The Council is working with stakeholders to determine the "Estimated Fair Value" (EFV) of the facility following termination of the Project Agreement with RRS. This is the compensation due to the former contractor and comprises the value of the plant, considering all of the costs of rectifying ongoing issues, and the costs of providing the services to meet the agreed contract standards. Failure to achieve value for money is a significant risk to the Council's budget. Failure to recommission the facility is a	**Tim Gregory** Director of Environment, Transport and Economy	The Council is meeting regularly with the project funders to reach a consensual settlement on the EFV. In parallel preparations continue in the event negotiations are unsuccessful. Work to determine the condition and capability of the facility is nearing completion and will determine the next steps for the facility. This information is informing the EFV workstream. Project planning is underway on services post 2022, when the Service Continuity Contract expires. A Work Plan of key actions is in place, resources allocated and are subject to regular review.	**EXTREME 25** **Probability** Almost Certain 5 **Impact** Very High 5	⇔	**EXTREME 25** **Probability** Almost Certain 5 **Impact** Very High 5	**MODERATE 6** **Probability** Unlikely 2 **Impact** Medium 3

significant risk for the long-term waste management strategy, the Council's future economic and environmental sustainability and its reputation.						
	Ref:	**Control Description**			**Status**	**Owner**
	To be added	A Service Continuity Contract has been put in place to make sure waste continues to be dealt with, and that recycling centres and waste transfer stations continue to operate. These services are being provided by waste management company Renewi under a new two-year contract. The contract includes work to secure and preserve the waste treatment facility.			In place/ embedded	C Brailsford
		Joint Waste Contract Management Boards (with Derby City Council) in place and meet regularly to provide strategic leadership			In place/ embedded	C Brailsford
		Internal Waste Project Board being established			In progress/ taking effect	C Brailsford
		Specialist advisors (finance; commercial and legal) appointed and support the Project Team. The Project Team meets at minimum weekly.			In place/ embedded	C Brailsford

Risk Ref: 2020/01 Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description ***Provisional wording:*** ***The Council's information governance policies, processes and systems insufficiently protect personal, commercial and other sensitive data, leading to potential harm to vulnerable persons, employees and commercial relationships, legal action, financial penalties and reputational damage*** ~~***Failure to comply with GDPR and Cyber resilience***~~ The Council manages a significant amount of personal data and information in relation to service users and employees ~~in the delivery of services~~, commercial and other sensitive	**Peter Handford** Director of Finance and ICT	This corporate risk is being reformulated by the Director of Finance and ICT to address information governance (incorporating GDPR and cyber resilience). The risk scores are unchanged from the previous report until the review is complete and an informed assessment is made.	**EXTREME 15** **Probability** Possible 3 **Impact** Very High 5	⇦⇨	**EXTREME 15** **Probability** Possible 3 **Impact** Very High 5	**High 12** **Probability** Possible 3 **Impact** Medium 4

data using a range of systems and mediums. With data held in a vast array of places and in varying formats, it becomes susceptible to loss, protection, availability, misuse and privacy risks particularly with increased use of electronic transfer, and management (including use of the Government Public Sharing Network). The Council is exposed to legal action, financial penalties and reputational impact.						
	Ref:	**Control Description**			**Status**	**Owner**
	To be added	Under review				

Risk Ref: 2011/11 Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description ***Adapting to Climate Change*** The Council faces a challenge in relation to an increase in extreme weather patterns including increased rainfall, drought, heatwaves and unseasonal weather. This will result in risks of increased frequency of flooding; damage to infrastructure; risk to health, well-being and productivity; water and energy shortages; risks to natural capital; interruption of food production and trade; new and emerging pests, diseases and plant and animal species. Climate change around the world is likely to result in mass migration of people.	**Helen Jones** Executive Director, Adult Social Care & Health	The Derbyshire Climate Change Adaptation Plan was produced in 2013 with a review of progress taking place in 2017. The Adaptation Plan addressed flooding, infrastructure, service delivery, adapting the built environment and community and business resilience planning with considerable work being undertaken in each area.	**High 12** **Probability** Possible 3 **Impact** High 4	↑	**EXTREME 16** **Probability** Probable 4 **Impact** High 4	**MODERATE 6** **Probability** Unlikely 2 **Impact** Medium 3
	Ref:	**Control Description**			**Status**	**Owner**

	To be added	Analysis and distribution of future climate projections for Derbyshire	In progress/ taking effect	C Brailsford
		Derbyshire Local Flood Risk Management Strategy	In Place/ embedded	C Brailsford
		Derbyshire Natural Capital Strategy	Proposed/not yet approved	J Battye/ C Brailsford
		Planning guidance	Proposed/not yet approved	J Battye

Risk Ref: 2011/9 Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description ***Protection of Vulnerable Adults*** Failure to protect the most vulnerable in our society could lead to significant fines; special measures; litigation; decreased staff morale; reputational damage	**Helen Jones** Executive Director, Adult Social Care and Health	An Adult Social Care (ASC) Quality Assurance Strategy has been developed which is the foundation from which we will ensure that all ASCH functions drive the delivery of high quality services for the people of Derbyshire and work to continuously improve quality based on a clear understanding of expectations and requirements. Alongside this strategy a Quality Improvement Board (QIB) has been established. The Board is chaired by the Service Director and involves Group Managers across the department. The Board ensures that the quality and improvement of all ASC services is the responsibility of the whole department and that	EXTREME 15 **Probability** Possible 3 **Impact** Very High 5	⇄	EXTREME 15 **Probability** Possible 3 **Impact** Very High 5	HIGH 10 **Probability** Unlikely 2 **Impact** Very High 5

		the QA strategy is being implemented. The work of the Board is focused into six key work streams; Safe Services, Quality Recording, Quality Monitoring and Improvement, Quality Workforce, Communications and Quality Policies and Procedures. Each work stream has a set focus and purpose and key actions to address the learning points. These key actions are delivered through detailed work stream action plans.				
	Ref:	**Control Description**			**Status**	**Owner**
	2011/9 ASC001	An Adult Social Care Quality Assurance Strategy and Framework has been developed and agreed. This is now being implemented and embedded into practice.			In progress / taking effect	S Stevens
	2011/9 ASC002	The quality Improvement board meets on a six weekly basis to review progress within work streams, to drive delivery on the action plan and to identify new learning.			In place / embedded	S Stevens
	2011/9 ASC003	The Quality Improvement Board provides regular updates to the ASC Senior Management team, Executive Director and Portfolio Holder.			In place / embedded	J Vollor

	2011/9 ASC004	Safeguarding leadership arrangements have been reviewed and additional investment has been made into the team as well as a transfer of the operational structure into the Commissioning, Safeguarding and Performance team to enable more independent scrutiny and oversight.	In place/ embedded	J Ryalls / S Knowles
	2011/9 ASC005	We have reviewed our approach to learning reviews and serious incidents and are revising policy and process in order to ensure appropriate and consistent monitoring, review and learning mechanisms are established and embedded	In progress/ taking effect	J Ryalls / S Knowles
	2011/9 ASC006	Additional investment has been made into the ASC Quality and Compliance team in order to ensure we have a focused approach to audit, monitoring and continuous improvement.	In place/ embedded	T Henson
	2011/9 ASC007	An initial performance dashboard has been developed which currently monitors the performance of our care homes by measuring across six key metrics; staffing vacancies, occupancy, incidents, training, complaints and CQC rating. This dashboard is further being developed to capture quality, compliance and safeguarding activity across the whole department. Both the high-level dashboard, and a more detailed report sitting underneath, are sent to all relevant operational staff and are also monitored by the Quality and Compliance Team.	In progress/ taking effect	T Henson
	2011/9 ASC008	Senior Managers are updated in relation to any significant incidents through a newly embedded ‘notifiable incident form’.	In place/ embedded	D Sullivan / T Henson

Risk Ref: 2021/02 Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description ***Protection of Vulnerable Children*** Failure to protect the most vulnerable in our society could lead to significant fines; special measures; litigation; decreased staff morale; reputational damage	**Jane Parfrement** Executive Director, Children's Services	Whilst risk can never be eliminated entirely, the council has robust policies and procedures in place to safeguard vulnerable children, supported by training and development, supervision and quality assurance processes. Structures and capacity within frontline teams have been reviewed, in order to reduce caseloads and increase support for practitioners via reflective supervision and management oversight. Successful recruitment and retention strategies have reduced turnover and vacancies in social care, leading to greater workforce stability.	**EXTREME 15** **Probability** Possible 3 **Impact** Very High 5	⇄	**EXTREME 15** **Probability** Possible 3 **Impact** Very High 5	**HIGH 10** **Probability** Unlikely 2 **Impact** Very High 5

		These measures provide a firm foundation for ongoing service improvement and the reduction of risks to children.				
	Ref:	**Control Description**			**Status**	**Owner**
	To be added	Robust policies & procedures, training, supervision and QA in place. Supported by strong independent quality assurance function.			In place/ embedded	A Noble
		Derbyshire Safeguarding Childrens Partnership embedding and supporting quality assurance and development of multi-agency safeguarding practice			In progress/ taking effect	L Dale
		Systemic practice operating model; integration of Early Help and Social Care.			In place/ embedded	A Noble
		Formal and informal learning, coaching and mentoring. Work underway to further strengthen L&D approaches			In progress/ taking effect	A Noble / L&D team
		Robust procedures within Starting point to embed multi agency thresholds and pathways. Further work across DDSCP to strengthen partnership responsibility			In progress/ taking effect	P Lambert
		Reviewing of staffing, training and caseloads - including successful growth bid.			In place/ embedded	A Noble
		Practice improvement plans with oversight by QA Board chaired by Exec Director. Regular performance monitoring			In place/ embedded	P Lambert

		and accountability at all levels across children's safeguarding and SEND services.		
		Supervision policy and management oversight reviewed and strengthened.	In place/ embedded	P Lambert
		Workforce strategy - recruitment and retention of social workers improved; supporting more stable workforce and reducing remaining capacity pressures.	In progress/ taking effect	P Lambert
		Strengthened procedures via DDSCP to identify and embed learning from serious case reviews/child practice reviews. Implementation of regular assurance reports to CMT on learning reviews and actions to strengthen practice.	In progress/ taking effect	A Noble
		Systems in place to report regularly and learn from complaints.	In place / embedded	D Cohen
		Systems in place to ensure more regular review of risks to children and agree visiting patterns during COVID-19; strengthened multi-agency working to achieve visibility for children and 'key worker' role for those with EHC plans.	In place/ embedded	A Noble / I Peel

Risk Ref: 2012/2 Category:	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description ***Maintenance of Property Assets*** Failure to maintain our assets could lead to significant fines; significant litigation; decreased staff morale; reputational damage; HSE investigation	**Dave Massingham** Director of Property	In February 2019 Cabinet approved a new operating model for Corporate Property Services based on the property life cycle. The Asset Management Framework developed in 2019 documents the Strategy for managing Land and Buildings. A new Senior Management Team was established during 2020 and a programme to externalise non-core services commenced March 2020. In February 2021 a new Governance and decision arrangements framework was presented to Cabinet and agreed. Resources within operational service areas have been refocused on priority risk areas	**EXTREME 15** **Probability** Possible 3 **Impact** Very High 5	⇄	**EXTREME 15** **Probability** Possible 3 **Impact** Very High 5	**MODERATE 6** **Probability** Unlikely 2 **Impact** Medium 3

		of Statutory Compliance and a new administrative and contract management team for Statutory Compliance areas has been implemented.				
	Ref:	**Control Description**			**Status**	**Owner**
	2012/2 PROP001	Asset Management Framework is reviewed annually			In place/ embedded	J Scholes
	2012/2 PROP002	Governance and Performance Framework is a key deliverable in the service plan			In progress/ taking effect	G Massey
	2012/2 PROP003	A 5-year programme of individual asset plans for all council assets has been developed and is underway			In progress/ taking effect	J Scholes
	2012/2 PROP004	5-year programme of individual Condition Surveys for all council assets			In place/ embedded	S Brown
	2012/2 PROP005	Annual Premises Reviews to 100% of managed estate			In place/ embedded	S Brown
	2012/2 PROP006	Planned Preventative Maintenance plans to align with Asset Plans			In progress/ taking effect	S Brown
	2012/2 PROP007	Dedicated resource to Statutory Compliance – administration, contract management and operational service provision			In place/ embedded	S Brown

Risk Ref: 2021/03 Category:	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description ***Maintenance of ETE Assets*** Failure to maintain our assets could lead to significant fines; significant litigation; decreased staff morale; reputational damage; HSE investigation	**Tim Gregory** Director of Environment, Transport and Economy	Representatives from ETE, Property and Corporate Finance are seeking to develop a holistic strategy and approach to how individual plans, processes and procedures will fit together to form the Council's joined up approach. Derbyshire's approach to Highways Asset Management has been developed using the recommendations made within the 2013 Highways Management Efficiency Programme (HMEP) Highway Infrastructure Asset Management Guidance and is the basis of the Council's approach to delivering best practice, as set out in the 2016 Code of Practice for Well-Managed Highway Infrastructure.	**EXTREME 15** **Probability** Possible 3 **Impact** Very High 5		**EXTREME 15** **Probability** Possible 3 **Impact** Very High 5	**MODERATE 6** **Probability** Unlikely 2 **Impact** Medium 3

Page 197		These required local authorities to adopt a risk based, integrated asset management approach to maintaining highway infrastructure by October 2018. These approaches are supported by the new funding models for local authority highway maintenance. A Corporate Property Asset Management Framework is in place. The Capital Strategy for 2022-22 provides a high-level overview of how capital expenditure and capital financing contribute to the provision of local public services.				
	Ref:	**Control Description**			**Status**	**Owner**
	To be added	The Highways Infrastructure Asset Management Policy and Strategy documents set out delivery of road-related services against our key priorities taking into consideration residents' needs, the condition of the asset and how best use can be made of available resources. The emphasis is on managing our infrastructure assets efficiently and effectively by focusing			In progress/ taking effect	J Gould

		on investing in long-term planned maintenance instead of short-term repairs. Documentation is reviewed biennially.		
		Highway Network Management Plan - technical document which specifies how the department manages and provides change to Derbyshire's highway network. The document follows a review of existing policies and procedures to reflect the change to the risk-based approach set out in the HIAMs documentation and the criteria to manage the network. It reflects changes to materials and techniques within the industry, relevant legislation and current environmental guidance and practice.	In progress/ taking effect	J Gould
		Environmental Management System (EMS) - ISO 14001 Certification – Yearly Audit programme and three yearly recertification	In place/ embedded	J Gould
		Quality Management System (QMS) – ISO 9001-2015 Certification - Yearly Audit programme and three yearly recertification	In place/ embedded	A Glithero

Risk Ref: 2018/5 Category	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description ***Failure to understand or respond adequately to new or changing legislation and regulation*** Lack of knowledge and understanding of ~~Departmental~~ statutory duties meaning the Council is at increased risk of special measures, HSE investigation, corporate manslaughter charges, personal prosecution and insurers refusing to provide indemnity on property or liability claims.	**Helen Barrington** Director of Legal and Democratic Services	This corporate risk is under review by the new Director of Legal and Democratic Services. The risk scores are unchanged from the previous report until the review is complete and an informed assessment is made.	**EXTREME 25** **Probability** Almost Certain 5 **Impact** Very High 5	⇄	**EXTREME 25** **Probability** Almost Certain 5 **Impact** Very High 5	**MODERATE 10** **Probability** Unlikely 2 **Impact** Very High 5
	Ref:	**Control Description**			**Status**	**Owner**
	To be added	Under review				

Risk Ref: 2018/4 Category: Strategic	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Risk Description ***Ineffectual workforce planning*** A failure to recruit and retain experienced staff; a lack of succession planning in order to ensure effective continuity of key skills and knowledge at all levels including leadership skills. Resulting in unfilled posts, accepting a lower calibre of staff, increasing training requirement to upskill new staff, vital knowledge lost leading to service delivery issues	**Emma Crapper** Director of Organisation Development and Policy	Aligned to the development of the council's people strategy, core people priorities have been defined which include focus on the attraction and retention of the workforce and responsive workforce plans. A review of recruitment services is underway, however its timescales have been impacted through the council's focus on community testing and the resultant large-scale recruitment requirements. A current review of the council's learning and development strategy, includes consideration of the organisation's approach to succession planning and performance management which will central to our future	**EXTREME 25** **Probability** Almost Certain 5 **Impact** Very High 5	⇄	**EXTREME 25** **Probability** Almost Certain 5 **Impact** Very High 5	**MODERATE 9** **Probability** Possible 3 **Impact** Medium 3

		workforce planning approaches. In conjunction with the LGA, an assessment has been undertaken of the council's current approach to workforce planning in readiness for developing the future activity which is required to support delivery of more responsive workforce plans.				
	Ref:	**Control Description**			**Status**	**Owner**
	To be added	In conjunction with LGA, evaluation and development of the council's strategic workforce planning approach supported by consistent establishment controls that enable effective forecasting, resourcing solutions and development of departmental L&D plans (including succession planning and career/learning pathways).			In progress/ taking effect	J Skila
		Deliver improved proactive recruitment campaign management and strategic recruitment advice considering the future needs, values and behaviours of the organisation. Be more active in the recruitment marketplace on the council's journey to becoming an employer of choice.			In progress/ taking effect	J Skila

Appendix B

Corporate Impact Assessment Criteria of Risk Category										
Scale	**Description**	**Financial**	**Reputational**	**Physical Injury/Health and Safety**	**Environmental Damage**	**Service/Operational Disruption/Key Targets/Objectives**	**Statutory Duties/ legal Implications**	**Partnership Implications**	**Information Governance**	**Stakeholder Implications**
5	**Very High**	>£25,000,000	Lasting or permanent brand damage resulting from adverse comments in national press and media. Members/Officers forced to resign	Death or severe life-changing injuries	Major national or international	Severe disruption/loss of service more than 7 days	Multiple Litigation	Complete failure / breakdown of partnership	Significant breach, extensive national press, ICO fines, loss of ISO 27001 certification	Stakeholders would be unable to pursue their rights and entitlement and may face life threatening consequences
4	**High**	£10,000,000 to <£25,000,000	Temporary brand damage from coverage in national press/media	Extensive or multiple injuries/ Incidents reportable to HSE	Major local impact	Disruption/Loss of service less than 7 days	Litigation	Significant impact on partnership or most of expected benefits fail	Larger breach, no sensitive data loss local press coverage Or Minor breach, sensitive data loss local press coverage	Stakeholders would experience considerable difficulty in pursuing rights and entitlements
3	**Medium**	£5,000,000 to <£10,000,000	Extensive coverage in regional press/radio/TV/social media	Serious injuries/ incidents reportable to HSE	Moderate locally	Disruption/Loss of service less than 48 hours	Ombudsman	Adverse effect on partnering arrangements	Larger breach, no sensitive data loss and internally controlled Or Minor breach, sensitive data loss internally controlled	Some minor effects on the ability of stakeholders to pursue rights and entitlements, eg other sources or avenues would not be available to stakeholders
2	**Low**	£2,500,000 to <£5,000,000	Minor adverse comments in regional press/social media	Minor (i.e. first aid treatment)/ No time lost from work	Minor locally	Internal disruption only, no loss of service	Individual Claims	Minimal Impact on Partnership	Individual breach no loss of sensitive data	Minimal impact without needing to look at other sources or avenues
1	**Negligible**	<£2,500,000	Minimal adverse comments with minimal press/social media	None	None/ Insignificant	No loss of service	No impact	No Impact	No impact	No impact

Likelihood Assessment Criteria	
Scale	**Description**
5	ALMOST CERTAIN: The event is expected to occur or occurs regularly (monthly)
4	PROBABLE: The event will probably occur (annually)
3	POSSIBLE: The event may occur (1 incident in 2 years)
2	UNLIKELY: The event could occur (1 incident in 5 years)
1	RARE: The event may occur in certain extreme circumstances (1 Incident in 10 years or above)

Risk Score Matrix (Impact x Likelihood)

Likelihood						
	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	**2**	**3**	**4**	**5**
		Impact				

Agenda Item No.5

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE MEETING

23 March 2021

Report of the Assistant Director of Finance (Audit)

INTERNAL AUDIT PLAN 2021-22

1. Purpose of Report

To present to Members for consideration and approval the proposed Audit Services Plan for 2021-22.

2. Information & Analysis

The Audit Services Plan is designed to provide assurance that the significant risks identified as part of the risk assessment process are being managed effectively and, where appropriate, to make recommendations for improvements in overall control, efficiency and effectiveness. As part of this process Audit Services will also examine risk management frameworks, control and governance arrangements.

The Audit Services Plan has been formulated in accordance with the Internal Audit Strategy and Audit Charter previously presented to the Audit Committee. This Plan is informed by our risk assessment drawn from a wide range of sources including:-

- Council Plan;
- Council's strategic risk register;
- Departmental risk registers;
- Service plans;
- meetings with Corporate Management Team, Executive Directors and Directors including the Head of Paid Service, Section 151 Officer and Monitoring Officer;
- Management requests for assistance;
- previous cyclical Audit work, knowledge of systems, controls and follow up;
- pro-active fraud work;
- external audit.

As part of this process Audit projects have been identified which will be developed specifically to address significant Corporate and Departmental risks and build on those areas where frauds/control weaknesses have previously been identified. Those projects which will not be completed during the current year have been considered for inclusion in the proposed Audit Services Plan for 2021-22 in accordance with the Internal Audit Strategy

Throughout 2020/21 the work of the Unit was disrupted due to the impact of the covid-19 pandemic and this will continue to affect Audit Services in 2021/22 and beyond. The main factors causing such disruption were reported to Members following the first lockdown and are listed below and likely to remain:-

- Timing of Audit work;
- Additional, unplanned work;
- Potential impact of frauds, scams and errors;
- Home working and social distancing;
- Access to records;
- Access to premises;
- Return to business as usual.

These factors have been considered when formulating the proposed Audit Services Plan.

Whilst it is anticipated that during 2021/22 the Council will return to more normalised working arrangements and provision of services, Audit coverage of establishments including schools, residential establishments and care centres will be restricted.

Another significant challenge for the Unit relates to its available staffing resource. The Unit is committed to providing a full range of Audit services using only in-house staff, including the specialist areas of investigative and IT Audit work.

The proposed Audit Services Plan for 2021-22 is based on a staffing structure which provides for the deployment of 2,723 days. This level of resource is based on several assumptions regarding recruitment to posts, including the post of Assistant Director of Finance (Audit & Risk), and the potential impact of sickness on available days to the deliver the Audit Services Plan. Recruiting staff of the required calibre with suitable knowledge, experience, qualifications and skills is one of the most significant risks facing the Unit in the short term. It is essential that such staff are available to Audit Services to enable the Unit to provide a comprehensive, efficient and cost effective service to the Council and meet the expectations of Members and Senior Management. Members are aware of the staffing challenges which Audit Services has faced during recent years and the impact on available staffing resources.

In common with previous years the Audit Services Plan will be continually reviewed to ensure that it remains aligned with significant risks whilst remaining responsive to changes in risk, operations, systems and controls. This will be particularly important during 2021-22 due to the on-going challenges which the Unit will face owing to the impact of covid-19 and the need to fill all established posts. Consequently it would be prudent to fully review and assess the Audit Services Plan around September 2021 and report the findings to the Audit Committee and the Corporate Management Team. In any event progress against the approved Audit Services Plan will be monitored and regularly reported to the Audit Committee.

Mazars LLP act as the Council's External Auditors and Audit Services will work with them in accordance with the agreed External and Internal Audit Protocol.

The Audit Services Plan is attached at Appendix 1 to this Report and details the Audit Services' coverage for all Departments and the Corporate Authority, it also identifies the perceived level of risk, the resource to be employed and the expected outcomes of Audit work. Timetabling of the individual projects will continue to be agreed with Executive Directors, Directors and Senior Management on an ongoing basis throughout the year, and this will be informed by the findings and emerging initiatives identified.

3. Legal Considerations

The Audit Services Unit discharges the Council's statutory responsibilities under Regulation 5 of the Accounts & Audit Regulations 2015 and significant aspects of the Director of Finance & ICT's statutory duties under Section 151, Local Government Act 1972.

The Public Sector Internal Audit Standards require that the Assistant Director of Finance (Audit), as Head of Internal Audit (HIA), 'must deliver an annual audit opinion and report that can be used' to inform the Council's Annual Governance Statement. This opinion must reflect the work done during the year and 'must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control'. In providing this opinion it is necessary to summarise the main findings and conclusions from Audit work together with any specific concerns the HIA has.

4. Other Considerations

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

5. Background Papers

A file held by the Assistant Director of Finance (Audit).

6. Officer's Recommendation

That the Audit Committee:-

- note the comments regarding the proposals for monitoring and review of the Audit Services Plan for 2021-22;
- subject to these comments approve details of the Audit Services Plan for 2021-22 which is attached at Appendix 1.

Carl Hardman
Assistant Director of Finance (Audit)

DERBYSHIRE COUNTY COUNCIL

AUDIT SERVICES PLAN

2021/22

"Audit Services aspires to enhance and protect organisational value by providing risk based and objective assurance, advice and insight"

CARL HARDMAN
Assistant Director of Finance (Audit)

DERBYSHIRE County Council

DERBYSHIRE County Council

Background

The Audit Services Unit discharges the Council's statutory responsibilities under Regulation 5 of the Accounts & Audit Regulations 2015 to *'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes'*. In addition the Unit performs significant aspects of the Director of Finance & ICT's statutory duties under Section 151 of the Local Government Act 1972. The Unit also works with Mazars LLP, the Council's appointed external auditors.

The role and responsibilities of the Unit are further clarified and reinforced in the Council's Financial Regulations and Standing Orders Relating to Contracts, Audit Charter, Internal Audit Strategy, Anti-Fraud and Anti-Corruption Strategy, Fraud Response Plan and the requirements of Whistleblowing The Confidential Reporting Code.

Cabinet has approved the Audit Charter which draws together existing practice and formalizes procedures relating to Audit Services, whose mission is to enhance and protect organisational value by providing risk based assurance, advice and insight.

The Public Sector Internal Audit Standards (PSIAS) are recognised under the Accounts and Audit Regulations as the relevant, best practice benchmark for the provision of an adequate and effective internal audit service. The PSIAS define internal auditing as *'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*'

A professional, independent and objective internal audit service is one of the key elements of good governance in local government.

The PSIAS also requires that the '*chief audit executive (Assistant Director of Finance (Audit)) must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals….*

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.'

The Unit was subject to an external assessment of its compliance with the requirements of the PSIAS by Cipfa C.Co who assessed that the Unit conforms overall and in each of the four areas of focus assessed.

Risk Assessment Process

The Audit Services Plan has been formulated in accordance with the Internal Audit Strategy and informed by our risk assessment drawn from a wide range of sources including:-

- Council Plan;
- Council's strategic risk register;
- Departmental risk registers;
- Service plans;

- meetings with Corporate Management Team, Executive Directors and Directors including the Head of Paid Service, Section 151 Officer and Monitoring Officer;
- Management requests for assistance;
- previous cyclical Audit work, knowledge of systems, controls and follow up;
- pro-active fraud work;
- external audit.

The chart below identifies key factors which influence our risk assessment:-

Source: Audit Services

As part of this process Audit projects have been identified which will be developed specifically to address key Corporate and Departmental risks and build on those areas where frauds/control weaknesses have previously been identified. The Council provides a wide range of diverse services in a dynamic environment with limited resources which are under increasing pressure.

The planning of Audit assignments is recorded in Project Briefs which are designed to inform the scope of the Audit, identify key risks, activities/controls to be tested, resource and reporting requirements.

Audit Services Plan

The Audit Services Plan is designed to provide assurance that the significant risks identified as part of the risk assessment process are being managed effectively and, where appropriate, to make recommendations for improvements in overall control, efficiency and effectiveness. As part of this process Audit Services will also examine risk management frameworks, control and governance arrangements.

Audit Services recognise the requirement to provide Members and Senior Management with assurance on the operation of core financial systems and will continue our programme of compliance and probity reviews of other services, systems and processes according to an assessment of risk and business need.

Throughout 2020/21 the work of the Unit was disrupted due to the impact of the covid-19 pandemic and this will continue

to affect Audit Services in 2021/22 and beyond. It is anticipated that during 2021/22 the Council will return to more normalised working arrangements and provision of services, but Audit coverage of establishments including schools, residential establishments and care centres will be restricted.

The Unit will continue to actively support the Council's promotion of good governance and the work of the Governance Group. In addition Audit Services contribute to the work of the Information Governance Group, the Cyber Security Group and a number of other groups in order to support Senior Management and the implementation of systems and projects.

Our work regarding the assessment of new, revised and existing IT systems to verify their compliance with the Council's ISO27001 accreditation, General Data Protection Regulation (GDPR) requirements and Departmental service priorities will continue.

Audit Services will seek to identify opportunities to improve value for money through its on-going programme of reviews and specific project work.

The Council takes a robust stance against fraud and corruption whether it is attempted on or from within the Council. The Audit Services Plan includes provision for this work based on previous experience; actual time spent will vary depending on the number and complexity of matters which require investigation. As part of this work referrals are made to the Police where potential criminal activity is detected and, where required, specific reports are produced to assist Management by recommending where control frameworks require strengthening.

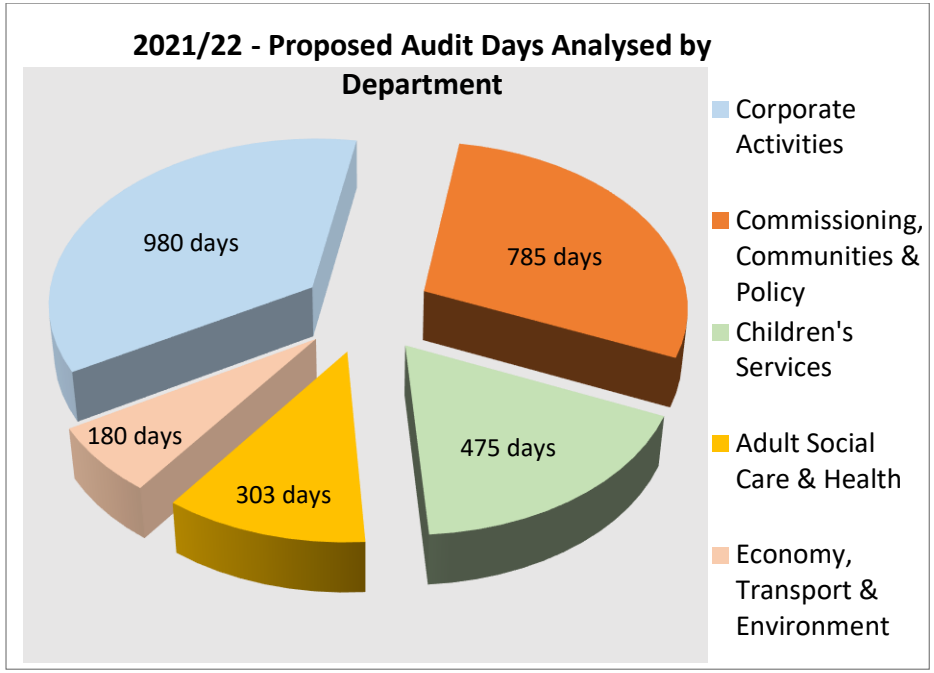
Audits which make up the Audit Services Plan are assigned a priority ranking and resources are directed at those areas of highest risk. Should unforeseen events impact on the delivery of the Audit Services Plan then those areas considered to be of lower risk may not be completed.

Looking forward the Council will face a number of challenges including:-

- funding pressures;
- increased growth in partnerships and collaborations, for example with health;
- ever increasing use of technology to deliver services;
- new ways of working and flexible working arrangements;
- introduction of new ways for customers and the public to access services;
- responding to the covid-19 pandemic and the emerging challenges this is posing both within the Council and externally.

During these turbulent and challenging times it is essential that the Audit Services Plan is continually reviewed to ensure that it remains aligned with significant risks whilst remaining sufficiently flexible to respond to changes in risk, operations, systems and controls. Any amendments will be identified through Audit Services' ongoing liaison and discussions with the Audit Committee, Corporate Management Team, Executive Directors, Directors and Senior Managers. Progress against the approved Audit Plan will continue to be monitored and regularly reported to the Audit Committee.

The following chart summarises the proposed Audit Services Plan and deployment of available resources:-



Source: Audit Services

Resources

Resource requirements are considered each year as part of the Audit planning process. The Council continues to operate under increasing financial pressures and the demands and restrictions placed upon it by the covid-19 pandemic. The need to seek innovative working methods, generate income and cashable savings is essential in helping to protect vital services.

Consequently the Council is progressing a number of developments including an enterprising council approach, project management initiative and new ways of working which will bring further challenges and opportunities requiring Audit Services' input and support. Such input is likely to extend beyond one year in some cases and may require a project based approach.

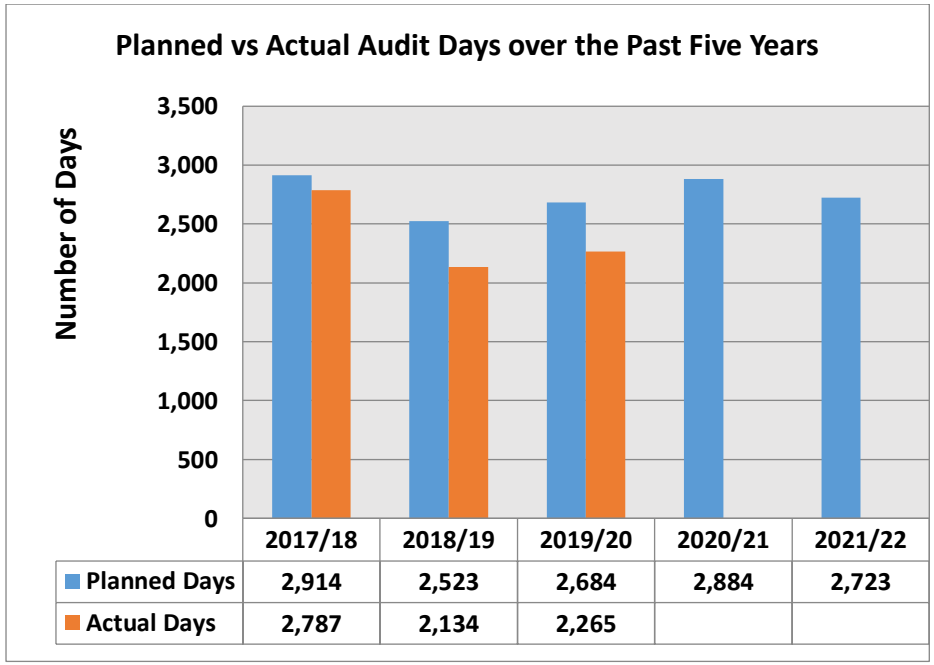
The Unit is committed to providing a full range of Audit services using only in-house staff, including the specialist areas of investigative and IT Audit work. It is essential that the level of skills, experience and qualifications available is maintained to enable Audit Services to continue to provide a comprehensive, efficient and cost effective service to the Council.

Although the Unit has an establishment of approximately 17 full time equivalents, during the past year it has faced significant, prolonged staffing challenges which have impacted on the days available to deliver the Audit Plan. The Unit currently has two vacancies which comprise a Principal Auditor and an Auditor post. In addition the Assistant Director of Finance (Audit) post will be vacant on my retirement at the end of March 2021. Consequently there will be a commitment to induct and train new staff during 2021-22.

The Audit Services Plan for 2021-22 requires the deployment of 2,723 Audit days which has been assessed based on known and estimated resources. Several assumptions have been made in this calculation and updates to Members on available resources will continue to be provided as part of regular reporting on the achievement of the Audit Services Plan.

The detailed Audit Services Plan is shown on pages 8 to 19 and includes a contingency of 200 Audit days. This enables the Unit to be reactive and able to respond to emerging risks and unforeseen situations, which may arise throughout the year, which are not included in the Plan.

The following table analyses planned and actual Audit days delivered during recent years and highlights the effect of staffing shortages on the delivery of the approved Audit Services Plan:-



	2017/18	2018/19	2019/20	2020/21	2021/22
Planned Days	2,914	2,523	2,684	2,884	2,723
Actual Days	2,787	2,134	2,265		

Source: Audit Services Pentana system

Delivery of Audit Work

The scope and timing of Audit work will be discussed with Management and all Audit assignments will be reported to the appropriate levels of Management on completion. Audit staff will provide an opinion and a level of assurance which Management may draw from the adequacy and effectiveness of the overall control framework in operation in the area subject to Audit based on the results of our work.

Audit staff will continue to support Management by making prioritised recommendations based on our findings which will, if implemented, improve the effectiveness, efficiency and adequacy of governance, risk and internal control frameworks. These recommendations are incorporated into an Action Plan. Recommendations are classified as those which will result in improvements in governance and control and those which will result in improvements in efficiency and effectiveness. Audit Services have systems in place to routinely follow up the status of agreed recommendations with Executive Directors and Directors.

To enable the Unit to deliver the Audit Services Plan we will seek to foster collaborative working arrangements with Senior Management. This is essential to ensure that the scope of Audit work and its objectives are understood, key staff are available to assist Audit delivery, prompt reporting of actions and agreed recommendations are implemented in accordance with time scales.

During the year Audit Services will liaise with the Corporate Management Team, Executive Directors and Directors to provide updates on performance, significant findings from Audit work and identify any issues which affect the current and future Audit Plans.

Audit Services will continue to assess and develop opportunities to streamline service delivery through the use of IT and the remote capture of information, to assist in maximising the effectiveness of Audit resources and reduce the impact of Audit visits on operational staff.

Quality Assurance and Improvement Programme

The PSIAS require the Assistant Director of Finance (Audit) to develop and maintain a Quality Assurance and Improvement Programme (QAIP) covering all aspects of the internal audit activity. The QAIP sets out the procedures for the ongoing monitoring, supervision, review and measurement of Audit Services' activity. It also includes arrangements for both internal and external assessments of such activity. The QAIP enables evaluation of the Unit's conformance with the definition of internal auditing, the PSIAS and whether internal auditors apply the Code of Ethics. The QAIP was presented to the Audit Committee.

The Unit has an Audit Manual based on accepted, professional best practice which as well as being compliant with the PSIAS builds quality into every stage of the Audit process. The Audit Manual is subject to regular review and all staff must observe its requirements.

Audit Services Annual Report

The Audit Services Annual Report draws together the results of the work undertaken against the approved Audit Plan and is a requirement of the PSIAS which states that the *'chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.'*

The Audit Services Annual Report incorporates:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

This Report is a key output from the Unit providing independent and objective assurance regarding the results of Audit work, and the opinion informs the Council's Annual Governance Statement.

Client Feedback

The Unit has well established systems in place to collect feedback which is also used to inform improvements.

External Audit

Mazars LLP are the Council's External Auditors and we will work with them in accordance with the agreed External and Internal Audit Protocol which has been reported to the Audit Committee. Findings from Audit Services' work informs External Audit's risk assessment and development of their programme of work. This in turn supports their assessment that the statement of accounts fairly presents the Council's financial position and the adequacy of arrangements for ensuring the Council's economic, efficient and effective use of resources.

DERBYSHIRE AUDIT SERVICES
INTERNAL AUDIT PLAN 2021/22

The information summarized below by Service Department identifies our work for the year totalling 2,723 days and the expected outcomes of that work for the Council.

Key to Level of Risk: H - High, M - Medium, L - Low

Corporate Activities

It is intended to spend 980 days on the Audit of Corporate Activities which will be allocated over the following areas:-

Audit Area	Level of Risk	Audit Days	Expected Outcomes
Corporate Projects			Provision of an assurance to Executive Directors and Members with regard to the identified Audit areas.
• Workforce Development/Succession Planning	H	30	Review of the adequacy and effectiveness of systems in place to identify significant workforce issues, develop appropriate skill sets and workforce capacity.
• Cyber Security	H	20	Assessment of the adequacy and effectiveness of systems in place to protect information systems (hardware, software and associated infrastructure), the data on them and the services they provide, from unauthorised access, harm or misuse whether intentional or accidental.
• Audit of Corporate Culture	H	30	Evaluation of the adequacy and effectiveness of governance arrangements, communication and ethics which underpin the purpose, vision, values and priorities of the Council.
• Climate Change	H	30	Review of the adequacy and effectiveness of systems in place to respond to climate change initiatives including the identification of risks, threats and opportunities.
• Major Incident Response	M/H	30	Assessment of the adequacy and effectiveness of systems in place to respond to a major incident/emergency.
• Revised Working Arrangements	M/H	30	Evaluation of the adequacy and effectiveness of systems in place to ensure that robust controls are maintained during return to normalised working/transition to new ways of working.

Key to Level of Risk: H - High, M - Medium, L - Low

Audit Area	Level of Risk	Audit Days	Expected Outcomes
• New Delivery & Commissioning Models/Partnership Working	M/H	30	Review of the adequacy and effectiveness of systems in place to assess new and changes to delivery models including partnership working, and the monitoring of outcomes. Supports the Enterprising Council approach.
• Data Protection Compliance	M/H	20	Evaluation of the adequacy and effectiveness of systems in place to ensure compliance with statutory requirements and particularly the General Data Protection Regulation.
• Serious and Organised Crime	M/H	10	Evaluation of the adequacy and effectiveness of systems in place to protect procurement arrangements from infiltration by serious and organised crime groups.
• D2N2 LEP	M	45	Provision of internal audit as part of the Council's Accountable Body responsibilities.
Corporate Governance including:-			
• Embedding Corporate Governance	H	70	Attendance and support to the Council's Audit Committee and Governance Group. Work to support the production of the Annual Governance Statement and embedding the principles of good Corporate Governance throughout the Council.
• Business Continuity Planning	H	20	Assessment of the arrangements to ensure that the Council can maintain the provision of essential services in the event of a major disaster/disruption to facilities.
• Corporate Health Check	H	20	Strategic review of the overall control environment including compliance with key legislative requirements.
• Information Governance Group and Support	H	20	Attendance and support to the Council's Information Governance Group, review of associated IT security policies and the maintenance of the Information Security Management System.

Key to Level of Risk: H - High, M - Medium, L - Low

Audit Area	Level of Risk	Audit Days	Expected Outcomes
Corporate Fraud Prevention	H	325	Part of the Council's Corporate Fraud Prevention culture including liaison with External Audit, National Fraud Initiative, National Anti-Fraud Network, RIPA/IPA management and the provision for investigative reviews of areas of irregularity/suspected fraud identified within the year.
Strategic Management		50	Management of the Audit and Risk function.
Audit Contingency	-	200	A 7% contingency for unforeseen work and to mitigate the impact of vacancies within the Unit.

Key to Level of Risk: H - High, M - Medium, L - Low

Commissioning, Communities and Policy Department

It is intended to spend 785 days on the Audit of the Commissioning, Communities and Policy Department which will be allocated over the following areas:-

Audit Area	Level of Risk	Audit Days	Expected Outcomes
Departmental Review Management & Administration	M	60	Provision of an assurance to the Managing Executive Director of Commissioning, Communities and Policy and Members with regard to the identified Audit areas. Review of key Departmental systems and processes to assess and ensure the:- • continued, effective operation of core systems within the Department, • consistent application and dissemination of the Council's Policy framework, • compliance with internal and external regulatory requirements, • effective discharge within the Department of delegated responsibilities/requirements in relation to Corporate Governance, • effective operation of financial systems, • effectiveness of risk management arrangements.
External Grants and Certifications	M/H	10	Review and certification of grant claims to support external funding.
Themed and Operational			
• Policy	M/H	25	)
• Legal Services	M/H	25	)
• Communications and Call Derbyshire	M/H	25	) Provision of an assurance on the adequacy and effectiveness of systems in operation, risk management and the overall control environment.
• Derbyshire Business Centre	M	20	)
• Library Service	M	20	)

Key to Level of Risk: H - High, M - Medium, L - Low

Audit Area	Level of Risk	Audit Days	Expected Outcomes
• Apprenticeship Levy	M	10	)
Divisional Activity			
Corporate Finance Major Systems	H	285	Annual reviews of the Council's key financial systems including human resources, accounts payable, accounts receivable, Corporate purchasing, accountancy and budgetary control, assets and funds management.
Probity and Compliance	M/H	120	Assessment of the overall level of compliance with key statutory/legislative requirements and the probity of systems and adequacy of internal controls relating to health, safety and wellbeing, pensions administration, the movement of cash, ISO27001 and GDPR compliance, together with the adequacy of insurance and risk management arrangements.
Corporate/Departmental ICT Services	M/H	135	Includes:- • Assessment of new and existing IT system development controls together with specific reviews of the network infrastructure, BACSTEL–IP application, database and server management. • IT solution testing and head office visits to ensure systems incorporate core data protection principles, and do not compromise the Council's ISO27001 accreditation in accordance with the requirements of the protocol developed with the Director of Finance & ICT.
County Property	M/H	30	Review of key systems operated within the Property Division and Business Units.
Regulatory Registration Service	M/L	20	Provision of an assurance on the adequacy and effectiveness of systems in operation and the overall control environment.

Key to Level of Risk: H - High, M - Medium, L - Low

Children's Services Department

It is intended to spend 475 days on the Audit of the Children's Services Department which will be allocated over the following areas:-

Audit Area	Level of Risk	Audit Days	Expected Outcomes
			Provision of an assurance to the Executive Director of Children's Services and Members with regard to the identified Audit areas.
Departmental Review Management & Administration	M	45	Review of key Departmental systems and processes to assess and ensure the:- • continued, effective operation of core systems within the Department, • consistent application and dissemination of the Council's Policy framework, • compliance with internal and external regulatory requirements, • effective discharge within the Department of delegated responsibilities/requirements in relation to Corporate Governance, • effective operation of financial systems, • effectiveness of risk management arrangements.
Information Security Reviews (including follow up reviews)	M/H	35	IT solution testing and head office visits to ensure systems incorporate core data protection principles, and do not compromise the Council's ISO27001 accreditation in accordance with the requirements of the protocol developed with the Director of Finance & ICT.
External Grants and Certifications	M/H	15	Review and certification of grant claims to support external funding.
Schools Nursery, Primary and Special	M/H	160	Provision of an assurance to Governors and the Corporate Authority regarding the adequacy and effectiveness of governance arrangements, financial systems and other operational procedures. Also to discharge the Section 151 Officer's duty to ensure compliance with auditing requirements as specified by the DfE. (40 Nursery, Primary and Special School and 2 Secondary School visits are planned). The period between Audit visits is normally four years for primary and special schools and three years for secondary schools. However, in those instances where significant problems have been identified, which have reduced the level of assurance given, visits will be made on an annual basis to work with the school to improve the control environment.
Secondary	M/H	14	
Schools General Support	M/H	30	

Key to Level of Risk: H - High, M - Medium, L - Low

Audit Area	Level of Risk	Audit Days	Expected Outcomes
Information Security Reviews	M/H	35	IT solution testing and head office visits to ensure systems incorporate core data protection principles, and do not compromise the Council's ISO27001 accreditation in accordance with the requirements of the protocol developed with the Director of Finance & ICT.
Children's Homes	M/H	16	Review of the adequacy and effectiveness of systems in operation and the overall control environment to support vulnerable children and young adults. 4 settings will be reviewed.
Themed and Operational			
• Fostering	M/H	25	)
• Children in Care	M/H	25	)
• Care Leavers	M/L	25	) Provision of an assurance on the adequacy and effectiveness of systems in) operation, risk management and the overall control environment.
• Derbyshire Music Partnership	M/L	20	)
• Troubled Families Programme	M/L	30	Review and certification of grant claims to support external funding.

Key to Level of Risk: H - High, M - Medium, L - Low

Adult Social Care and Health

It is intended to spend 303 days on the Audit of the Adult Social Care and Health Department which will be allocated over the following areas:-

Audit Area	Level of Risk	Audit Days	Expected Outcomes
			Provision of an assurance to the Executive Director of Adult Social Care and Health and Members with regard to the identified Audit areas.
Departmental Review Management & Administration	M	45	Review of key Departmental systems and processes to assess and ensure the:- • continued, effective operation of core systems within the Department, • consistent application and dissemination of the Council's Policy framework, • compliance with internal and external regulatory requirements, • effective discharge within the Department of delegated responsibilities/requirements in relation to Corporate Governance, • effective operation of financial systems, • effectiveness of risk management arrangements.
Public Health	M/H	25	Provision of an assurance on the adequacy and effectiveness of systems in operation, risk management and the overall control environment.
Information Security Reviews (including follow up reviews)	M/H	70	IT solution testing and head office visits to ensure systems incorporate core data protection principles, and do not compromise the Council's ISO27001 accreditation in accordance with the requirements of the protocol developed with the Director of Finance & ICT.
External Grants and Certifications	M/H	15	Review and certification of grant claims to support external funding.
Social Care			
Elderly Residential	M/H	16	)
Physical/Mental Disability	M/H	12	) Provide an assurance regarding the adequacy and effectiveness of systems in) operation and the overall control environment. The period between Audit visits for) establishments is normally set at two years except where significant problems have

Key to Level of Risk: H - High, M - Medium, L - Low

Audit Area	Level of Risk	Audit Days	Expected Outcomes
Day Care & Hostels	M/H	12	) been identified which have reduced the level of assurance given and where, as a) result, visits will be made on an annual basis.
Community Care Centres	M/H	8	)
Themed and Operational			
• Review of Quality Assurance Framework	H	25	)))
• Commissioning and Performance	H	25	) Provision of an assurance on the adequacy and effectiveness of systems in) operation, risk management and the overall control environment.)
• Safeguarding of Adults	M/H	25	))
• Direct Care	M/H	25	)

Key to Level of Risk: H - High, M - Medium, L - Low

Economy, Transport and Environment

It is intended to spend 180 days on the Audit of the Economy, Transport and Environment Department which will be allocated over the following areas:-

Audit Area	Level of Risk	Audit Days	Expected Outcomes
			Provision of an assurance to the Executive Director of Economy, Transport and Environment and Members with regard to the identified Audit areas.
Departmental Review Management & Administration	M	45	Review of key Departmental systems and processes to assess and ensure the:- • continued, effective operation of core systems within the Department, • consistent application and dissemination of the Council's Policy framework, • compliance with internal and external regulatory requirements, • effective discharge within the Department of delegated responsibilities/requirements in relation to Corporate Governance, • effective operation of financial systems, • effectiveness of risk management arrangements.
Information Security Reviews (including follow up reviews)	M/H	15	IT solution testing and head office visits to ensure systems incorporate core data protection principles, and do not compromise the Council's ISO27001 accreditation in accordance with the requirements of the protocol developed with the Director of Finance & ICT.
External Grants and Certifications	M/H	20	Review and certification of grant claims to support external funding.
Themed and Operational			
• Procurement of Public Transport and Taxis (including Home to School Transport and Vetting of Contractors)	M/H	25	)))))) Provision of an assurance on the adequacy and effectiveness of systems
• Fleet Services	M/H	25	) in operation, risk management and the overall control environment.

Key to Level of Risk: H - High, M - Medium, L - Low

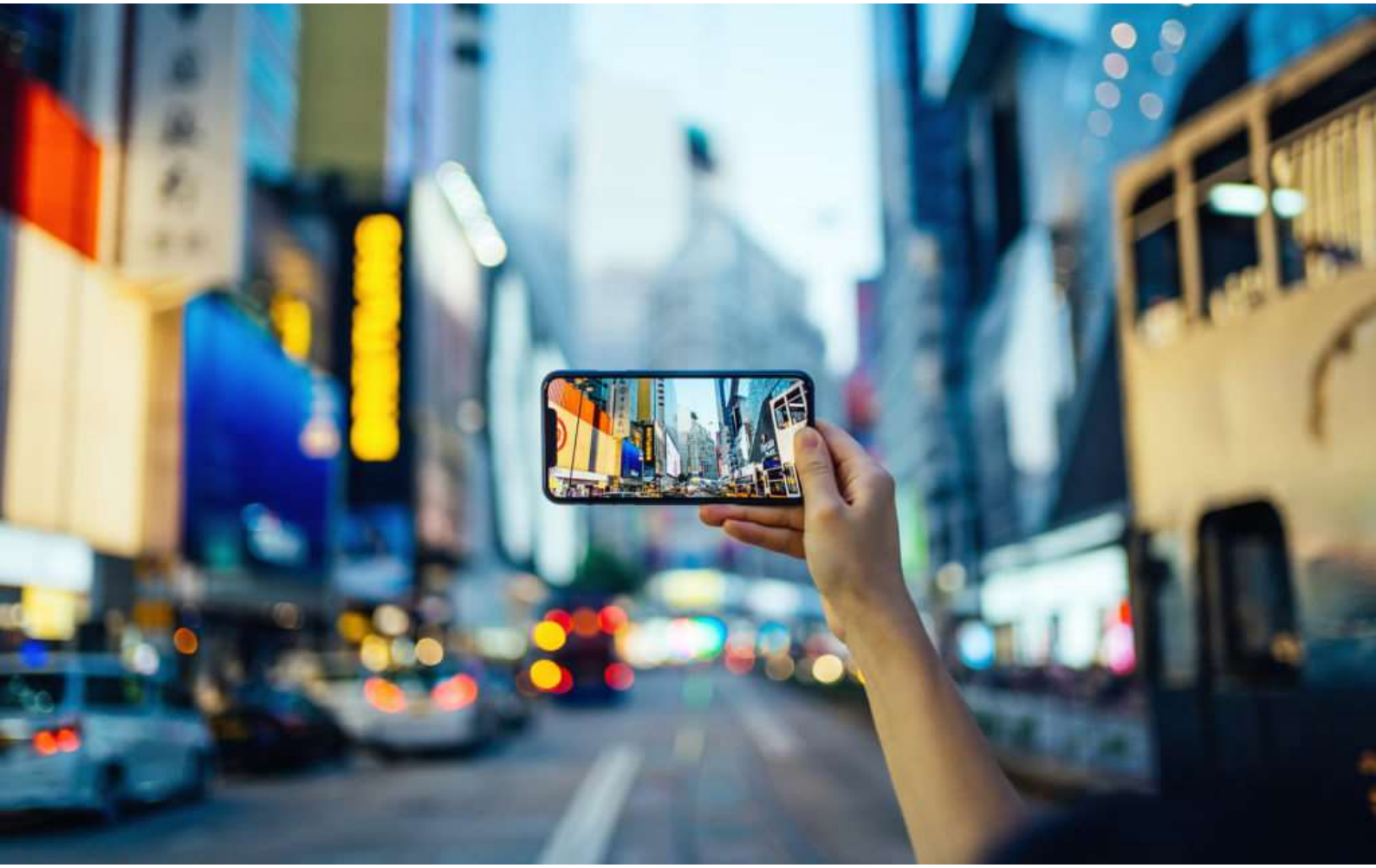
Audit Area	Level of Risk	Audit Days	Expected Outcomes
• Inspection and Control of Highways Assets	M/H	20	)))
• Management of Water Bodies	M/H	20	)))
• Waste Management	M/H	10	)

Key to Level of Risk: H - High, M - Medium, L - Low

Annual Audit Letter

Derbyshire County Council

Year ending 31 March 2020



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Contents

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Derbyshire County Council (the Council) for the year ended 31 March 2020. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Assessment	Summary
Audit of the financial statements	● [GREEN]	Our auditor's report issued on 16 December 2020 included our opinion that the financial statements: • give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	● [GREEN]	Our auditor's report included our opinion that: • the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	● [GREEN]	Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020
Reporting to the group auditor	● [GREEN]	In line with group audit instructions, issued by the NAO on 4th November, we reported to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts return on 25 February 2021.
Statutory reporting	● [GREEN]	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the National Audit Office and International Standards on Auditing. These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our auditor's report was modified to include an emphasis of matters paragraph. This drew attention to the financial statement disclosure explaining that COVID-19 had contributed to 'material valuation uncertainty' in the valuation of the Council's land and buildings, and in the Council's share of Derbyshire Pension Fund's property assets included in the estimated net Pension Liability.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. We set materiality for the financial statements as a whole (financial statement materiality) and set a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure.	£30,656k
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£920k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts:	
	• Senior Officer Remuneration	£5k
	• Members Allowances	£162k
	• External Audit Fee	£14k

Our response to significant audit risks

As part of our continuous planning procedures, we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls In all entities, 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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits	We addressed this risk through performing audit testing over accounting estimates and financial journal entries and considering any significant transactions outside the normal course of business.	Our audit procedures did not identify any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention.
Valuation of Property, Plant and Equipment The Council's accounts contain material balances relating to its Property, Plant and Equipment with the majority of these assets required to be carried at valuation.	We performed a range of audit tests, including, but not limited to: • Reviewing the valuer's qualifications, objectivity and independence to carry out the required programme of revaluations. • Testing a sample of valuations to ensure the correct methodology had been applied and were supported by appropriate evidence. • Considering the impact of assets not revalued in 2019/20 to ensure these remained materially correct at the balance sheet date.	The Council's valuer declared that the valuation of the Council's property assets were subject to 'material valuation uncertainty' as a result of COVID-19 and this was disclosed in Note 3 of the financial statements and referred to in the 'emphasis of matter' paragraph in our audit report. A 'material valuation uncertainty' declaration does not mean that the valuation cannot be relied upon, only that, because of the extraordinary circumstances arising from COVID-19, less certainty can be attached to the valuation.

Our response to significant audit risks (continued)

Identified significant risk	Our response	Our findings and conclusions
Valuation of the Net Pension Liability The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of *International Accounting Standard 19 Employee Benefits*.	We performed a range of audit tests, including, but not limited to: • Liaising with the auditor of the Derbyshire Pension Fund to obtain direct assurance over the controls surrounding membership, contributions and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. • 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. • Considered the impact of the remedy solution for the McCloud legal judgement on the net pension liability.	'Material valuation uncertainty' was disclosed on the Pension Fund's property investment assets as a result of COVID-19. As the Council's share of those assets in the net Pension Liability in its own balance sheet is material, the Council has disclosed this in Note 3 of the financial statements and we have reflected this in the 'emphasis of matters' paragraph in our Audit Report.
Revenue Recognition Under *International Standards on Auditing 240,* there is a presumed risk that revenue may be misstated due to improper revenue recognition.	We evaluated the design and implementation of controls to mitigate the risk of material debtors being recognised in the wrong period. We tested debtors to ensure that they are supported by sufficient and appropriate evidence and were accounted for correctly. Our audit approach also incorporated a range of other substantive procedures, including, but not limited to the testing of receipts around the year-end to provide assurance that any material items of income had been recorded in the correct financial year	Our audit procedures in relation to this risk did not identify any material errors or uncertainties in the financial statements, or other matters that we wish to bring to your attention.

Our response to areas of management judgement

Identified management judgement	Our response	Our findings and conclusions
Minimum Revenue Provision (MRP) Local authorities are required each year to set aside some of their revenues as provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements. The amount to be set aside each year is not prescribed, although an overarching principle of prudency is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised is determining the level of its prudent provision.	We addressed this judgement by: • reviewing the Council's MRP policy to ensure that it continues to have been developed with regard to the statutory guidance; • assessing whether the provision had been calculated and recorded in accordance with the Council's policy; and • assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement.	Our audit procedures did not identify any material errors or uncertainties in the 2019/20 financial statements in relation to the Council's MRP
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. The Council's management had to make a judgement on how to account for the impact in 2019/20.	We evaluated the basis of the accounting judgement and the impact on the financial statements for 2019/20 including the adequacy of the related disclosures.	The procedures we have undertaken did not identify any material errors or uncertainties in the financial statements, or other matters to bring to Members' attention.

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. The matters we report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported.

We reported a small number of minor control deficiencies in our Audit Completion Report presented to the Audit Committee in November 2020.

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified

Our audit approach

We are required to consider 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 conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate.

When we perform our work, we consider whether there are any areas requiring additional audit attention as a "Significant Audit Risk", which we report to the Audit Committee prior to finalising our conclusion. For 2019/20, we identified one significant audit risk:

- SinFin Waste Recycling – The long-term waste management contract between Derbyshire County Council, Derby City Council and Resource Recovery Solutions that came to an end in 2019.

Findings

The facility was due to be operational in 2017, however this did not happen as intended. Following a sustained period of the Councils asking the funding banks to step-in and get the Waste Recycling facility fully operational, the banks issued a legal notice (called a "No Liquid Market" notice) that brought the contract to an end and the councils did not dispute the notice.

We reviewed the governance and decision making in respect of this project before offering our 2019/20 VFM conclusion. In undertaking this work we considered the timeline of key decisions made by the Council and the reports issued in support of those decisions.

Overall, we obtained sufficient assurance to conclude that the Council has appropriate arrangements in place.

Overall Conclusion

Our auditor's report stated that that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The National Audit Office, as group auditor, requires us to complete a Whole of Government Accounts Assurance Statement in respect of financial consolidation data produced by the Council. We submitted this information to the NAO on 25 February 2021.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum in March 2020 as £39,307, plus amounts to be confirmed to cover the additional testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 Final fee
Delivery of audit work under the NAO Code of Audit Practice	£96,524	
Fee Variations*:		
• Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes		£8,230
• Additional Costs associated with being a 'Major Local Audit' and requiring additional level of audit procedures and quality control		£3,735

• Additional costs associated with 2019/20, including, but not limited to:
  • Impact of 'Material Valuation Uncertainty' in Council's Property Assets and its share of Pension Fund Assets
  • Updating audit risk assessments, including the value for money conclusion
  • Additional considerations of estimation uncertainty and the Going Concern assertion
  • Changes impacting pension liabilities through McCloud and Goodwin
		£6,145

Final audit fee		**£114,634**
Other non-Code work		
• Assurance on the Teachers Pensions Return	£3,700	£3,700

**Fee variations subject to confirmation from PSAA.*

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.

6. FORWARD LOOK: AUDIT CHANGES 2020/21

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work will focus on three criteria specified in the revised Audit Code:

- Financial sustainability: how the body plans and managers its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code, we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and our view as to whether recommendations have been implemented satisfactorily.

The new Audit Code will result in additional officer time and auditor time and therefore audit fees.

6. FORWARD LOOK: AUDIT CHANGES 2020/21

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Governance, Audit & Standards Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review

The recommendations and findings have been considered by the Ministry of Housing, Communities and Local Government and a response was published in December 2020

https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review

The main highlights are a recognition that fees are not sufficient to meet the work required, and the date for publication of audited accounts has been confirmed as 30th September for the 20/21 and 21/22 financial years (with a commitment to review whether it is realistic to return to a 31st July date)

A new body to oversee local audit will not be created, however, a new, audited 'standardised statement of service information and costs' to be produced by LG bodies, with CIPFA being asked to work on this for introduction in 2021/22.

CONTACT

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UK Sector Lead for Local Government

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John Pressley

Manager

Email: john.pressley@mazars.co.uk

mazars

www.mazars.com

Audit Strategy Memorandum

Derbyshire County Council

Year ending 31 March 2021

mazars

Contents

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Park View House
58 The Ropewalk,
Nottingham
NG1 5DW

Audit Committee
Derbyshire County Council
County Hall
Matlock
DE4 3AG

Dear Audit Committee Members

Audit Strategy Memorandum – Year ending 31 March 2021

We are pleased to present our Audit Strategy Memorandum for Derbyshire County Council for the year ending 31 March 2021. 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 8 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
- assuring 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 2021. 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 of their responsibilities.

Going concern

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The section 151 officer is responsible for the assessment of whether is it appropriate for the Council to prepare it's accounts on a going concern. basis As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of the section 151 officer's use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.

Value for money

We are also responsible for reaching a conclusion 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.

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.

Reporting to the NAO

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

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. 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:

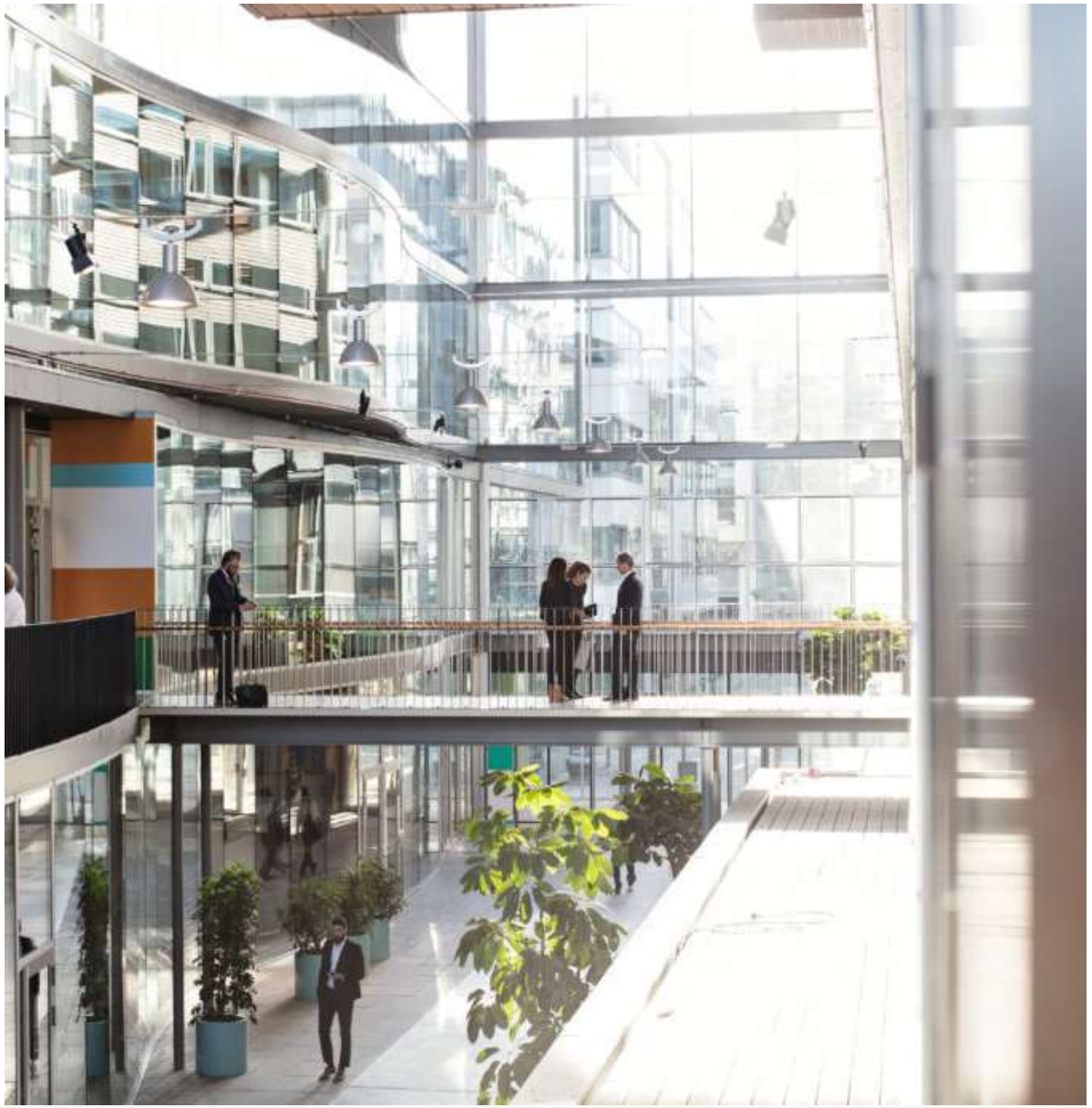
Your audit engagement team

2. Your audit engagement team

Your external audit service continues to be led by Mark Surridge.

Who	Role	E-mail
Mark Surridge	Engagement Lead	mark.surridge@mazars.co.uk
John Pressley	Engagement Manager	john.pressley@mazars.co.uk
Leah Fanning	Engagement Assistant Manager	leah.fanning@mazars.co.uk

An Engagement Quality Control Reviewer has also been appointed.



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.

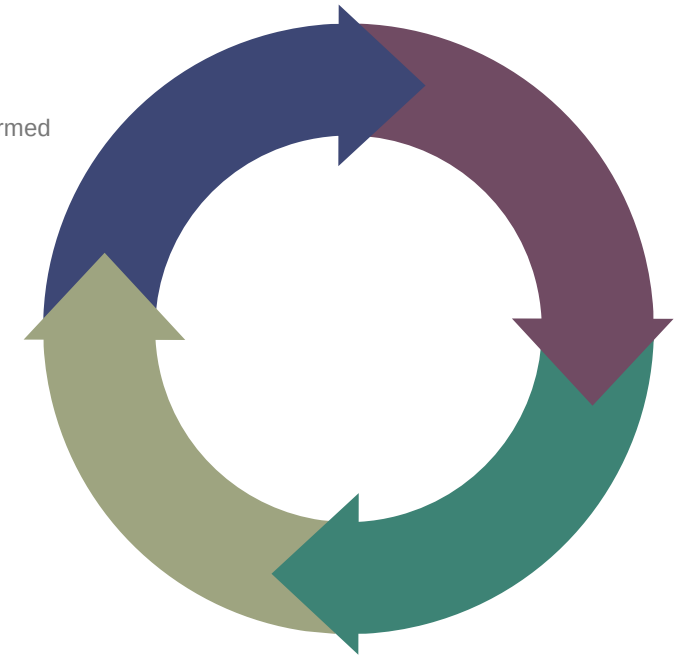
3. Audit scope, approach and timeline

Planning January – February 2021

- 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

Interim March 2021

- 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 September 2021

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

Fieldwork June – July 2021

- 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

3. Audit scope, approach and timeline

Internal audit

We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

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.

Item of account	Management's expert	Our expert
Property Plant and Equipment	Internal Valuer	Third party evidence provided by Gerald Eve via the NAO to support our challenge of valuation assumptions.
Pensions	Hymans Robertson	PWC (Consulting actuary appointed by the NAO)
Financial instrument disclosures	Arlingclose Ltd	We will obtain reports regarding Arlingclose Ltd (assurance commissioned by the NAO) to assist us in this area

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 entitiis 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.

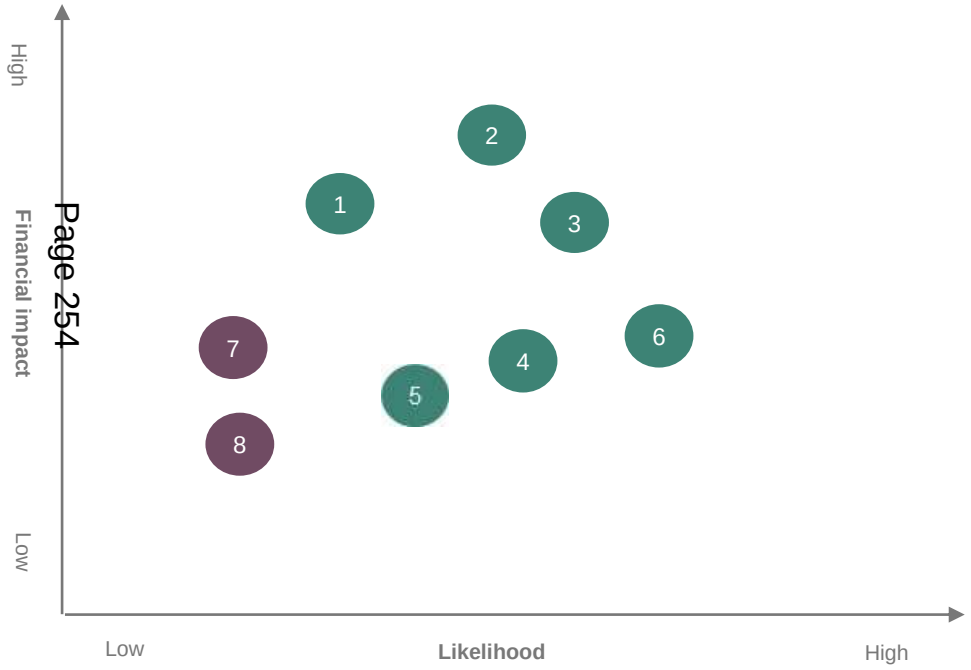
Standard risk

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.

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.



	Risk	Risk rating 2019/20
1	Management override of controls	Significant risk (no change)
2	Net defined benefit liability valuation	Significant risk (no change)
3	Valuation of property, plant and equipment	Significant risk (no change)
4	Expenditure Recognition (cut-off)	Standard (increased risk for 2020/21)
5	Revenue Recognition (cut-off)	Significant risk (no change)
6	Covid-19 Grants Recognition	New for 2020/21
7	Accounting for the waste management treatment plant (SinFin)	Enhanced (no change)
8	Minimum Revenue Provision (MRP)	Enhanced (no change)

Key: Significant risk Enhanced risk / significant management judgement

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 2019/20 financial statements): • Local Government Pension Scheme - £706m	-	●	●	We plan to address the risk by: • critically assess the competency, objectivity and independence of the Pension Fund's Actuary; • liaise 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 included 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; • review 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 • agree 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. In line with 2019/20 and the continuing COVID19 pandemic, we will discuss the whether there are any potential material uncertainty disclosure to be made. We will monitor this throughout the audit process.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	**Property Valuations** Property related 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 2019/20 financial statements): • Land & Buildings (£1,313m - Note 14)	-	●	●	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; • assessing whether valuation movements are in line with market expectations by considering valuation trends; • critically assessing the approach that the Council adopts to ensure that assets that are not subject to revaluation in 2020/21 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Councils valuers. In line with 2019/20 and the continuing COVID19 pandemic, we will discuss the whether there are any potential material uncertainty disclosure to be made. We will monitor this throughout the audit process.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
4	**Expenditure recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council (FRC), which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular whether cut-off (recognition in the correct financial year) is materially accurate. Having considered the make-up of expenditure, we believe the risk is prevalent in to premises, transport, and supplies & services (being £623m in Note 10 of the 2019/20 financial statements).	●	●	-	We will address this risk by performing work in the following areas: • ensuring the accounting policies in relation to expenditure recognition and recognition of accruals are appropriate and consistently applied; and • carrying out cut-off testing, and testing for unrecorded liabilities, to confirm expenditure has been coded to the correct accounting year.
5	**Revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. Having considered the factors for revenue recognition, , we believe the risk is focused on the year-end balance sheet and in particular whether cut-off (recognition in the correct financial year) is materially accurate. Having considered the make-up of revenue, we believe the risk is prevalent in fees, charges and other service income (being £193m in Note 10 of the 2019/20 financial statements).	●	●	-	We will address this risk by performing work in the following areas: • ensuring the accounting policies in relation to revenue recognition and recognition of accruals are appropriate and consistently applied; and • carrying out cut-off testing to confirm revenue has been charged to the correct accounting year.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
6	**Covid-19 Grants recognition** Over March and April 2020, the government provided £3.2 billion of emergency grant funding and over £5 billion of cashflow support to support local authorities through COVID-19. Throughout 2020/21, the Government has continued to provide substantial sums of financial support to local authorities, including Derbyshire County Council. Management have had to exercise a level of judgement in relation to these specific COVID-19 grants, including: • the extent to which the Council is acting as an agent or principal and therefore whether to account for the grant income on a gross or net basis; and • whether conditions associated with the grants have been met at the reporting date. Overall therefore, we believe there is a significant audit risk relating to the completeness and accuracy of Covid-19 grant income in the 2020/21 financial statements.	●	●	-	We will address this risk by performing work in the following areas: • reviewing the Council's approach to determine whether grants are or are not ringfenced for specified areas of expenditure; and • testing grant income recorded in the ledger to grant allocations/ notifications; and • reviewing a sample of grants to ensure conditions to recognise the income in 2020/21 have been met or not.

4. Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
7	**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 2020/21.	-	-	●	We will evaluate the basis of the accounting judgement and the impact on the financial statements for 2020/21 including the adequacy of disclosures.
	Minimum revenue provision (MRP) Local authorities are normally required each year to set aside some of their revenues as a provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is not prescribed although an overarching principle of prudency is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised is determining the level of its prudent provision.	-	-	●	We plan to address this judgement by: • reviewing the Council's MRP policy to ensure that it has been developed with regard to the statutory guidance; • assessing whether the provision has been calculated and recorded in accordance with the Council's policy; • assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement; and • confirming that any charge has been accounted for in accordance with the Code.

05

Section 05:

Value for Money

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5. 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.

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. Whilst we are still required to be satisfied that the Council has proper arrangements in place, we will now report by exception in our auditor's report where we have identified significant weakness in those arrangements. This is a significant change to the requirements under the previous Code which required us to give a conclusion on the Council's arrangements as part of our auditor's report.

Under the new Code, the key output of our work on VFM arrangements will be a commentary on those arrangements which will form 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 risk
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 on the following page. 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.

5. Value for money conclusion

Our Approach

Our work will follow the structure as shown in the following table and will be kept under continuous review.

Planning	Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:
	• We will perform a detailed risk assessment, drawing from a variety of sources, including, but not limited to:
	  • Meetings with management and a management self-assessment
	  • Views of the Audit Committee
	  • Supporting guidance from the National Audit Office, including indicators of significant weaknesses
	  • Sector developments and any local issues
	  • Council & Committee reports
	  • The Annual Governance Statement and Annual Report
	  • The work of internal audit
	  • Risk registers and risk management reporting
	  • The work of regulators and inspectorates.

Additional risk-based procedures and evaluation	Where our initial assessment identifies a risk that there may be a significant weakness in arrangements, we will apply our professional judgement in determining what additional procedures are required.
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 (details on the following page). 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.

5. Value for money conclusion

Under the 2020 Code, we are required to structure our commentary on the Council's 'proper arrangements' under three specified reporting criteria, which are expanded in the supporting guidance notes produced by the National Audit Office:

Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services

- how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them
- how the body plans to bridge its funding gaps and identifies achievable savings
- how the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- how the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system
- how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Governance: how the body ensures that it makes informed decisions and properly manages its risks, including

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- how the body approaches and carries out its annual budget setting process
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/Audit Committee
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

Improving VFM: how the body uses information about its costs and performance to improve the way it manages and delivers its services

- how financial and performance information has been used to assess performance to identify areas for improvement
- how the body evaluates the services it provides to assess performance and identify areas for improvement
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

5. Value for Money

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Due to the late release of the NAO's Auditor Guidance Note and supporting information to auditors, we have not yet fully completed our Value for Money planning and risk assessment work. On completion of our risk assessment, we will report any risks of significant weaknesses in arrangements identified to the Audit Committee. For the 2020/21 financial year, we have however identified the issues detailed in the table below that we will consider further in our VFM risk assessment.

	Area of focus	Relevant VFM criteria	Potential response
1	**Financial resilience** At month 6 the Council was forecasting a £11.8m overspend on its General Fund Revenue budgets. If this materialises the impact would be to decrease the Council's balances at 31st March 2020 from £53.5m to £41.7m. The Council needs to demonstrate it can manage emerging issues, like those seen in this month 6 budget monitoring report and can also maintain its declared level of minimum reserves, which are an important measure of sound financial management. Therefore, the General Fund needs to be maintained at robust, risk assessed levels for the future.	Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services	To evaluate the Council's arrangements to secure financial sustainability we will: • review the arrangements for managing the funding and expenditure issues faced and delivering savings; and • challenge the underlying assumptions and rationale supporting the Council's 2021/22 financial plan.
2	**Waste treatment plant (Sinfin)** 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. The facility was due to be operational in 2017, however this did not happen as intended. Following a sustained period of the Councils asking the funding banks to step-in and get the Waste Recycling facility fully operational, the banks issued a legal notice (called a "No Liquid Market" notice) that brought the contract to an end and the Councils did not dispute the notice. The Councils continue to explore future options for the site, including the negotiation of settlement with the funding banks.	Governance: how the body ensures that it makes informed decisions and properly manages its risks	We will review the governance and decision making in respect of this project, including the timeline of key decisions made by the Council and the reports issued in support of those decisions.

06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as the Council's appointed auditor

Details of the 2019/20 actual and planned 2020/21 fees are set out below:

Area of work	2020/21 Fees	2019/20 Actual Fee
Scale audit fee	£96,524	£96,524
Fee variations:		
Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes as a result of changes in regulatory expectations	£11,965 [1]	£11,965
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; and ISA 600 (Revised): Specific considerations – audit of group financial statements	£2,000 [2]	-
Other additional costs	TBC	£6,145 [3]
Sub-total	**£110,489**	**£114,634**
Additional work arising from the change in the Code of Audit Practice	Expected to be at least £10,000 [4]	-
Total	£120,489 [5]	£114,634

[1] As previously reported to you, the scale fee has been adjusted to take into account the additional work required as a result of increased regulatory expectations in these areas.

[2] For 2020/21, new auditing standards have been introduced which will lead to additional audit work not reflected in the scale fee. The implementation of IFRS 16 Leases is deferred to the financial year 2021/22.

[3] The additional audit cost in 2019/20 will be disclosed within our Annual Audit Letter. This mainly relates to additional testing and reporting of uncertainties in key estimates as a result of Covid-19.

[4] As explained in section 5, the revised Code of Audit Practice will lead to a substantial amount of additional audit work to support the new value for money conclusion and the changes in reporting requirements. Our review of the Code and supporting guidance notes shows that the additional fee impact at all public sector entities is expected to be at least £10,000. The final fee will take into account the extent and complexity of any significant weaknesses in arrangements we identify.

[5] This is a proposed fee for 2020/21 at the point of the issue of our ASM. This figure is subject to change and additional costs will be discussed with management.

PSAA have issued a consultation on the 2021/22 audit fee scale. We will revisit our fee proposal in line with the outcome of this consultation to ensure we are consistent with sector wide changes.

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 have been 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	2020/21 Proposed Fee	2019/20 Actual Fee
Assurance services – Teachers Pensions Return	To be confirmed: indicative £3,500	£3,500

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

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8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	30,650
Performance materiality	22,980
Specific Materiality (Officer remuneration banding)	5
Trivial threshold for errors to be reported to the Audit Committee	920

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 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.

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 2021 to be in the region of £30m (£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 £920,000 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

Appendix: Key communication points

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Appendix: 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: 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: 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

Appendix: 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

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

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