Public Document Pack

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PUBLIC

To: Members of Audit Committee

Monday, 14 March 2022

Dear Councillor

Please attend a meeting of the **Audit Committee** to be held at **2.00 pm** on **Tuesday, 22 March 2022**;at **the Council Chamber, County Hall, Matlock** the agenda for which is set out below.

Yours faithfully

Helen E. Barrington

Helen Barrington
Director of Legal Services

A G E N D A

Part I - NON-EXEMPT ITEMS

1. Apologies for Absence

2. To receive declarations of interest (if any)

3. To confirm the minutes of the meeting held on 1 February 2022 (Pages 1 - 6)

4. Accounting Policies (Pages 7 - 106)

5. Tax Strategy (Pages 107 - 118)

6. CIPFA/LASAAC Consultation - Emergency Proposals for an Update of the 2021-22 Code of Practice on Local Authority Accounting and the 2022-23 Code (Pages 119 - 130)

7. Update from Government on Measures to Improve Local Audit Delays (Pages 131 - 140)

8. Strategic Risk Register (Q3) and Corporate Risk Management Strategy Update (Pages 141 - 200)

9. Performance and Budget Monitoring/Forecast Outturn Arrangements (Pages 201 - 232)

10. Annual Internal Audit Plan 2022-23 (Pages 233 - 266)

11. Additional External Audit Fees for 2020-21 (Pages 267 - 276)

12. External Audit Update on 2020-21 Internal Control Recommendations (Pages 277 - 284)

13. Audit Strategy Memorandum - Derbyshire County Council 2021/22 (Pages 285 - 320)

14. Derbyshire Pension Fund Audit Strategy Memorandum 2021/22 (Pages 321 - 348)

15. Exclusion of the Public

    To move that under Section 100(a)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following item of business on the grounds that in view of the nature of the business, that if members of the public were present exempt information as defined in Paragraph xx of Part 1 of Schedule 12A of the Local Government Act 1972 would be disclosed to them and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Part II - EXEMPT ITEMS

16. To confirm the exempt minutes of the meeting held on 1 February 2022 (Pages 349 - 350)

17. National Fraud Initiative (Pages 351 - 372)

18. Strategic Risk Review - Organisation Development and Policy and Property (To Follow)

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PUBLIC

MINUTES of a meeting of the **AUDIT COMMITTEE** held on 1 February 2022 at County Hall, Matlock.

PRESENT

Councillor G Musson (in the Chair)

Councillors N Atkin, J Nelson, R Mihaly and R Parkinson

Officers in attendance – D Downs, T Kearsey, J Lakin, P Spencer and P Stone (representing Derbyshire County Council)

Apologies for absence were received on behalf of J Morgan

Declarations of Interest

There were no declarations of interest

1/22 **MINUTES** **RESOLVED** that the minutes of the meeting held on 7 December 2021 be confirmed as a correct record and signed by the Chairman.

2/22 **AUDIT SERVICES UNIT – PROGRESS AGAINST AUDIT PLAN 2021-22** The Committee was informed of the progress that had been made against the approved Audit Services Plan for 2021-22 as at 31 December 2021.

The Covid-19 pandemic had remained a challenge to the delivery of the Plan and the ability to provide an assurance across the Council's key services. After the Government's announcement on 8 December 2021 that England would move to Plan B following the increased spread of the Omicron variant, it became clear that other than the desktop review outlined in the previous progress report, it would not be possible to undertake the audits of schools (174 days) and establishments (64 days) before the end of 31 March 2022.

However, despite these challenges Audit staff had worked diligently with senior management and responsible officers to agree suitable arrangements to enable reviews to be undertaken across a broad range of the current Audit Plan. As a result, the Unit was currently on track to have either reported or undertaken significant elements of the fieldwork by the end of March 2022. There were however areas within the Plan where coverage would not be possible in this period.

At the last meeting, the Committee was informed of the recruitment exercise that was underway to fill the two Principal Auditor vacancies and a six-month temporary Principal Auditor post to cover maternity leave. Following interviews at the end of December 2021, two individuals with local government experience had accepted job offers. Whilst it would take a number of months for the individuals to work their respective notice periods, it was hoped that they would join the Unit by Spring 2022. Unfortunately, the other candidates did not have the required experience or skills to allow an offer to be made for the vacant six-month temporary post.

At 31 December 2021, a total of 1,789 productive days had been delivered against the pro-rata target of 2,042 days (total planned days for 2021-22 is 2,723).

Members suggested that it would be helpful if more information was provided by way of explanation to reflect the current situation of activities that had not proceeded or had been delayed. Members now had a greater understanding of the criteria and how results were measured, but it was agreed that it would be helpful to be guided through the audit process for a particular corporate project from start to finish. The Assistant Director of Finance (Audit) would arrange this for a future meeting.

RESOLVED that the Committee notes the performance of the Audit Services Unit during this period.

3/22 **<u>REGULATION OF INVESTIGATORY POWERS ACT (RIPA)</u>** The Committee was provided with an update on the use of the Council's statutory powers provided for under the Regulation of Investigatory Powers Act (RIPA) 2000, as amended by the Investigatory Powers Act (IPA) 2016.

The Committee had last received a RIPA update report in May 2020 and this report covered the period from 1 May 2020 to 31 December 2021. No applications had been received in this period in respect of access to communications data or in relation to directed surveillance.

Although there had not been any applications for the use of the Council's powers under RIPA since the last members' report, it had been some time since the Authority's RIPA Policy had last been approved. Work to refresh the Policy had started in 2020, following the last Investigatory Powers Commissioner's Office (IPCO) inspection, but this update was never brought back to members for further approval.

RIPA legislation was supplemented by the Covert Human Intelligence Source (CHIS) Code of Practice which provided detailed, comprehensive guidance and best practice on the use of RIPA powers. The Home Office was due to publish an updated Code of Practice in early 2022 into use of overt investigatory powers and application of RIPA legislation. It was intended that a review of the Council's RIPA Policy would be undertaken after publication of the revised Home Office guidance. This would be followed by training for appropriate officers, and further awareness work to remind officers about RIPA.

RESOLVED that the Committee notes that (1) in the period 1 May 2020 to 31 December 2021 no applications were made under the Council's powers relating to RIPA;

(2) it was intended to review the Council's RIPA Policy following publication of revised Home Office guidance; and

(3) training and awareness activity will be programmed following the RIPA Policy refresh.

4/22 **STRATEGIC RISK REVIEW – PLACE DEPARTMENT** Chris Henning, the Executive Director – Place and Claire Brailsford, the Environment and Transport Director had been invited to the meeting to provide Members with details of the particular areas of risk within the department. The Place Department held the greatest number of strategic risks on the council's strategic risk register and these were summarised in the exempt appendices to the report. The Committee would consider these risks further, in the exempt section of the meeting.

On behalf of the Committee, the Chairman thanked Chris Henning and Claire Brailsford for their attendance and informative presentation.

5/22 **EXCLUSION OF THE PUBLIC** **RESOLVED** to move that under Section 100(a)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following item of business on the grounds that in view of the nature of the business, that if members of the public were present exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 would be disclosed to them and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

SUMMARY OF PROCEEDINGS CONDUCTED AFTER THE PUBLIC HAD BEEN EXCLUDED FROM THE MEETING

1. To consider an overview of Place Department Risks (contains information relating to the financial or business affairs of any particular person including the Authority holding that information).

Following consideration of the exempt information the Committee returned to the public section of the meeting.

6/22 **LOCAL CODE OF CORPORATE GOVERNANCE AND ANNUAL GOVERNANCE STATEMENT 2020-21 – PROGRESS AGAINST ACTION PLAN** At the meeting of the Audit Committee held on 7 December 2021 Members approved the Council's Statement of Accounts 2020-21, which had included the Annual Governance Statement and Action Plan.

One of the responsibilities of the Council's Governance Group was 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 production of the Annual Governance Statement and Action Plan.

The proposed Local Code of Corporate Governance had been finalised by the Governance Group and was attached at Appendix 2 to the report. This had identified the Council's policies, procedures and actions which demonstrated compliance with each sub-principle of the Delivering Good Governance in Local Government and underpinned good governance. The existence of a Local Code of Corporate Governance would help inform the production of future Annual Governance Statements and would be subject to scrutiny to ensure that expected actions were being delivered and any gaps identified and addressed.

Progress against the Annual Governance Statement Action Plan was monitored by the Governance Group. The implementation of the areas for improvement which had been identified in the Action Plan were subject to regular review and was attached at Appendix 3. The current position together with the further actions required to implement the improvements were summarised by this Appendix.

Members requested if consideration could be given to further training provision to help obtain the relevant knowledge and understanding required by the many aspects of the Committee. The officers agreed to explore various areas including sessions with other audit committees within Derbyshire; requesting Mazars to identify any appropriate training; and discussions with the County Council's Member Development Working Group.

RESOLVED that the Committee (1) approves the Local Code of Corporate Governance; and

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

7/22 **MEETING DATES AND AGENDA ITEMS FOR 2022-23** The proposed dates for Audit Committee meetings and likely agenda items for Members' consideration and/or approval were set out in a schedule at Appendix 2 to the report. These items were based on the existing business of the Committee. Member training proposals and any additional reports arising would be added to this schedule.

RESOLVED that the Committee agrees the proposed programme for 2022-23 and the meeting dates as follows:

- 21 June 2022
- 19 July 2022
- 20 September 2022
- 6 December 2022
- 31 January 2023
- 21 March 2023

8/22 **PERFORMANCE MONITORING AND BUDGET MONITORING /FORECAST OUTTURN 2021-22 AS AT QUARTER 2 (30 SEPTEMBER 2021)** Members were provided with an update of Council Plan performance and the Revenue Budget/forecast outturn for 2021-22 as at 30 September 2021 (Quarter 2). The report presented:

- the Council Plan performance and financial budget monitoring and forecast outturn data;
- the Performance Summary which 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 which provided an overview of the Council's overall budget position and forecast outturn as at 30 September 2021; and
- the appendices which summarised the progress that had been made over the last quarter on each of the deliverables and key measures set out in the Council Plan and the controllable budget position by Cabinet Member Portfolio for 2021-22 as at 30 September 2021.

RESOLVED that the Committee notes (1) the update of Council Plan performance and the Revenue Budget position/forecast outturn for 2021-22 as at 30 September 2021 (Quarter 2); and

(2) the position on General and Earmarked Reserves.

Meeting started: 2.00pm
Meeting finished: 3.30pm

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FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

22 March 2022

Report of the Interim Director of Finance & ICT

Accounting Policies

1. Purpose

1.1 To provide Members with amendments to the Accounting Policies for 2021-22 and with the proposed Accounting Policies for 2022-23.

2. Information and Analysis

2.1 Accounting policies are the conventions and practices applied by the Council in preparing its financial statements.

2021-22 Accounting Policies

2.2 On 23 March 2021, Audit Committee approved the proposed Accounting Policies for the 2021-22 financial year. Since then, the following amendments have been made to the 2021-22 Accounting Policies:

- Section 1.13 Non-Current Asset Classification – minor textual amendments, which do not constitute a change in Accounting Policy:
  - Assets Under Construction are now defined explicitly as a separate category of Property, Plant and Equipment under Non-Operational Assets.
  - Assets Held for Sale are explicitly referenced as 'Non-Current Assets Held for Sale'
- Section 1.14 Non-Current Asset Valuation Methodology – addition to text which does not constitute a change in Accounting Policy:

  - Non-Current Assets which aren't required to be measured at Current Value are now identified, these being: Infrastructure Assets, Assets Under Construction, Community Assets and Heritage Assets.
  - Fair Value is clarified as a basis of Current Value measurement.
- Section 1.17 Depreciation/Amortisation Methodology – addition to text which does not constitute a change in Accounting Policy:
  - Explicitly clarifies that Assets Under Construction and Heritage Assets (with indefinite lives) are not depreciated.

2.3 There have been no substantive changes from the Accounting Policies in the approved 2020-21 Statement of Accounts.

2.4 The updated 2021-22 Accounting Policies are attached at Appendix Two.

2.5 Only 9% of local authority accounts in England met the audit publication deadline of 30 September 2021. The Department of Levelling-up Housing and Communities (DLUHC) asked CIPFA LASAAC to consider ways in which the Code may alleviate delays to the publication of audited financial statements. CIPFA LASAAC considered this request and in February 2022 has issued an exceptional consultation on time limited changes to the Code, which is the subject of a separate report to this meeting. One approach being explored is to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021-22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation. Any resulting amendments required to the 2021-22 Accounting Policies will be reported to Audit Committee in due course.

2022-23 Accounting Policies

2.6 Appendix Three includes the proposed 2022-23 Accounting Policies. These include amendments for IFRS 16 Leases, based on technical guidance issued to date for 2022-23. Additional technical guidance is likely to be received and it is possible that this will also impact on the 2022-23 accounting policies. Any further proposed amendments will be reported to Audit Committee in due course.

2.7 The new accounting standard IFRS 16 Leases originally had a scheduled implementation date of 1 April 2020 for the UK Public Sector.

2.8 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).

2.9 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.

2.10 The exceptional consultation issued by CIPFA LASAAC on time limited changes to the Code (see paragraph 2.5 above), includes the possibility of deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022-23 Code to implement that standard.

2.11 In preparation for the previous expected implementation date, in respect of the introduction of IFRS 16 Leases, 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 have been reviewed and included in the Accounting Policies for 2022-23 provided to Members for approval. There are significant potential 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. The Accounting Policy changes are an addition to paragraphs 1.14 and 1.17 for right-of-use assets and the insertion of replacement lease paragraphs 1.18 to 1.26 and 1.34 to 1.35. Preparations are underway to ensure that the Council is ready for the introduction of IFRS 16.

2.12 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 procure and implement specialist software to manage, record, calculate and process the bookkeeping entries needed to correctly reflect the lease liability and right-of-use asset value and to provide the required disclosure information; and
- to develop and maintain a workflow to ensure the record of lease arrangements remains up to date.

2.13 Around 150 contracts which contain leases relating to land and buildings have been identified to date, including where the Council is holding over on a lease after the term has expired. It is at present unclear whether an additional 60 Voluntary Controlled/Aided school sites will fall in scope of IFRS 16 and further guidance is awaited from the CIPFA/LASAAC Task and Finish group. Also, 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.

2.14 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.

2.15 At present little information is available as to valuation approach and methodology to be used in measuring lease interests, particularly for specialised assets. The Royal Institute of Chartered Surveyor (RICS) Public Sector Valuation Forum are working on an Insight Paper which is due to be published in early 2022. CIPFA is working on agreeing the treatment of licences used by schools for assets owned by religious bodies.

2.16 A significant amount of work has been undertaken to identify and record the Council's lease interests in property assets. Further information from departments and schools identifying lease interests in vehicles, plant and equipment has been requested and is expected to be received soon.

2.17 Some initial scoping of software solutions which can cope with the volume and complexities of the records, calculations and reporting requirements has been undertaken. Following submission of a business case for the software and Data Protection Impact Assessment (DPIA) screening, an enhancement to the Council's existing SAP financial system is now being considered.

2.18 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.

3. Alternative Options Considered

3.1 Not Applicable – The CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires authorities to select accounting policies in accordance with IAS 8 Accounting Policies.

4. Implications

4.1 Appendix One sets out the relevant implications considered in the preparation of the report.

5. Consultation

5.1 No consultation is required.

6. Background Papers

6.1 Held electronically by Financial Strategy, Finance & ICT.

7. Appendices

7.1 Appendix One – Implications.

7.2 Appendix Two – Updated 2021-22 Accounting Policies.

7.3 Appendix Three – Proposed 2022-23 Accounting Policies.

8. Recommendations

That Audit Committee:

8.1 Approves the changes outlined above in relation to the Accounting Policies for 2021-22; and

8.2 Approves the changes outlined above in relation to the Accounting Policies for 2022-23.

9. Reasons for Recommendations

9.1 These textual changes clarify the Council's existing Accounting Policies.

9.2 The changes reflect the requirements expected upon adopting the new IFRS 16 Leases accounting standard.

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This report has been approved by the following officers:

On behalf of: Director of Legal Services and Monitoring Officer Interim Director of Finance and ICT	

Appendix One

Implications

Financial

1.1 As outlined in the body of the report.

Legal

2.1 The chief financial officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

2.2 In preparing this statement of accounts, the chief financial officer must select suitable accounting policies and then apply them consistently.

Human Resources

3.1 None.

Information Technology

4.1 None.

Equalities Impact

5.1 None.

Corporate objectives and priorities for change

6.1 None.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None.

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Statement of Accounting Policies

For the Year Commencing 1 April 2021

Version History			
Version	**Date**	**Detail**	**Author**
0.01	14 02 2022	Final Post-Audit Accounts Accounting Policies 2020-21 (updated Acc Policies reported to Audit Cttee for 2020-21 in Mar 21)	S Holmes
0.02	 24 02 2022 24 02 2022	Further review by Capital and Technical Sections	 W Round S Holmes
1.0		Review by Finance Manager and Interim Director of Finance and ICT	E Scriven P Stone

This document has been prepared using the following ISO27001:2013 standard controls as reference:	
ISO Control	**Description**
A.8.2	Information classification
A.7.2.2	Information security awareness, education and training
A.18.1.1	Identification of applicable legislation and contractual requirements
A.18.1.3	Protection of records
A.18.1.4	Privacy and protection of personally identifiable information

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 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 Assets: Land & Buildings, Community Assets, Vehicles Plant Furniture & Equipment, Infrastructure Assets, and 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

  These assets are also classified as Property Plant and Equipment.

  Non-Operational Assets:

- Surplus Assets

  These 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.

- Assets Under Construction

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

➢ **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 Non-Current 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 Infrastructure Assets and Assets Under Construction (excluding Investment Property, see Section 4.4 of the Code) to be measured at historic cost. Community assets may either be valued in accordance with Section 4.10 of the Code, where the valuation option has been adopted, or measured at historic cost. The Council measures Community Assets at historic cost.

Heritage Assets will be valued in accordance with Section 4.10 of the Code.

The Code requires all other 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 –** Non-Current 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

- **Assets Under Construction –** are not depreciated

- **Heritage Assets (with indefinite lives) –** 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.

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Public

Statement of Accounting Policies

For the Year Commencing 1 April 2022

Version History			
Version	**Date**	**Detail**	**Author**
0.01	14 02 2022	Latest Accounting Policies 2021-22. Reported to Audit Committee in March 2022 (Appendix One).	S Holmes
0.02	 24 02 2022 22 02 2022	Further review by Capital Technical	 W Round S Holmes
1.0		Review by Finance Manager and Interim Director of Finance and ICT	E Scriven P Stone

This document has been prepared using the following ISO27001:2013 standard controls as reference:	
ISO Control	**Description**
A.8.2	Information classification
A.7.2.2	Information security awareness, education and training
A.18.1.1	Identification of applicable legislation and contractual requirements
A.18.1.3	Protection of records
A.18.1.4	Privacy and protection of personally identifiable information

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 2022-23 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 Assets: Land & Buildings, Community Assets, Vehicles Plant Furniture & Equipment, Infrastructure Assets, and 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 Assets:

- Surplus Assets
  These 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.

- Assets Under Construction
  These are assets which are in the process of being constructed and are not yet operational.

➢ **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 Non-Current 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 Infrastructure Assets and Assets Under Construction (excluding Investment Property, see Section 4.4 of the Code) to be measured at historic cost. Community assets may either be valued in accordance with Section 4.10 of the Code, where the valuation option has been adopted, or measured at historic cost. The Council measures Community Assets at historic cost.

Heritage Assets will be valued in accordance with Section 4.10 of the Code.

The Code requires all other 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 –** Non-Current 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.

- **Right-of-Use Assets –** these are initially recognised using the IFRS 16 cost model (not valued) unless the lease payments are substantially below the market rate, in which case they will be valued.

  Where the underlying asset is land or buildings and a lease does not contain any provision for rent reviews at periods of five years or less, then the Right-of-Use will be revalued at least every five years.

  For leases where the underlying asset is land or buildings:
  - Where the property is non-specialised, the Council values Right-of-Use Assets at a rental value, that reflects the terms and conditions of the lease, discounted by a market yield at the valuation date for the residual lease term. Otherwise:
  - The value of the Right-of-Use Asset will be determined with reference to the current value of the underlying land or buildings asset, the residual lease term and a yield that reflects the leasehold interest in the asset.

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

- **Assets Under Construction –** are not depreciated

- **Heritage Assets (with indefinite lives) –** are not depreciated

- **Right-of-Use Assets –** Right-of-Use Assets are depreciated to the earlier of the end of the lease term or the end of the underlying assets useful life.

1.18. **Leases**

In line with IFRS 16, the Council recognises a lease to be any contract, or part of a contract, that conveys the right to use a specifically identifiable asset for a period of time.

A contract is any arrangement between two or more parties that creates enforceable rights and obligations.

The Council will only apply lease accounting to tangible assets.

1.19. **Lease Term**

The lease term is the period for which a lessee reasonably expects to have a right to use the underlying asset.

The Council assumes that this will be the contractual term including any periods covered by options to terminate the lease, unless there is evidence to suggest that options to extend the lease or terminate it early are reasonably likely to be exercised, in which case the term will be extended or reduced as appropriate.

Where the lessee is retaining use of an asset after the contractual period has ended a ‘holding over’ lease is created. The Council deems the term of such a lease to be based on management’s reasonable expectation of how long it will continue to use the asset, or 5 years in the event that management are not able to provide such an assessment.

1.20. **Short-Term Lease**

A short-term lease is a lease, which does not have a purchase option, with a term of 12 months or less at the commencement date.

An annually renewing, or rolling, lease which has not been terminated after 12 months from the commencement date will be deemed to be a 'holding over' lease. Such a lease will not be treated as a short-term lease.

1.21. **Low Value Assets**

The Council deems the following to be low value assets:

- Personal computers and tablets
- Printers and photocopiers
- Telephones
- Other small office equipment
- Desks, chairs and cabinets
- Other small office furniture
- Sanitary units and equipment

Land, buildings and vehicles are never deemed to be low value.

Any other asset is classified as low value if its cost, when purchased new, would be £10,000 or less.

1.22. **Lessee Accounting**

Except for short term leases or where a lease is for a low value asset, the Council will recognise an asset which represents its right to use an underlying asset for the lease term. The initial recognition of the right-of-use asset is comprised of:

- The initial measurement of the lease liability or, where the lease payments are substantially below the market rate, the value of the Right-of-Use asset as assessed by a RICS qualified valuer
- Any lease payments made at the commencement date, less any incentives received
- Any direct costs incurred
- The initial estimate of any provision to remove, dismantle or restore the underlying asset or the site on which it is located to the condition required by the terms and conditions in the lease

At the commencement date, the Council will recognise a lease liability at the present value of the lease payments to be made. The lease payments will be discounted at the interest rate implicit in the lease, or if this is not determinable then the Bank of England's base rate of interest adjusted for the term of the lease, the type of underlying asset and whether it is a commercial or non-commercial lessor. Over the term of the lease the liability is increased by interest charges and reduced by the lease payments made.

On initial recognition, any difference between the value of the Right-of-Use asset and the lease liability will be treated as income in Financing and Investment Income and Expenditure 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.

Where the underlying asset is land or buildings and a lease does not contain any provision for rent reviews at periods of five years or less, then the Right-of-Use will be revalued at least every five years. The value of the Right-of-Use asset will be assessed by a RICS qualified valuer.

1.23. **Defining a Finance Lease**

The Council as lessor will classify a lease as 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.

If the Council is subletting an underlying asset it will perform these tests with reference to the right-of-use asset created by the head lease rather than the underlying asset.

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.

1.24. **Defining an Operating Lease**

The Council as lessor will classify a lease as an operating lease if it does not transfer substantially all of the risks and rewards relating to ownership of an underlying asset to the lessee.

If a head lease is accounted for as a short-term lease, the sublease will be classified as an operating lease.

1.25. **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.

1.26. **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.

1.27. **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.

1.28. **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.

1.29. **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.

1.30. **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.

1.31. **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

1.32. **Recognition of Revenue Expenditure**

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

1.33. **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.

1.34. **Lessee Accounting for a Short Term Lease**

Costs associated with short term leases where the Council is the lessee are charged to the Comprehensive Income and Expenditure Statement within the Net Cost of Services on an accruals basis over the lease term.

1.35. **Lessee Accounting for Leases of Low Value Assets**

Costs associated with the lease of low value assets where the Council is the lessee are charged to the Comprehensive Income and Expenditure Statement within the Net Cost of Services on an accruals basis over the lease term.

1.36. **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.

1.37. **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.

1.38. **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.

1.39. **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, unforeseeeable 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.

1.40. **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.

1.41. **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.

1.42. **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.

1.43. **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.

1.44. **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

1.45. **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.

1.46. **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.

1.47. **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.

1.48. **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.

1.49. **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.

Right-of-Use Asset

An asset representing the Council's right to use an underlying asset, such as a vehicle or building, for a period of time.

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.

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Agenda Item

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

22 March 2022

Report of the Interim Director of Finance & ICT

Tax Strategy

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is not a Key Decision.

3. Purpose

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

4. Information and Analysis

4.1 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.

4.2 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.

4.3 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 Her Majesty's Revenue and Customs (HMRC).

4.4 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.

4.5 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.

4.6 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.

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

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

4.9 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.

4.10 Audit Committee was last advised of a review and update of the Council's Tax Strategy at its meeting on 23 March 2021, when the following changes were 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.

4.11 Following a review of the Tax Strategy in March 2022, it has been determined that the Tax Strategy remains up to date and that no further changes are required.

4.12 The Tax Strategy is attached in Appendix Two to this report.

5. Consultation

5.1 No consultation is required.

6. Alternative Options Considered

6.1 Not Applicable – it is 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.

7. Implications

7.1 Appendix One sets out the relevant implications considered in the preparation of the report.

8. Background Papers

8.1 Papers held electronically by Financial Strategy Section, Financial Management & Strategy, Finance & ICT Services.

9. Appendices

9.1 Appendix One – Implications.

9.2 Appendix Two - Tax Strategy.

10. Recommendation

That Audit Committee:

10.1 Notes that a review and update of the Tax Strategy has taken place.

11. Reasons for Recommendations

11.1 It is 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.

Report Author: Eleanor Scriven

Contact details: Eleanor.Scriven@derbyshire.gov.uk

This report has been approved by the following officers:

On behalf of: Interim Director of Finance and ICT Director of Legal Services and Monitoring Officer	

Implications

Financial

1.1 As outlined in the body of the report.

Legal

2.1 As outlined in the body of the report in paragraph 4.2.

Human Resources

3.1 None.

Information Technology

4.1 None.

Equalities Impact

5.1 None.

Corporate objectives and priorities for change

6.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None.

Tax Strategy

DERBYSHIRE
County Council

Paul Stone MBA FCPFA
Interim 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
3.0	01.03.2022	Tax Strategy Review. No updates required.	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 understanding 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.

Paul Stone
Deputy S151 Officer
Derbyshire County Council

Reviewed and up to date March 2022
(Original 24 March 2020 based on the Finance Act 2016 Schedule 19, updated March 2021)

Agenda Item

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

22 March 2022

Report of the Interim Director of Finance & ICT

CIPFA/LASAAC Consultation - Emergency Proposals for an Update of the 2021-22 Code of Practice on Local Authority Accounting and the 2022-23 Code

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is not a Key Decision.

3. Purpose

3.1 To provide Audit Committee with details of an exceptional consultation on time-limited changes to the Code of Practice on Local Authority Accounting in the United Kingdom along with information on the Council's response.

4. Information and Analysis

4.1 On 3 February 2022, the Chartered Institute of Public Finance and Accountancy / Local Authority (Scotland) Accounts Advisory Committee (CIPFA/LASAAC) published 'Emergency proposals for an update of the 2021-22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022-23 Code' (the Consultation).

4.2 CIPFA/LASAAC refers to this Consultation as an ‘exceptional consultation on time limited changes to the code to help alleviate delays to the publication of audited financial statements’.

4.3 Only 9% of local authorities in England met the audit publication deadline of 30 September 2021 for publication of their audited 2020-21 accounts. By the end of December 2021 that figure had risen to 40%, although this still means that three months after the statutory deadline more local bodies had failed to meet the statutory deadline than had met it, furthermore a considerable number of 2019-20 audits were still outstanding.

4.4 There is considerable disagreement as to the causes and the possible solutions although it is worth emphasising that approximately 85% of draft accounts were prepared on time by local authorities.

4.5 The Council published its certified pre-audit Statement of Accounts 2020-21 on 30 July 2021, before the statutory deadline, and published notices of delay in publishing its audited Statement of Accounts 2020-21 on 30 September 2021, due to external audit staff resource constraints. The Council’s Statement of Accounts 2020-21 were approved by Audit Committee on 7 December 2021, and the final audited Statement of Accounts 2020-21 were published following formal conclusion of the audit, when the external audit opinions were issued, on 22 December 2021.

4.6 In December 2021, the Department of Levelling-up Housing and Communities (DLUHC) asked CIPFA/LASAAC to consider ways in which the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) may help in improving this position.

4.7 The Chair of CIPFA/LASAAC (the Chair) does not think that it automatically follows that any solution must include changes to the Code. There is a view, which has been expressed by many different stakeholders to the Chair, that the widespread failure to meet the deadlines is not a consequence of the requirements of the Code. In this argument the delays are thought to be caused by one or more of:

- the quality of the draft accounts and working papers that local authorities prepare;
- the amount of audit resources and poor quality of some audit work; and
- the regulatory environment and whether this is suitable for the local authority sector.

4.8 However, senior audit and local authority practitioners have emphasised an alternate view to the Chair; that there are resourcing pressures on local authorities and auditors and there are increasing demands of regulators, and they have raised concerns about how well directed and focused these demands are. On this view there is no good reason to be confident that the position for 2021-22 will be significantly better than 2020-21. The statutory deadline for 2021-22 is in the process of being reset to November 2022, but if timeliness remains as last year then approximately two councils in every three will fail to meet this revised deadline and, it has been argued, there is a significant risk that it may well be worse.

4.9 In the view of the Chair, both positions have considerable merit and strong arguments have been expressed on either side. The CIPFA/LASAAC Code Board (the Board) has decided that it is nonetheless appropriate to consult on some possible changes to the Code in order to gather a stronger evidence base and to promote more debate on a really important issue for the sector. For the avoidance of any possible doubt, if these were endorsed the changes would be effective for 2021-22 and so come into force shortly before or at the year-end.

4.10 After considering a wide range of options CIPFA/LASAAC decided to explore two possible changes that might be made as an update to the 2021-22 Code, and to the agreed position in the 2022-23 Code:

- An adaptation to the Code to allow local authorities to pause professional valuations for operational property, plant and equipment (PPE) for a period of up to two years (though the initial proposal is for the 2021-22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation.
- Deferring the implementation of International Financial Reporting Standard 16 *Leases* (IFRS 16) for a further year, and reversing the planned changes to the 2022-23 Code to implement that accounting standard.

4.11 The Council submitted its response to the Consultation on 28 February 2022, ahead of the deadline of 3 March 2022.

4.12 The Council's response is attached at Appendix Two to this report.

4.13 CIPFA/LASAAC has given no indication as to when it will issue its findings and any decisions arising from the Consultation, although it is possible that they will be included in their CIPFA Bulletin on Closure of the 2021-22 Financial Statements. The Bulletin was issued at the end of April in the previous two years.

5. Consultation

5.1 No consultation is required.

6. Alternative Options Considered

6.1 Not Applicable – It is prudent and responsible practice for this CIPFA/LASAAC emergency consultation on the local authority accounting code, the results of which could impact on the preparation of the Council's Statement of Accounts 2021-22, to be brought to the attention of Audit Committee, and for Audit Committee to note the Council's response.

7. Implications

7.1 Appendix One sets out the relevant implications considered in the preparation of the report.

8. Background Papers

8.1 Papers held electronically by Financial Strategy Section, Financial Management & Strategy, Finance & ICT Services.

9. Appendices

9.1 Appendix One – Implications.

9.2 Appendix Two – Council's Full Response to the 'Emergency Proposals for an Update of the 2021-22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022-23 Code' Consultation.

10. Recommendation

That Audit Committee:

10.1 Notes CIPFA/LASAAC's exceptional consultation on time-limited changes to the Code of Practice on Local Authority Accounting in the United Kingdom along with information on the Council's response.

11. Reasons for Recommendations

11.1 It is prudent and responsible practice for this CIPFA/LASAAC emergency consultation on the local authority accounting code, the results of which could impact on the preparation of the Council's Statement of Accounts 2021-22, to be brought to the attention of Audit Committee, and for Audit Committee to note the Council's response.

Report Author:
Eleanor Scriven

Contact details:
Eleanor.Scriven@derbyshire.gov.uk

This report has been approved by the following officers:

On behalf of: Interim Director of Finance and ICT Director of Legal Services and Monitoring Officer	

Implications

Financial

1.1 As outlined in the body of the report.

Legal

2.1 None.

Human Resources

3.1 None.

Information Technology

4.1 None.

Equalities Impact

5.1 None.

Corporate objectives and priorities for change

6.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None.

DERBYSHIRE County Council

Paul Stone
Interim Director
of Finance & ICT
Derbyshire County Council
County Hall
Matlock
Derbyshire DE4 3AH

CIPFA/LASAAC
By e-mail
cipfalasaac@cipfa.org

Ask for: Eleanor Scriven/ Sam Holmes
Our ref: ES/SH
Date: 28 February 2022

Dear Sir/Madam

Response to 'Emergency Proposals for an Update of the 2021-22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022-23 Code' Consultation

Derbyshire County Council (the Council) welcomes the opportunity to respond to CIPFA LASAAC's 'Emergency proposals for an update of the 2021-22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022-23 Code' consultation, details of which were published on 3 February 2022. The Council's response is set out below.

B1 Valuation of operational property, plant and equipment

<u>Q1a Do you agree with the proposal that preparers should have the option to pause professional revaluation? If not, why not? Please provide reasons for your view.</u>

Yes. This should be optional not mandatory.

Local authorities may not wish to use this practical expedient due to:

- the future impact on workloads/resource of valuing additional 'paused assets' alongside those profiled within the ordinary rolling programme in the year when returning to full IAS 16 valuation compliance;
- there being little impact on accounts preparation/closure time for the period 2021-22 where, by March 2022 (the time of the proposed changes to the Code), the revaluation process is already significantly progressed; and

- costs already incurred and/or committed on contracts with external providers for 2021-22 valuations would be wasted.

An option to pause valuation for the period 2022-23 may offer time savings, as the revaluation process for this period has not yet commenced.

Exercise of this option has the potential to deliver significant time savings in the year that it is adopted, both in respect of preparer time and audit review time due to:

- fewer revaluations to process; and
- smaller revaluations sample required to be tested and reviewed.

This Council does **not** believe this temporary expedient is a suitable option which it would elect to use, unless it is clarified how the catch up approach would work and what justifications auditors would require to prove that the accounts reflect a fair view for the ‘pause’ years. It is not clear how authorities would go back to a full IAS16 valuation approach at the end of the pause. There is a fear that this would create more work in the long-term.

Large authorities like the Council have a significant number of assets to value and the catch up could be problematic depending on what approach is taken. It would also be difficult to offer explanation of the differences from one year to another.

Would the option apply to just the rolling programme (i.e. the 20%) OR does it also apply to the 80% Schools desktop valuations that the Council does as well?

The comparison with previous years would possibly be irrelevant and how does this tie in with the WGA regarding consistency?

If assets were not valued, then the Derecognition value would significantly increase.

How could auditors justify their opinion that the accounts present a true and fair view?

<u>Q1b Additionally, do you agree with the proposal that preparers should have the option to pause professional revaluation and adopt an indexation approach to 2021-22? If not, why not? Please provide reasons for your view.</u>

No. There should not be an ‘indexation only’ approach.

There is no certainty that a revaluation based on a centrally derived index would result in a materially similar position to a full IAS 16 valuation.

Allowing local authorities flexibility to choose their own (i.e. not prescribed) index may be problematic for auditors requiring the choice of index to be justified.

A single centrally derived index may not adequately reflect geographical regional variability in the movement of prices.

Deriving individual asset values through application of an index alone is still time consuming and still requires checks of the base data and correct application of the index.

There is potential for confusion as to whether all operational PPE should be revalued or just those which would normally be revalued under the existing revaluation cycle.

The index would have to be flexible enough be applied over different time periods, depending on when an asset had last been revalued.

Indexation is not a proper valuation. How does this sit with RICS valuers and their code of ethics? Valuers would possibly not sign off any valuations so there would be no valuation certificates, although it seems they would need to be instrumental in the indices.

<u>Q1c If you support this proposal but the impacts for 2021-22 are minimal, so that audit timeliness issues remain, would you support either of these changes being explored for the 2022-23 Code?</u>

Yes. The Council supports an optional basic (i.e. not indexed) pause on revaluation for 2022-23 being explored.

<u>Q2 Do you have any comments on the impact of the adoption of this approach on preparers or auditors? If so, please provide more information.</u>

The ‘pause’ approach for 2022-23 would save considerable time as there would be far fewer valuations to process (as the valuation process for this period has not yet commenced). Less time would be spent on validating the figures and sense checking all valuations to ensure they are reasonable before inputting into the accounts.

It would also save time for the valuers regarding preparing valuations, preparing certificates and physically inspecting properties.

Auditors would have fewer valuations/transactions to check but may have an issue with how they verify that the accounts represent a true and fair view. This approach may only result in a short-term saving and would depend on how the catch-up proposal was to be addressed going forward. This detail is crucial for a large authority like the Council with several hundred valuations each year. The Council would be unable to value more than the 20% rolling programme in any one year.

If a catch-up was not necessary, then how would the Council justify to the auditors that the balance sheet was materially accurate?

Q3 If you support this approach, do you consider that the approach should be available to all local authorities, restricted to England, or determined on a jurisdiction basis reflecting the view of the relevant Government?

The approach should be available to all local authorities in the UK.

Local authorities which don't require the practical expedient have the option of not electing to apply it.

Q4 If you support this approach in principle, do you consider that it is appropriate for all operational property plant and equipment, including for example, Housing Revenue Account assets?

Yes, it should apply to all operational PPE ordinarily subject to revaluation. Assets with short lives should continue to be valued at depreciated historic cost as a proxy for current value.

Q5 Do you have any other comments on the proposal?

Although outside the scope of the Code, progress on audit standards and related regulations to allow a higher materiality for PPE is likely to have the most significant long-term impact on the effort and resource required by auditors and preparers during the review of PPE balances and therefore on publication timescales for the accounts as a whole.

B2 Deferred implementation of IFRS 16

Q6 Do you support the further deferral of IFRS 16 implementation to reduce auditor/preparer workload? If not, why not? Please provide reasons for your view.

Yes. This should be optional not mandatory.

Additional workload from the pandemic has significantly delayed preparations for implementation of IFRS 16.

Local authorities which are well prepared for a transition should have the option of moving to the new standard in order that they don't waste costs that have been committed or already incurred for implementation and to alleviate the need to roll back to IAS 17.

Exercising this option would reduce the workload to prepare the required impacts statement in 2021-22 and reduce auditor effort verifying the transition in 2022-23.

Guidance is still outstanding around issues such as:

- Valuation of Right-of-Use assets where the underlying asset is specialised and the lease at a peppercorn rent.
- Whether arrangements with church diocese for Voluntary Aided/Controlled schools are in scope.

Q7 Do you have any comments on the practical impact of the adoption of this approach? Please provide details to support your view.

The approach supports a stand-still in arrangements which has already been achieved in 2020-21 and 2021-22.

A delay supports:

- Adequate time to properly consider:
  - the additional valuation guidance due to be issued.
  - the requirements for an impact statement in the year preceding adoption.
- Adequate time to devote to the implementation, including required new financial systems, as the additional burdens from the pandemic subside and more normalised working patterns resume.

<u>Q8 Do you have any comments on the jurisdictional application of this approach?</u>

The approach should be available to all local authorities in the UK.

Local authorities which don’t require the practical expedient have the option of not electing to apply it.

<u>Q9 Do you have any other comments on the proposal?</u>

Larger authorities are likely to have more lease contracts, therefore are not necessarily better prepared. Their finance teams involved are not necessarily significantly larger.

Further Comments

<u>Q10 Do you have any other comments on the issue of the timeliness of the publication of audited financial statements in local government and the impact on the Code?</u>

None

Yours faithfully

Paul Stone
Interim Director of Finance & ICT (Deputy S151 Officer)

Derbyshire County Council

Agenda Item

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

22 March 2022

Report of the Interim Director of Finance & ICT

Update from Government on Measures to Improve Local Audit Delays

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is not a Key Decision.

3. Purpose

3.1 To provide Audit Committee with details of a recent letter to local authorities giving an update on action the Government is taking to help tackle audit delays.

4. Information and Analysis

4.1 On 18 January 2022, the Department for Levelling Up, Housing and Communities (DLUHC) wrote to all Section 151 (S151) Officers and Chief Executives in England, to give an update on action the Government is taking to help tackle audit delays.

4.2 The timely completion of local audit is a vital transparency method for the taxpayer and for sustaining public confidence in local democracy more broadly. For the timeliness of local audit to improve from the current situation, a collaborative approach to address the issues is required from across the whole system.

4.3 A new package of measures has been announced to signal the Government's commitment to the local audit market and to help support improved timeliness within the local audit market. DLUHC has worked with key partners across the local audit system to agree these measures.

4.4 A copy of the DLUHC Letter on Local Authority Audit is attached at Appendix Two to this report. Some of the key measures committed and highlighted by DLUHC in the letter to local authorities include:

- Providing councils with £45m of additional funding over the course of the next Spending Review period (three years commencing 2022-23) to support with the costs of strengthening their financial reporting and increased auditing requirements.
- Strengthening training and qualifications options for local auditors and audit committee members.
- Reviewing whether certain accounting and audit requirements could be reduced on a temporary basis, where these are of lesser risk to councils.
- Extending the 2021-22 audit deadline to 30 November 2022, and then 30 September until 2027-28.

4.5 In response to reviewing whether certain accounting and audit requirements could be reduced on a temporary basis, DLUHC asked the Chartered Institute of Public Finance and Accountancy / Local Authority (Scotland) Accounts Advisory Committee (CIPFA/LASAAC) to consider ways in which the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) may help in improving this position. On 3 February 2022, CIPFA/LASAAC published 'Emergency proposals for an update of the 2021-22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022-23 Code', which is the subject of a further report to this meeting.

4.6 The full publication sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. Details of all the measures DLUHC has committed are attached at Appendix Three to this report. These measures will help to ensure that audit provides transparency and accountability in local councils.

4.7 DLUHC will continue to work closely with key partners across the audit sector, including local bodies and audit firms, to deliver on the measures, in addition to outstanding commitments it made in its response to the Redmond Review. As part of this work, DLUHC will be publishing its response to the technical consultation it carried out in Summer 2021, which will provide further detail on the future of systems leadership for local audit. DLUHC's consultation response will also provide an update on a number of these measures.

5. Consultation

5.1 No consultation is required.

6. Alternative Options Considered

6.1 Not Applicable – It is prudent and responsible practice for this recent Government letter on Measures to Improve Local Audit Delays to be brought to the attention of Audit Committee.

7. Implications

7.1 Appendix One sets out the relevant implications considered in the preparation of the report.

8. Background Papers

8.1 Papers held electronically by Financial Strategy Section, Financial Management & Strategy, Finance & ICT Services.

9. Appendices

9.1 Appendix One – Implications.

9.2 Appendix Two – DLUHC Letter on Local Authority Audit.

9.3 Appendix Three - DLUHC Commitments - Measures to Improve Local Audit Delays.

10. Recommendation

That Audit Committee:

10.1 Notes details of a recent letter to local authorities giving an update on action the Government is taking to help tackle audit delays.

11. Reasons for Recommendations

11.1 It is prudent and responsible practice for this recent Government letter on Measures to Improve Local Audit Delays to be brought to the attention of Audit Committee.

Report Author: Eleanor Scriven
Contact details: Eleanor.Scriven@derbyshire.gov.uk

This report has been approved by the following officers:

On behalf of: Interim Director of Finance and ICT Director of Legal Services and Monitoring Officer	

Implications

Financial

1.1 As outlined in the body of the report.

Legal

2.1 None.

Human Resources

3.1 None.

Information Technology

4.1 None.

Equalities Impact

5.1 None.

Corporate objectives and priorities for change

6.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None.

DLUHC Letter on Local Authority Audit

Department for Levelling Up,
Housing & Communities

Catherine Frances
Director General, Local Government,
Strategy & Analysis
Department for Levelling Up, Housing and Communities

2 Marsham Street
London SW1 4DF

To: all Section 151 Officers in England
Cc: all Chief Executives in England

18 January 2022

Dear colleague,

Further to my letter of 22 November 2021, which noted the government's concern at the increasing delays to the completion of local audits, I am writing to you and the relevant audit firms today to provide an update on action the government is taking to help tackle audit delays.

As I outlined in my previous letter, the timely completion of local audit is a vital transparency method for the taxpayer and for sustaining public confidence in local democracy more broadly. For the timeliness of local audit to improve from the current situation, a collaborative approach to address the issues is required from across the whole system.

That is why my Department has worked with key partners across the local audit system to agree a new package of measures to help get the timeliness of local audit back on track. I can announce that we have now published full details of these measures online to signal publicly our commitment to the local audit market: https://www.gov.uk/guidance/measures-to-improve-local-audit-delays

I am pleased that this document represents actions for all elements of the system, but some of the key measures committed to that may be of most interest include:

- providing councils with £45m additional funding over the course of the next Spending Review period to support with the costs of strengthening their financial reporting and increased auditing requirements;
- strengthening training and qualifications options for local auditors and audit committee members;
- reviewing whether certain accounting and audit requirements could be reduced on a temporary basis, where these are of lesser risk to councils; and
- extending the 21/22 audit deadline to 30 November 2022, and then 30 September until 2027/28.

I wanted to thank you again for the crucial role you play in ensuring the transparency and accountability of local government for local taxpayers. We hope that the measures we have announced will help support improved timeliness within the local audit market. We will continue to engage with local authorities and audit firms to understand the impact of the new measures and work together as we continue to implement the recommendations from the Redmond Review.

Yours sincerely,

CATHERINE FRANCES

DLUHC Commitments - Measures to Improve Local Audit Delays

Section 1: Measures relating to audit firms and timely completion of audit

- Financial Reporting Council (FRC) to publish updated Key Audit Partner (KAP) guidance by Spring 2022, including new routes for an experienced Registered Individual to become a KAP.
- Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants.

Section 2: Measures relating to local bodies and quality of accounts preparation

- DLUHC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements.
- CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory.
- DLUHC to provide for a number of targeted training events for audit committee chairs via the Local Government Association sector grant.

Section 3: Proposed measures relating to accounting and audit requirements

- National Audit Office (NAO) rolling over of amendments to allow for altering the timing of elements on the Value for Money (VfM) arrangements work and enable more focus on fully delivering opinions on the financial statements.
- CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 2022-23 Accounting Code and comply with International Financial Reporting Standards (IFRS) and statutory accounting principles.
- HM Treasury (HMT) to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 2022-23 onwards.
- The Government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 2021-22.
- Delaying implementation of standardised statements and associated audit requirements.

Section 4: Longer-term measures to help stabilise the market and address long-term supply issues

- Public Sector Audit Appointments (PSAA) to progress their proposed procurement strategy for the next round of local audit contracts from 2023-24.
- Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 2021-22 accounts, then 30 September for six years, beginning with the 2022-23 accounts (until 2027-28).
- NAO to prepare for a re-laying of the Code of Audit Practice 2020 in Parliament, so that it will apply for the whole of the next appointing period.
- Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.

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DERBYSHIRE County Council

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

22 March 2022

Report of the Interim Director of Finance and ICT

Strategic Risk Register (Quarter 3) and Corporate Risk Management Strategy Update

1. Purpose

1.1 For the Audit Committee to review the Strategic Risk Register and receive an update on the corporate risk management strategy for 2021-2024.

2. Information and Analysis

2.1 This report covers updates to the council's strategic risk register up to the end of Quarter 3 (31 December 2021). As the Committee will be aware, the Russian invasion of Ukraine has presented the Council with a range of new or changed strategic and operational risks. These arise from changed relations and substantial sanctions placed on Russia, and the human and economic impacts currently unfolding from the war.

2.2 The key risks which are currently being assessed and monitored by officers which are not fully reflected in the Quarter 3 update are:

- Potential increase in cyber threats (the National Cyber Security Centre (NCSC) is not currently advising a change in threat level)
- Potential need to support Ukrainian refugees (we are expecting national government guidance about this soon)
- Financial disruption arising from increased fuel, energy and material costs, interest rate increases etc.
- Potential changes to insurance costs and possibly to cover should events deteriorate further
- Potential withdrawal from contracts involving Russian suppliers
- Disruption to supply chains reaching into eastern Europe

2.3 The Council is also a designated Category 1 responder under the Civil Contingencies Act 2004. This means the Council could be called upon to support a multi-agency response to any ‘malicious risks’ within Derbyshire. This assessment and response to malicious risks is made by Derbyshire Police in liaison with national government and the security services. Any response requiring multi-agency action is coordinated through the Local Resilience Forum led by Derbyshire Police and supported by the council’s emergency planning team.

3. Strategic Risk Register (Quarter 3 update)

3.1 The Strategic Risk Register updated to the end of Quarter 3 is shown at Appendix 2. The register includes those risks that may have a significant impact on the Council’s ability to deliver its services and objectives.

3.2 Updates to the risk register are shown in purple text.

3.3 Strategic risks are currently defined as risks which score 12 and above. These risks therefore are all subject to significant management action, control, evaluation or improvements and continued proactive monitoring.

3.4 Work has now been completed to fully assess and develop management strategies for two strategic risks highlighted in the last report. These are:

- *Information governance*.
- *Failure to understand or respond adequately to new or changing legislation and regulation.*

3.5 The scores for the following risks have changed since the last report:

- *Adapting to climate change* – the target score has increased from Green to Amber. This reflects a change in the probability assessment following a review by the climate change team.
- *Protection of vulnerable children* – The current score has reduced from 16 to 12 but remains Red.
- *Maintenance of property assets* – the target score has increased from Green to Amber. This reflects a change in the impact assessment following a review by the property team.
- *Maintenance of Place assets* – this risk has been redefined by the Future Highways Model (FHM) and Highways Capital Programme teams. The risk is now assessed as Green. This was discussed with the Audit Committee by the Executive Director of Place at the committee’s last meeting. The committee commented that the risk definition should include consequences which will be added. The corporate risk team is discussing the scope of this risk to ensure it covers the breadth of Place assets such as waterways.

3.6 The scores for all other risks remain unchanged from the last report.

3.7 The corporate guide to assessing impact and likelihood is included within Appendix 2 to assist Audit Committee Members.

3. Alternative Options Considered

3.1 This is a regular report on progress with managing strategic risks.

3.2 Additionally, good progress is being made to implement the corporate risk management strategy for 2021-2024. Work is in hand by departments to fully review their risk registers. It is expected that corporate risks will uploaded to APEX during 2022-23 Quarter 1. A full progress report will be presented to the Audit Committee at its next meeting.

4. Implications

4.1 Implications are discussed in Appendix 1.

5. Consultation

5.1 The information in Appendix 2 was provided by risk owners.

6. Background Papers

6.1 Electronic files held by Risk and Insurance management, Finance & ICT Services, County Hall Complex.

7. Appendices

7.1 Appendix 1 – Implications.

7.2 Appendix 2 – Strategic Risk Register.

8. Recommendations

That the Audit Committee:

a) Notes work in hand to assess and monitor emerging risks for the Council from the Russian invasion and war with Ukraine.
b) Reviews the Strategic Risk Register, noting the most severe risks to the Council and changes in scores for three risks in Quarter 3.
c) Notes that a full report on progress with implementing the corporate risk management strategy will be presented to the Committee at its next meeting.

9. Reasons for recommendations

9.1 The Audit Committee is charged with providing assurance of risk management within the Council.

Report Authors:	**Contact details:**
Paul Stone Interim Director of Finance & ICT	paul.stone2@derbyshire.gov.uk
Jane Morgan Risk and Insurance Manager	jane.morgan@derbyshire,gov.uk

Implications

Financial

1.1 Financial implications in relation to specific risks are noted in the strategic risk register where applicable.

Legal

2.1 Legal implications in relation to specific risks are noted in the strategic risk register where applicable.

Human Resources

3.1 Human Resources implications in relation to specific risks are noted in the strategic risk register where applicable.

Information Technology

4.1 Information technology implications in relation to specific risks are noted in the strategic risk register.

4.2 The risk management upgrade to APEX is produced by the same company supplying the existing performance information software. The application is designed to fully integrate with this software.

Equalities Impact

5.1 Equalities impact implications in relation to specific risks are noted in the strategic risk register where applicable.

Corporate objectives and priorities for change

6.1 The strategic risk register and corporate risk management strategy underpin the successful delivery of the Council's objectives and deliverables set out in the Council Plan and service delivery plans.

6.2 The revised corporate risk management strategy, to be presented at the Audit Committee's next meeting, is designed to strengthen risk management arrangements to underpin improved performance across the Council, and to deliver greater public value from its work.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 All other implications in relation to specific risks are noted in the strategic risk register where applicable.

Appendix 2

STRATEGIC RISK REGISTER

Report period:	2021-22	Q3
Report date:	27 January 2022	

The Derbyshire County Council strategic risk register includes all risks with the greatest potential negative impact on the Council.

Change to scoring from September 2021

The Corporate Risk Management Strategy 2021-2025 changed the method of scoring risks to give greater weighting to the 'Impact' score. The change took effect in September 2021 (2021-22 Q2). Risks scoring 15 or above (pre-September 2021) or 12 and above (from September 2021) are deemed 'strategic' and included in the strategic risk register. Scores for 2021-22 Q2 are shown using both methods to provide continuity when comparing scores pre and post-September 2021.

The scoring matrices are shown in Appendix 2A (pre-September 2021) and Appendix 2B (from September 2021).

Scoring history (trend)

Historic scoring data is shown from when new and significantly changed risks were first included in the register.

During 2021-22 some risks were split into component parts and wording amended to provide greater clarity. Historic scores have been retained except where the wording changed significantly to make comparison difficult.

Notes

1. Textual changes since the last report are shown in **Purple**.
2. Any risks not updated during the current quarter are highlighted in the 'Last update' box.

Summary of strategic risks

Risk description	Risk owner	Target score	Current score (Q3)	Change (since last quarter)	Page
Impact of a prolonged recovery and a funding gap	Peter Handford	Amber	Red	No change	3
Increase in demand on Council services	Iain Little	Amber	Red	No change	7
Failure to have adequate business continuity plans in place	Chris Henning	Green	Red	No change	9
Failure to have adequate emergency response arrangements in place	Chris Henning	Amber	Red	No change	12
Effective change management	Emma Crapper	Green	Red	No change	15
Supply chain failure	Peter Handford	Green	Red	No change	18
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	Chris Henning	Blue	Red	No change	21
Information governance	Peter Handford	Amber	Red	No change	23
Adapting to climate change	Claire Brailsford	Amber	Red	Target increase	26
Protection of vulnerable adults	Helen Jones	Amber	Red	No change	28
Protection of vulnerable children	Carol Cammiss	Amber	Red	Current increase	32
Maintenance of property assets	Dave Massingham	Amber	Red	Target increase	35
Maintenance of Place assets	Chris Henning	Green	Green	Current reduction	37
Failure to understand or respond adequately to new or changing legislation and regulation	Helen Barrington	Amber	Red	No change	40
Ineffectual workforce planning	Emma Crapper	Green	Red	No change	45

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.
Risk Owner	**Peter Handford** — Executive Director of Corporate Services and Transformation
Last update	Period: 2021-22 Q3 — Date: 21 December 2021
Target (score)	AMBER (8) — Probability: Probable (4) — Impact: Moderate (2)
Current (score)	**RED (20)** — Probability: Almost Certain (5) — Impact: Extremely High (4)
Assessment history	2020-21: Q1, Q2, Q3, Q4 2021-22: Q1, Q2 (Pre-Sep 2021), Q2 (Post-Sep 2021), Q3, Q4
Other	**Reputation impact assessment**: MODERATE — **Financial impact assessment**: Band 8
Progress update	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. 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. The Revenue Budget 2021-22 included a £10m contingency to support rising social care costs. This budget has been allocated to the Adult Social Care and Health, and Children's Services departments, following the Quarter 1 2021-22 forecast outturn position which identified financial pressures for both departments.

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. The Revenue Outturn 2020-21 was considered by Cabinet on 29 July 2021 and approved the allocation from underspends of £9.000m to the Budget Management Earmarked Reserve and £14.000m to a newly established reserve as a contingency against potential funding losses during the Covid-19 recovery.

The Spending Review 2021 announced additional funding for local authorities of £1.6bn in each of the next three financial years to support inflationary and demand pressures, and to help meet the National Insurance increases from the introduction of the Social Care Levy.

The Provisional Finance Settlement announced on 16 December has failed to provide a multi-year settlement which would have helped to support financial planning and financial sustainability.

Controls	**Description**	**Status**	**Owner**
	Five-Year Financial Plan is updated at least annually and following key Government announcements e.g. Spending Rounds. In addition to this, the Council's Financial Strategy has been revised and updated, and was approved by Cabinet on 9 September 2021. The Strategy sets out a framework in which the Council manages its financial resources.	In place/embedded	E Scriven
	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
	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	In place/embedded	P Handford

Page 150	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 addition, the Capital Strategy Group oversee the capital bids process and monitoring of the capital programme.		
	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.	In place/embedded	E Scriven
	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
	Positive use of Better Care Fund and alignment of health and social care priorities for integrated working.	In progress/taking effect	H Jones
	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. Consideration is being given to the establishment of countywide lobbying in association with district/borough/city councils, adopting a joined-up approach in respect of priority areas such as social care and homelessness.	In progress/taking effect	P Handford
	Monitor the impact of the National Funding Formula for schools and closely monitor the implications of the High Needs Block	In progress/taking effect	C Allcock

	level of funding ensuring compliance with the revised Government regulations.		
	Departments have identified estimated Covid-19 costs for 2021/22 and initial identification of service pressures over and above those identified as part of the 2021/22 budget setting process. The budget setting process for 2022/23 commenced in early Summer 2021 to ensure that the Council has early sight of the financial pressures faced in both short and medium-term.	In progress/taking effect	P Handford
	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, with a further £14.000m made available from 2020/21 underspends.	In progress/taking effect	P Handford

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.									
Risk Owner	**Iain Little**				Deputy Director of Public Health					
Last update	Period:	2021-22 Q3			Date:	14 January 2022				
Target (score)	AMBER (8)		Probability:		Probable (4)		Impact:		Moderate (2)	
Current (score)	**RED (16)**		Probability:		Probable (4)		Impact:		Extremely High (4)	
Assessment history	2020-21	Q1	Q2	Q3	Q4	2021-22	Q1	Q2 (Pre-Sep 2021) Q2 (Post-Sep 2021)	Q3	Q4
Other	**Reputation impact assessment**		HIGH		**Financial impact assessment**			Band 4		
Progress update	Demand Management has been identified as a priority project within the Enterprising Council approach. A report to Enterprising Council Board in May 2021 recommended that demand management is embedded across change management projects and programmes through developing an approach to understand and measuring demand. This will align the work with the Strategic Transformation workstream. An SRO has been identified, and links made to incorporate demand management within work of the Strategic Transformation Programme Management Office. This work continues to be delayed due to capacity pressures caused by the Council's Covid-19 response.									

Controls	Description	Status	Owner
	SRO identified to lead work.	In place/embedded	E Crapper
	Demand management approach agreed.	In place/embedded	I Little
	Embedding of demand management approach within work of Strategic Transformation PMO	In progress/taking effect	I Little/E Crapper

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.									
Risk Owner	**Chris Henning**			Executive Director, Place						
Last update	Period:	2021-22 Q3			Date:	12 January 2022				
Target (score)	GREEN (6)		Probability:		Unlikely (2)		Impact:		High (3)	
Current (score)	**RED (20)**		Probability:		Almost Certain (5)		Impact:		Extremely High (4)	
Assessment history	2020-21	Q1	Q2	Q3	Q4	2021-22	Q1	Q2 (Pre-Sep 2021) Q2 (Post-Sep 2021)	Q3	Q4
Other	**Reputation impact assessment**		MODERATE		**Financial impact assessment**			Band 5		
Progress update	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. 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. Directorates providing key services should have up to date service area plans detailing how they will continue/or resume critical services. An audit of these needs to be undertaken to ensure that there are plans and that they are up to date. The corporate business continuity priority functions spreadsheet needs to be revisited throughout the year; the previous version was completed in Nov 2020. The plan has been used during the response to Covid-19 however the plan has not been exercised since October 2019. Concern has been raised as to whether directorates/service areas have in place local service area plans and/or how up to date they are, and the adequacy of these. A review of how business continuity planning is resourced needs to be undertaken to ensure that it is adequately resourced. The revised scoring was proposed following a meeting with the Risk & Insurance Manager and Emergency Planning Manager.		
Controls	**Description**	**Status**	**Owner**
	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

Page 156	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
	Departments hold in-depth reviews of their continuity arrangements to ensure key services can continue.	In progress/taking effect	E Crapper
	ICT and procurement to work with departments to ensure systems procured provide resilience.	In progress/taking effect	T Gerrard
	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 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 Council in its ability to fulfil its Category 1 Responder statutory duty under the Civil Contingencies Act 2004.									
Risk Owner	**Chris Henning**	Executive Director, Place								
Last update	Period:	2021-22 Q3	Date:	12 January 2022						
Target (score)	AMBER (8)	Probability:	Unlikely (2)	Impact:	Extremely High (4)					
Current (score)	**RED (16)**	Probability:	Probable (4)	Impact:	Extremely High (4)					
Assessment history	2020-21	Q1	Q2	Q3	Q4	2021-22	Q1	Q2 (Pre-Sep 2021) Q2 (Post-Sep 2021)	Q3	Q4
Other	**Reputation impact assessment**	HIGH	**Financial impact assessment**	Band 5						
Progress update	Under the Civil Contingencies Act (CCA) 2004 the County Council is defined as a Category 1 Responder and therefore has statutory duties placed on it, one of which is to ensure that it has plans in place to respond to an emergency and continue to provide critical services, i.e. emergency planning and business continuity arrangements. The Local Resilience Forum is made up of Category 1 Responders as defined by the CCA. As a Category 1 Responder the Council is jointly responsible for preparing and maintaining Derbyshire									

	LRF's community risk register and ensuring that multi-agency plans are in place to mitigate/respond to the risks/threats identified within it.		
Controls	**Description**	**Status**	**Owner**
	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 and Tactical Co-ordinating Groups as appropriate. During Covid-19, wherever possible, Strategic Coordinating Group and Tactical Coordinating Group meetings will be held virtually in response to Covid-19 and other major incidents.	In place/embedded	C Henning
	Following emergencies departments review their response with internal debriefs that feed into LRF multi-agency debriefs as appropriate.	In place/embedded	C Henning
	LRF multi-agency risk and capability plans are prepared and maintained by LRF partners to ensure an effective response by responding agencies including the County Council.	In place/embedded	C Henning
	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	In place/embedded	J Gould

	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.		
	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.	In place/embedded	J Gould

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, behaviours, productivity and capacity, each of which may adversely impact upon service delivery if not managed effectively. The effect of implementing organisational change, could result in adverse employee relations and impacts on the Council's workforce coupled with pressure for increased productivity should effective change management and employee engagement not be in place. The lack of effective change management could lead to significant impact upon stakeholders and partnerships; potential litigation; fines; risk of injury or death and unplanned spending increases.									
Risk Owner	**Emma Crapper**			Director of Organisation Development and Policy						
Last update	Period:	2021-22 Q3			Date:	14 January 2022				
Target (score)	GREEN (6)			Probability:	Possible (3)			Impact:	Moderate (2)	
Current (score)	**RED (16)**			Probability:	Probable (4)			Impact:	Extremely High (4)	
Assessment history	2020-21	Q1	Q2	Q3	Q4	2021-22	Q1	Q2 (Pre-Sep 2021) Q2 (Post-Sep 2021)	Q3	Q4
Other	**Reputation impact assessment**	HIGH			**Financial impact assessment**	Band 4				
Progress update	Work has taken place to further develop the whole council strategic transformation case identified as a key priority to drive forward Phase 2 of the Council's Enterprising Council approach. The 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 initial work has focussed on reviewing the existing change and transformation projects and programmes taking place across the Council. The PMO will also be responsible for 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 with an employee engagement cycle now in place and a number of employee wellbeing initiatives having been implemented (i.e. employee assistance programme, Thrive app).

A cycle of regular pulse surveys and local team action planning has been implemented 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', with departmental employee engagement forums having now been held for all departments and the organisational engagement forum held in November 2021.

Feedback from leadership forums continues to 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. Leadership connections groups have been implemented to further strengthen discussions and communications across the leadership forum.

The council continues to progress and review its wellbeing strategy actions plans, focused on people, data and systems to ensure the strategy is successfully embedded. The wellbeing strategy is being reviewed by end March 2022 to ensure it remains fit for purpose.

Controls	**Description**	**Status**	**Owner**
	Development of strategic transformation case and prioritised council wide programme of transformation.	In progress/taking effect	E Crapper
	Creation of a centralised Programme Management Office for the Council.	In progress/taking effect	E Crapper
	Development of effective governance arrangements to monitor and evaluate agreed change activity.	In progress/taking effect	E Crapper
	Deployment of the employee engagement cycle as approved by CMT on 8 February 2020 supported by departmental and organisational employee engagement forums.	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. A review of the approach to forums to be completed by February 2022.	In progress/taking effect	J Skila
	Ongoing deployment, review and monitoring of the council's wellbeing strategy and associated action plans.	In progress/taking effect	J Skila

Risk Description	**Supply chain failure**									
	Failure to manage contracts effectively could lead to unforeseen increased costs; risk of contracts collapsing; increased carbon footprint.									
Risk Owner	**Peter Handford**	Executive Director of Corporate Services and Transformation								
Last update	Period:	2021-22 Q3	Date:	27 January 2022						
Target (score)	GREEN (6)	Probability:	Unlikely (2)	Impact:	High (3)					
Current (score)	**RED (20)**	Probability:	Almost Certain (5)	Impact:	Extremely High (4)					
Assessment history	2020-21	Q1	Q2	Q3	Q4	2021-22	Q1	Q2 (Pre-Sep 2021) Q2 (Post-Sep 2021)	Q3	Q4
Other	**Reputation impact assessment**	HIGH	**Financial impact assessment**	Band 8						
Progress update	A Central Contract Management Support Team to improve management of contracts across the Council has been approved and is now in progress.									
Controls	**Description**	**Status**	**Owner**							
	A guidance document has been produced to ensure departments are aware of their responsibilities to ensure management of business continuity is part of their contract management processes. This document will be issued once audit sign off is received.	Proposed/not yet approved	T Gerrard							
	Proposed introduction of a standardised Contract Management Framework via a Central Management Professional Standards Team across the Council.	In progress/taking effect	T Gerrard							

Page 164	Identification of high value/high risk contracts including partnerships and partners which demand a higher level of contract management.	In progress/taking effect	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.	In progress/taking effect	T Gerrard
	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.	In progress/taking effect	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.	In progress/taking effect	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	In progress/taking effect	T Gerrard

	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.		

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 associated 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 determine the future use of the New Waste Treatment Facility is a significant risk for the long-term waste management strategy, the Council's future economic and environmental sustainability and its reputation.									
Risk Owner	**Chris Henning**	Executive Director, Place								
Last update	Period:	2021-22 Q3	Date:	11 January 2022						
Target (score)	BLUE (2)	Probability:	Unlikely (2)	Impact:	Low (1)					
Current (score)	**RED (20)**	Probability:	Almost Certain (5)	Impact:	Extremely High (4)					
Assessment history	2020-21	Q1	Q2	Q3	Q4	2021-22	Q1	Q2 (Pre-Sep 2021) Q2 (Post-Sep 2021)	Q3	Q4
Other	**Reputation impact assessment**	HIGH	**Financial impact assessment**	Band 7						
Progress update	The councils are working to agree an "estimated fair value" for the facility taking into account all of the costs of rectifying ongoing issues at the facility, and the costs of providing the services to meet the agreed contract standards. 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.									

	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.		
Controls	**Description**	**Status**	**Owner**
	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 short-term 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 has been established and meets monthly.	In place/embedded	C Brailsford
	Specialist advisors (finance; commercial, technical and legal) appointed and support the Project Team. The Project Team meets at minimum weekly.	In place/embedded	C Brailsford

Risk Description	**Information governance** 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.
Risk Owner	**Peter Handford** — Executive Director of Corporate Services and Transformation
Last update	Period: 2021-22 Q3 — Date: 18 January 2022
Target (score)	AMBER (9) — Probability: Possible (3) — Impact: High (3)
Current (score)	**RED (12)** — Probability: Possible (3) — Impact: Extremely High (4)
Assessment history	2020-21: Q1, Q2, Q3, Q4 — 2021-22: Q1, Q2 (Pre-Sep 2021), Q2 (Post-Sep 2021), Q3, Q4
Other	**Reputation impact assessment**: HIGH — **Financial impact assessment**: Band 3
Progress update	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 until the review is complete, and an informed assessment is made, however the current score reflects the large amount of controls in place. An implementation plan for The Data Strategy will shortly be provided for approval to centralise legacy flat file data into a secure SharePoint structure.

Controls

Description	Status	Owner
The ICT Data Architecture function to build out the data use and management guidelines for the Council.	In progress/taking effect	R Pearson

	The data management strategy and a resource requirements report are to be considered by CMT and/or Cabinet over the coming weeks. This will allow the ICT Service to put the resources in place to develop an implementation plan to migrate to SharePoint and implement the advance security options available in the e5 license~~ is being developed~~.	In progress/taking effect	R Pearson
	Staff see a screen each time they logon to the Council's network that lists the key policies that they must read and acknowledge. These same policies are presented to new staff at induction.	In place/embedded	
	File counter icon on desktops show staff their documents that are held locally.	In place/embedded	J White
	Information Governance Training is mandatory online training for all council staff, agency staff and temporary staff. It must be completed every 12 months and metrics are presented to the Information Governance Group monthly.	In place/embedded	J White
	ISO27001 certification gives the Council assurance that physical and technical processes are in place to secure and protect data.	In place/embedded	J White
	The council has a robust security incident management system in place which alerts of security vulnerabilities and data breaches. The new Halo system is now live and improvements have been implemented to alert ICT Services of incidents that pertain to malware and phishing incidents.	In place/embedded	J White
	The council has access control on all systems holding data and permissions are reviewed quarterly.	In place/embedded	R Pearson

	The council has a range of technical defences in place to secure the council's Data Centres, server and network architecture, data backups and business continuity plans.	In place/embedded	R Pearson
	All Council issued devices are encrypted and PIN protected to prevent access to data on the hard drive.	In place/embedded	R Pearson

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.									
Risk Owner	**Claire Brailsford**	Director of Environment and Transport								
Last update	Period:	2021-22 Q3	Date:	11 January 2022						
Target (score)	AMBER (9)	Probability:	Possible (3)	Impact:	High (3)					
Current (score)	**RED (16)**	Probability:	Probable (4)	Impact:	Extremely High (4)					
Assessment history	2020-21	Q1	Q2	Q3	Q4	2021-22	Q1	Q2 (Pre-Sep 2021) Q2 (Post-Sep 2021)	Q3	Q4
Other	**Reputation impact assessment**	HIGH	**Financial impact assessment**	Band 8						
Progress update	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. Since the 2013 study climate change understanding and science has progressed, and the policy and guidance around climate change adaptation has changed. The target score has been reassessed in the context of these changes.									

	There is therefore now a need to assess what this information means to the Council and the services that it delivers, using the Derbyshire Climate Change Adaptation Plan developed in 2013 as a good starting point. A draft Climate Projections for Derbyshire 2020-2100 report has been developed, summarising information about how the climate of Derbyshire, the UK and the world are changing and may change in the future. A draft project proposal for assessing the risks facing Council Services has also been developed and shared with CMT and the Corporate Risk Management Group, with a plan for project delivery in 2022. Work undertaken on climate projections and will inform plans to build the resilience of Derbyshire to a changing climate to include risk assessments and adaptation plans.		
Controls	**Description**	**Status**	**Owner**
	Analysis and distribution of future climate projections for Derbyshire	In progress/taking effect	C Brailsford
	Council Service risk assessments and adaptation plans aligned where possible to existing processes and plans	In progress/taking effect	C Brailsford
	Derbyshire Local Flood Risk Management Strategy	In place/embedded	J Gould
	Derbyshire Natural Capital and Biodiversity Strategy (being commissioned)	In progress/taking effect	C Brailsford
	Planning guidance	Proposed/not yet approved	J Battye

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.									
Risk Owner	**Helen Jones**	Executive Director, Adult Social Care and Health								
Last update	Period:	2021-22 Q3	Date:	12 January 2022						
Target (score)	AMBER (8)	Probability:	Unlikely (2)	Impact:	Extremely High (4)					
Current (score)	**RED (12)**	Probability:	Possible (3)	Impact:	Extremely High (4)					
Assessment history	2020-21	Q1	Q2	Q3	Q4	2021-22	Q1	Q2 (Pre-Sep 2021) Q2 (Post-Sep 2021)	Q3	Q4
Other	**Reputation impact assessment**	HIGH	**Financial impact assessment**	Band 4						
Progress update	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. This strategy has been incorporated into policy and is being driven by an overarching Quality Assurance Board that meets on a quarterly basis and which receives highlight reports at each meeting from workstream leads who are responsible for a specific area of quality assurance across the ASC department. There are six key work streams; Safe Services, Quality Recording, Quality Monitoring and Improvement, Quality Workforce, Communications and Quality Policies and Procedures. Each work stream is required to utilise appropriate data to monitor and scrutinise activity across the department and report to the board via a highlight report as well as focus activity on key actions through detailed work stream action plans.									

Page 174	The QA Board has reported updates on activity and required action to the ASC Portfolio Holder verbally to date and is now in the process of arranging quarterly written progress reporting from October 2021 onwards. In specific relation to the directly provided services such as residential care, homecare and day care activity there is also a Quality Improvement Board (QIB) which has now been established for some eighteen months or more. This Board is chaired by an Assistant Director and involves Group Managers across the department. The Board ensures that the quality and improvement of all directly provided services is the responsibility of the whole department and that the QA strategy is being implemented. The work of this Board is focused into the same six key work streams, and feeds directly into, the Quality Assurance Board that Board. Further to the above ASC is now being impacted by the new Covid variant which is impacting staffing levels both internally and within the PVI sector. ASC has re-established emergency planning Gold, Silver and Bronze calls and an operational Covid risk register.		
Controls	**Description**	**Status**	**Owner**
	An Adult Social Care Quality Assurance Strategy and Framework has been developed and agreed. This strategy has now been converted into policy and implemented across the department and is being embedded into practice.	In progress/taking effect	S Stevens
	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	T Henson
	The Quality Improvement Board provides regular updates to the ASC Quality Assurance Board, Senior Management team and Executive Director.	In place/embedded	T Henson

	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
	We have reviewed our approach to learning reviews and serious incidents. We have revised 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
	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
	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
	Senior Managers are updated in relation to any significant incidents through a newly embedded 'notifiable incident form'.	In place/embedded	D Sullivan/ T Henson

	A Quality Assurance Board that meets on a quarterly basis, and which receives highlight reports at each meeting from workstream leads who are responsible for a specific area of quality assurance across the ASC department, has been established to oversee progress on actions and receive highlight reports on meets on a six weekly basis to review progress within work streams, to drive delivery on the action plan and to identify new learning. This board has provided regular verbal updates to the ASC Senior Management team, Executive Director and Portfolio Holder. From October 2021 the board will be providing written updates on a quarterly basis to the Executive Director and Portfolio Holder.	In place/embedded	S Stevens
	A data dashboard which was initially developed for our transformation programme, is being further developed to ensure that accurate reporting on specific areas of Quality assurance can be maintained in one place to support monitoring and reporting to the Quality Assurance Board.	In progress/taking effect	L Elba-Porter

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.									
Risk Owner	**Carol Cammiss**			Executive Director, Children's Services						
Last update	Period:	2021-22 Q3				Date:	12 January 2022			
Target (score)	AMBER (8)			Probability:		Unlikely (2)		Impact:		Extremely High (4)
Current (score)	**RED (16)**			Probability:		Probable (4)		Impact:		Extremely High (4)
Assessment history	2020-21	Q1	Q2	Q3	Q4	2021-22	Q1	Q2 (Pre-Sep 2021) Q2 (Post-Sep 2021)	Q3	Q4
Other	**Reputation impact assessment**		HIGH			**Financial impact assessment**		Band 7		
Progress update	Risk can never be eliminated entirely, however Derbyshire continuously seeks to strengthen risk management and practice in cases known to the Authority. As demonstrated recently, heightened media attention at times of national or local tragedy can impact on referral rates and capacity to respond for a variety of reasons in light of other LA's seeing an increase the likelihood is that Derbyshire could follow a similar trend therefore the risk rating has been increased. A range of robust mitigation measures are in place and will continue. The council has robust policies and procedures in place to safeguard vulnerable children, supported by training and development, supervision and quality assurance processes. Our ongoing quality assurance programme indicates that practice has strengthened and the vast majority of casework in our reflective case reviews is judged to be good or better. 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 over the past two years, leading to greater workforce stability. More recently, the higher turnover that we had seen in some Localities during the pandemic appears to have levelled off, however periodic strains in capacity are unavoidable with the regularity of workforce changes. Supportive communications have been shared with the workforce regarding the respect and value of their hard work and practice with children and families. These measures provide a firm foundation for ongoing service improvement and the reduction of risks to children.		
Controls	**Description**	**Status**	**Owner**
	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 - establishing ongoing funding of service structure and capacity.	In progress/taking effect	A Noble

Page 179	Practice improvement plans with oversight by QA Board chaired by Exec Director. Regular performance monitoring and accountability at all levels across children's safeguarding and SEND services. Plan recently reviewed following achievement of original actions.	In place/embedded	P Lambert
	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. Strategies developed and implemented to address recent staffing challenges in Locality areas. Longer term approaches to recruitment and retention being explored.	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 a joined-up approach to managing risks for children during COVID-19; strengthened multi-agency working.	In place/embedded	A Noble/ I Peel

<table>
<tr><td>Risk Description</td><td colspan="10">Maintenance of property assets

Failure to maintain our assets could lead to significant fines; significant litigation; decreased staff morale; reputational damage; HSE investigation.</td></tr>
<tr><td>Risk Owner</td><td colspan="3">Dave Massingham</td><td colspan="7">Director of Property</td></tr>
<tr><td>Last update</td><td colspan="2">Period:</td><td colspan="3">2021-22 Q3</td><td colspan="2">Date:</td><td colspan="3">11 January 2022</td></tr>
<tr><td>Target (score)</td><td colspan="3">AMBER (8)</td><td colspan="2">Probability:</td><td>Unlikely (2)</td><td colspan="2">Impact:</td><td colspan="2">Extremely High (4)</td></tr>
<tr><td>Current (score)</td><td colspan="3">RED (12)</td><td colspan="2">Probability:</td><td>Possible (3)</td><td colspan="2">Impact:</td><td colspan="2">Extremely High (4)</td></tr>
<tr><td>Assessment history</td><td>2020-21</td><td>Q1</td><td>Q2</td><td>Q3</td><td>Q4</td><td>2021-22</td><td>Q1</td><td>Q2 (Pre-Sep 2021)
Q2 (Post-Sep 2021)</td><td>Q3</td><td>Q4</td></tr>
<tr><td>Other</td><td colspan="3">Reputation impact assessment</td><td colspan="2">MODERATE</td><td colspan="3">Financial impact assessment</td><td colspan="2">Band 4</td></tr>
<tr><td>Progress update</td><td colspan="10">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 of Statutory Compliance and a new administrative and contract management team for Statutory Compliance areas has been implemented.

Created a Statutory Compliance Policy.

Currently reviewing Asset Management Strategy and writing a Maintenance Strategy. Maintenance governance meetings in place.</td></tr>
<tr><td rowspan="2">Controls</td><td colspan="6">Description</td><td colspan="2">Status</td><td colspan="2">Owner</td></tr>
<tr><td colspan="6">Decision taken to adopt Asset Management Strategy and Asset.</td><td colspan="2">In progress/taking effect</td><td colspan="2">J Scholes</td></tr>
</table>

	Management Plan in place of previous Framework.		
	Governance and Performance Framework is a key deliverable in the service plan.	In place/embedded	G Massey
	A 5-year programme of individual asset plans for all council assets has been developed and is underway.	In progress/taking effect	J Scholes
	5-year programme of individual Condition Surveys for all council assets.	In place/embedded	S Brown
	Annual Premises Reviews to 100% of managed estate.	In place/embedded	S Brown
	Planned Preventative Maintenance plans to align with Asset Plans.	In progress/taking effect	S Brown
	Dedicated resource to Statutory Compliance – administration, contract management and operational service provision.	In place/embedded	S Brown

Risk Description	**Maintenance of Place assets** Council’s ability to maintain assets to a requisite standard.									
Risk Owner	**Chris Henning**	Executive Director, Place								
Last update	Period:	2021-22 Q3	Date:	11 January 2022						
Target (score)	GREEN (4)	Probability:	Unlikely (2)	Impact:	Moderate (2)					
Current (score)	**GREEN (6)**	Probability:	Possible (3)	Impact:	Moderate (2)					
Assessment history	2020-21	Q1	Q2	Q3	Q4	2021-22	Q1	Q2 (Pre-Sep 2021) Q2 (Post-Sep 2021)	Q3	Q4
Other	**Reputation impact assessment**	MODERATE	**Financial impact assessment**	Band 4						
Progress update	This risk is to be reviewed within the development of the FHM and Highways Capital Programmes. The risk has been updated to reflect a more accurate risk description, moving away from the potential consequence led narrative. Evaluating the current risk and mitigations in place against the risk has led to this risk moving from Red to Green. Representatives from Place, 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 is set out in the 2016 Code of Practice for Well-Managed Highway Infrastructure. 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. Working with Property Services, Service Asset Management Plans are being developed. 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.		
Controls	**Description**	**Status**	**Owner**
	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 on investing in long-term planned maintenance instead of short-term repairs. Documentation is reviewed biennially.	In progress/taking effect	J Gould
	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	D Massey

Risk Description	**Failure to understand or respond adequately to new or changing legislation and regulation**									
	Lack of knowledge and understanding of 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.									
Risk Owner	**Helen Barrington**				Director of Legal and Democratic Services					
Last update	Period:		2021-22 Q3		Date:		31 December 2021			
Target (score)	AMBER (8)				Probability:	Unlikely (2)		Impact:	Extremely High (4)	
Current (score)	**RED (20)**				Probability:	Almost Certain (5)		Impact:	Extremely High (4)	
Assessment history	2020-21	Q1	Q2	Q3	Q4	2021-22	Q1	Q2 (Pre-Sep 2021) Q2 (Post-Sep 2021)	Q3	Q4
Other	**Reputation impact assessment**		HIGH			**Financial impact assessment**		Band 7		
Progress update	This corporate risk was reviewed by the new Director of Legal and Democratic Services during Q2. Frequent changes in guidance and legislation relating to coronavirus that take effect with very little notice continues to present a challenge for the Council. The new feedback / complaints system continues to be rolled out to all departments and the model for reporting and process improvements is being worked on. The Assistant Director Communications									

	and Customers intends to bring a paper to Corporate Management Team in relation to reporting and process improvements in Spring 2022. Options to enhance VAT knowledge are still under consideration, however, the recent appointment of the Head of Financial Management & Strategy brings a wealth of VAT knowledge. The Council continues to utilise external VAT advice when it is appropriate to do so.		
Controls	**Description**	**Status**	**Owner**
	The Applicable Legislation Register containing principal current legislation that is appliable to the Council is published on the intranet. The Register is reviewed by the Information Governance Group annually, or as required, following additions and updates to legislation. https://staff.derbyshire.gov.uk/site-elements/documents/information-security/applicable-legislation-register.pdf Need to ensure that this Register is updated regularly and promoted more widely.	In place/embedded Proposed/not yet approved	H Barrington H Barrington
	All draft reports to Members are scrutinised for legal implications by Legal Services and relevant Council procedures provide for legal advice to be taken at appropriate stages.	In place/embedded	H Barrington
	Monitoring Officer, Deputy Monitoring Officer, Section 151 Officer and Deputy Section 151 officer in post. Requirement for the posts to be legally or CCAB qualified respectively.	In place/embedded	H Barrington / P Handford

	A range of qualified and experienced officers are in post across the major functions. Professional officers are required to maintain CPD. Relevant training and development opportunities are also provided.	In place/embedded	Individual service areas
	Senior officers are members of local and national networks and forums to support, share best practice and information, including Derbyshire Monitoring Officers Group, Lawyers in Local Government, EM Lawshare, Derbyshire Finance Officers Association, Society of County Treasurers, Midlands Highway Alliance, engagement with DfE and Ofsted, Local Family Justice Board, East Midlands improvement alliance led by Directors of Children's Services etc.	In place/embedded	Individual service areas
	Annual membership of relevant professional bodies for example: Association of Public Service Excellence (APSE), Chartered Institute of Public Finance and Accountancy (CIPFA), LGComms for Communications and CCMA for Customer Service, Association of Directors of Children's Services that ensures officers are alerted to changes in legislation.	In place/embedded	Individual service areas
	Officers subscribe to relevant professional updates and bulletins for information about changes in legislation, including CIPFA Finance Advisory Network, Public Sector Tax, Practical Law, Local Government Lawyer, LGA, LGiU,	In place/embedded	Individual service areas
	External and internal audits/quality assurance are conducted on a variety of services in relation to quality, environmental, information governance and health and safety.	In place/embedded	Individual service areas

Page 187	External advisers and consultants with specialised knowledge and experience in particular fields of expertise are used as required.	In place/embedded	Individual service areas
	Complaints to the Local Government and Social Care Ombudsman are dealt with by a competent and legally qualified solicitor, who is able to identify trends and areas of non-compliance with legislation. Robust improvement plans can then be developed with strong governance arrangements to address areas of weaker or poor practice and ensure legislative compliance.	In place/embedded	H Barrington/ P Peat
	Claims against the Council are assessed on a case by case basis to establish whether the claim has arisen due to failure to comply with legislation. Data shows that there is good understanding of legislation and overall compliance with it. The prospects of success of defending claims are predominantly reduced as a result of insufficient record keeping to evidence compliance.	In place/embedded	H Barrington
	Complaints are currently processed within departments without corporate oversight and comprehensive records. This is in the process of delivery change to support central monitoring and oversight that will enable trends and areas of non-compliance with legislation to be identified and addressed. The new feedback / complaints system continues to be rolled out to all departments and the model for reporting and process improvements is being worked on. The Assistant Director Communications and Customers intends to bring a paper to Corporate Management Team in relation to reporting and process improvements in Spring 2022.	In progress/taking effect	J Odams

Page 188	Legal Services subscribe to Legal Resources as a reference source when giving legal advice to the Council, however this is predominantly hard copy specialist encyclopaedias. It subscribes to one online package PLC, which covers certain areas of law but not others. Free online resources are available and made use of such as Legislation.gov.uk. Hard copy resources are updated to incorporate new legislation, however there is inevitably a delay in legislative changes taking effect and being published in hard copy form. In addition, as council officers have in the main been working from home since March 2020, access to hard copy materials is limited. There is a significant risk that officers may inadvertently give incorrect advice due to lack of access to up to date and accurate legal resources.	In place/embedded	H Barrington
	A move to online resources and procurement of an additional package would ensure that legislative reference materials are updated almost instantaneously and available remotely. Industry standard resources also include 'alert' functions to ensure officers are aware of legislative changes in their specialist areas. This would provide an opportunity for lawyers to notify client departments of changes in legislation they may not be aware of.	Proposed/not yet approved	H Barrington
	The lack of a dedicated VAT Officer has the risk of penalties from HMRC in the event of a VAT breach. Options to enhance VAT knowledge are still under consideration, however, the recent appointment of the Head of Financial Management & Strategy brings a wealth of VAT knowledge. The Council continues to utilise external VAT advice when it is appropriate to do so.	In progress/taking effect	P Stone

	Opportunity to develop robust relationship with the external auditors who highlight statutory/legislative changes to officers early so that they can be addressed.	Proposed/not yet approved	P Stone

Risk Description	**Ineffectual workforce planning** A failure to recruit and retain experienced staff and a lack of future talent development and succession planning may restrict the organisation's ability to ensure effective continuity of key skills and knowledge at all levels including leadership skills and behaviours. This could result in increased vacancy and attrition rates, and lack of resource and skills to enable effective service delivery.									
Risk Owner	**Emma Crapper**				Director of Organisation Development and Policy					
Last update	Period:	2021-22 Q3			Date:	14 January 2022				
Target (score)	GREEN (6)			Probability:	Possible (3)		Impact:	Moderate (2)		
Current (score)	**RED (20)**			Probability:	Almost Certain (5)		Impact:	Extremely High (4)		
Assessment history	2020-21	Q1	Q2	Q3	Q4	2021-22	Q1	Q2 (Pre-Sep 2021) Q2 (Post-Sep 2021)	Q3	Q4
Other	**Reputation impact assessment**		LOW		**Financial impact assessment**			Band 3		
Progress update	Aligned to the development of the council's people strategy, core people priorities have been defined and approved which include focus on the attraction and retention of the workforce and responsive workforce plans. A review of recruitment services has been deployed, coupled with a revised learning and development operating model. This includes consideration of the organisation's approach to succession planning and performance management which will central to our future 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 with findings now shared and workforce profiles have been developed for hard to recruit/key workforce groups aligned to service need.									

	Learning and Development plans are key to delivering effective workforce planning with plans in place aligned to the Learning and Development Strategy to address key areas.		
Controls	**Description**	**Status**	**Owner**
	Continue to understand our workforce, the market and development and delivery of strategic workforce plans aligned to high priority workforce groups supported by clear deliverable plans leading to a reduction in reliance on agency usage and spend.	In progress/taking effect	J Skila
	Further develop our Employee Value Proposition (EVP), ensuring our terms and conditions and flexible working policies are fit for purpose and support our Modern Ways of Working vision.	In progress/taking effect	J Skila
Page 191	Continue to develop our recruitment offer through improvements to our careers site, utilisation of social media and raising the awareness of our EVP aligned to organisational values with Managers through training and development.	In progress/taking effect	J Skila
	Introduce learning pathways starting with a corporate, department and local induction for all roles and develop a framework for priority areas.	In progress/taking effect	J Skila

Appendix 2A

Corporate risk scoring tables (pre-September 2021)

Source: Derbyshire County Council Risk Management Strategy 2019-21 (v2.7)

Risk severity matrix

Likelihood	5	Moderate (5)	High (10)	Extreme (15)	Extreme (20)	Extreme (25)
	4	Low (4)	Moderate (8)	High (12)	Extreme (16)	Extreme (20)
	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	Extreme (15)
	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)
		1	2	3	4	5
		Impact				

Probability assessment criteria

Scale	Description
5	ALMOST CERTAIN: The event is expected to occur or occurs regularly (monthly, quarterly or biannual)
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)

Impact assessment criteria by risk category

		Risk Categories (highest scoring category used for overall score)								
Scale	**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
	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, e.g. other sources or avenues would not be available to stakeholders
2	**Low**	£2,5000,000 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

Corporate risk scoring tables (from September 2021)

Source: Derbyshire County Council Corporate Risk Management Strategy 2021-25 (v1.0)

Risk severity matrix

Impact Score	Extremely high	4	Green (4)	Amber (8)	Red (12)	Red (16)	Red (20)
	High	3	Green (3)	Green (6)	Amber (9)	Red (12)	Red (15)
	Moderate	2	Blue (2)	Green (4)	Green (6)	Amber (8)	Amber (10)
	Low	1	Blue (1)	Blue (2)	Green (3)	Green (4)	Green (5)
	None	0	Blue (0)	Blue (0)	Blue (0)	Blue (0)	Blue (0)
			1	2	3	4	5
			Rare	Unlikely	Possible	Probable	Almost certain
			Likelihood Score				

Likelihood scoring

5	**Almost certain**	The event is expected to occur every year
4	**Probable**	The event could occur every year
3	**Possible**	The event could occur every two years
2	**Unlikely**	The event could occur every five years
1	**Rare**	The event could occur every 10 years or longer

Impact scoring

The highest scoring area (the ‘primary impact’) used to assess risk severity.

	Impact grading	Public and employee health, safety and wellbeing	Community	Economy	Environment	Service Disruption	Skills capability	Legal	Contracts and Partnerships	Information Security
4	**Extremely high**	Substantial level of harm to the health, safety and wellbeing of the community, members of the public or employees	Substantial disadvantage to large parts of the community and/or many vulnerable residents	Substantial negative impact on the County’s economy, including hard infrastructure	International and/or national environmental damage	Substantial external or internal disruption and/or loss of service (more than seven days)	Substantial under-performance from skills gaps and/or shortages	Substantial legal action, claims and/or and penalties against or by the Council	Substantial impact on service delivery from a contract and/or partnership failure	Substantial breach; Information Commissioner Office (ICO) fine; loss of ISO 27001 certification
3	**High**	Significant level of harm to the health, safety and wellbeing of the community, members of the public or employees	Significant disadvantage to large parts of the community and/or some vulnerable residents	Significant negative impact on the County’s economy, including hard infrastructure	Significant regional environmental damage and/or failure to meet all or most internal climate change targets	Significant external or internal disruption and/or loss of service (between three to seven days)	Significant under-performance from skills gaps and/or shortages	Significant legal action, claims and/or penalties against or by the Council	Significant impact on service delivery from a contract and/or partnership failure	Significant external breach with no loss of sensitive data; or minor external breach with loss of sensitive data

	Impact grading	Public and employee health, safety and wellbeing	Community	Economy	Environment	Service Disruption	Skills capability	Legal	Contracts and Partnerships	Information Security
2	Moderate	Moderate level of harm to the health, safety and wellbeing of the community, members of the public or employees	Moderate disadvantage to large parts of the community and/or some vulnerable residents	Moderate negative impact on the County's economy, including hard infrastructure	Moderate regional and/or major local environmental damage and/or failure to meet many internal climate change targets	Moderate external or internal disruption and/or loss of service (between 24 to 48 hours)	Moderate under-performance from skills gaps and/or shortages	Moderate legal action, claims and/or penalties against or by the Council	Moderate impact on service delivery from a contract and/or partnership failure	Significant internal breach with no loss of sensitive data; or minor internal breach with loss of sensitive data
1	Low	Minimal level of harm to the health, safety and wellbeing of the community, members of the public or employees	Minimal disadvantage to the community and/or some vulnerable residents	Minimal negative impact on the County's economy, including hard infrastructure	Minimal regional and/or local environmental damage and/or failure to meet some internal climate change targets	Minimal external or internal disruption and/or loss of service (less than 24 hours)	Minimal under-performance from skills gaps and/or shortages	Minimal legal action, claims and/or penalties against or by the Council	Minimal impact on service delivery from a contract and/or partnership failure	Minor external or internal breach with no loss of sensitive data
0	None	No impact	No impact	No impact	No impact	No impact	No impact	No impact	No impact	No impact

Reputation impact assessment

Extremely High	Lasting or permanent national/local brand damage resulting from adverse comments in national press and media. Members/Officers almost certainly forced to resign.
High	Temporary national/local brand damage lasting up to two years from coverage in national and/or regional press/media. Members/Officers potentially forced to resign.
Moderate	Temporary local brand damage lasting up to one year from extensive coverage in regional press/ media.
Low	Temporary local brand damage lasting up to a few weeks from minor adverse comments in regional press/social media.
Extremely Low	Negligible local brand damage from limited adverse comments with minimal press/social media.

Financial impact assessment

Each risk is assessed for the potential range of capital and/or revenue loss to the Council if the risk materialised.

Band 8	Loss over £20 million
Band 7	Loss between £10 million and £20 million
Band 6	Loss between £5 million and £10 million
Band 5	Loss between £3 million and £5 million
Band 4	Loss between £1 million and £3 million
Band 3	Loss between £100,000 and £1 million
Band 2	Loss between £50,000 and £100,000
Band 1	Loss under £50,000
Band 0	No financial loss

Version History			
Version	**Date**	**Detail**	**Author**
0.01	03.02.2022	Draft	S Holmes
0.02	18.02.2022	Update to timetable following comments from M Walters (Policy)	S Holmes
0.03			
0.04			
0.05			

This document has been prepared using the following ISO27001:2013 standard controls as reference:	
ISO Control	**Description**
A.8.2	Information classification
A.7.2.2	Information security awareness, education and training
A.18.1.1	Identification of applicable legislation and contractual requirements
A.18.1.3	Protection of records
A.18.1.4	Privacy and protection of personally identifiable information

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

22 March 2022

Report of the Interim Director of Finance & ICT

Performance and Budget Monitoring/Forecast Outturn Arrangements

1. Purpose

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

2. Information and Analysis

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

2.2 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.

2.3 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 Two. The Policy is widely distributed to departmental Finance and Performance Managers.

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

2.5 Following a review of the Policy in March 2022, 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.
- The report format has been aligned with the new standard template required since the introduction of ModGov report management system.

Peer Challenge

2.6 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.

Progress on Peer Challenge Recommendations

2.7 Combined performance and budget monitoring/outturn reports to Cabinet Member and Cabinet are now 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.

2.8 The reports now:

- 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.

2.9 The detailed portfolio level financial content, included in the overall report to Cabinet, is now in an appendix rather than the body of the report. This helps this report to maintain a concise and strategic focus.

Future Aspirations

2.10 Regular in-year combined performance and financial reporting is an important first step towards addressing the feedback from the Peer Review. To achieve the full scope of the recommendations from the Peer Review will require further enhancement of 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.

2.11 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.

2.12 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.

Covid-19

2.13 It has been necessary during 2020-21 and 2021-22 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 may be required in 2022-23. Any necessary changes to the format will be agreed by the Director of Finance & ICT.

3. Alternative Options Considered

3.1 N/A – the Council is required to outline its forecast revenue outturn position to ensure compliance with good financial management principles and to support the development of short and medium-term financial planning. The Council's Financial Regulations require the reporting of variances of income and expenditure against budget allocation to be reported to Cabinet in line with the Budget Monitoring Policy. This report sets out the Budget Monitoring Policy.

4. Implications

4.1 Appendix One sets out the relevant implications considered in the preparation of the report.

5. Consultation

5.1 No consultation is required.

6. Background Papers

6.1 Performance papers held electronically by Policy & Research. Finance papers held electronically by Financial Strategy, Finance & ICT.

7. Appendices

7.1 Appendix 1 – Implications.

8. Recommendation(s)

That Audit Committee:

8.1 Note the details of current performance and budget monitoring arrangements.

9. Reasons for Recommendation(s)

9.1 A forecast outturn report provides a summary of the expected overall financial performance and use of resources against the Council's approved budget for the financial year. The outturn position supports the development of budgets in both the short and medium term. The Council's Financial Regulations require the reporting of variances of income and expenditure against budget allocation to be reported to Cabinet in line with the Budget Monitoring Policy.

9.2 Performance information is important as it enables the Council and the public to see how well the Council is delivering services and where it needs to make improvements.

Report Author:	**Contact details:**
Sam Holmes	Samuel.Holmes@derbyshire.gov.uk
Matthew Walters	Matthew.Walters@derbyshire.gov.uk

This report has been approved by the following officers:

On behalf of: Director of Legal Services and Monitoring Officer Director of Finance and ICT Managing Executive Director Executive Director(s)	

Implications

Financial

1.1 As outlined in the body of the report.

Legal

2.1 None.

Human Resources

3.1 None.

Information Technology

4.1 None.

Equalities Impact

5.1 None.

Corporate objectives and priorities for change

6.1 The Council Plan values commit to spending money wisely, making the best use of the resources that the Council has.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None.

Performance and Budget Monitoring Policy 2022-23

DERBYSHIRE
County Council

March 2022

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 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 - Financial Strategy), 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 25 July 2022
P4	Jul 2021	w/c 22 Aug 2022
P5	Aug 2021	w/c 26 Sep 2022
P6 (Q2)	Sep 2021	w/c 24 Oct 2022
P7	Oct 2021	w/c 28 Nov 2022
P8	Nov 2021	w/c 26 Dec 2022
P9 (Q3)	Dec 2021	w/c 23 Jan 2023
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 2022	End July 2022	Within August 2022	8 September 2022
6 (Q2) - September 2022	End October 2022	Within November 2022	8 December 2022
9 (Q3) - December 2022	End January 2023	Within February 2023	9 March 2023
12 + Special Periods (Q4) Outturn	May 2023	Within June 2023	Within July 2023

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 Children's Services and Safeguarding & Education portfolio.
- Place's debt position will be reported to the Highways Assets and Transport portfolio.
- Corporate Services and Transformation's debt position will be reported to the Corporate Services and Budget 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 Financial Strategy (Departments)	Draft Finance Overall Report to Director of Finance & ICT (Financial Strategy)	Finance & Performance Combined Portfolio Reports to Cabinet Member (Departments / Policy)	Combined Overall Report to Cabinet/CMT (Policy / Financial Strategy)	Combined Overall Report to Cabinet (Policy / Financial Strategy)
Q1 Apr- Jun	Mid July	Mid July	19-Jul-22	22-Jul-22	11-Aug-22	Aug-22	24-Aug-22	08-Sep-22
Q2 Jul-Sep	Mid Oct	Mid Oct	18-Oct-22	21-Oct-22	10-Nov-22	Nov-22	23-Nov-22	08-Dec-22
Q3 Oct-Dec	Mid Jan	Mid Jan	24-Jan-23	20-Jan-23	09-Feb-23	Feb-23	22-Feb-23	09-Mar-23
Q4 Jan-Mar (outturn)	Early May	Mid May	23-May-23	26-May-23	Jun	Jun-23	28-Jun-23	Jul-23

Public

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
(<PORTFOLIO>)

1 Divisions Affected

County-wide

2 Key Decision

This is not a key decision.

3 Purpose of the Report

To provide the Cabinet Member with an update of Council Plan performance and the revenue budget position for 20Y1-Y2 as at 31 Month 20Y1 (Quarter X).

4 Information and Analysis

4.1 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.

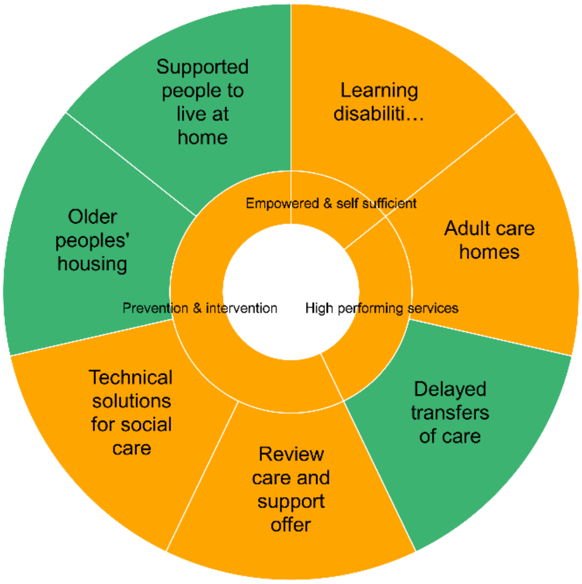
As an overview, the report shows that progress is "good" for X out of the X Council Plan key measures led by the portfolio. The budget forecast position for 20Y1-Y2 is an over/underspend of £X.XXXm. It is forecast that £X.XXXm of savings will have been achieved by the year end. This compares to target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

4.2 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

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 Two.

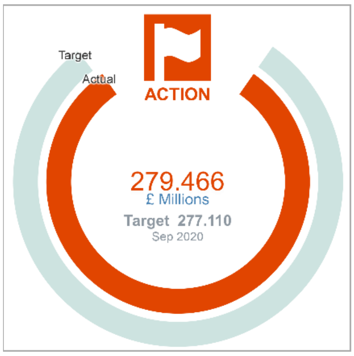
4.3 Budget Forecast Summary

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

APPENDIX B

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:

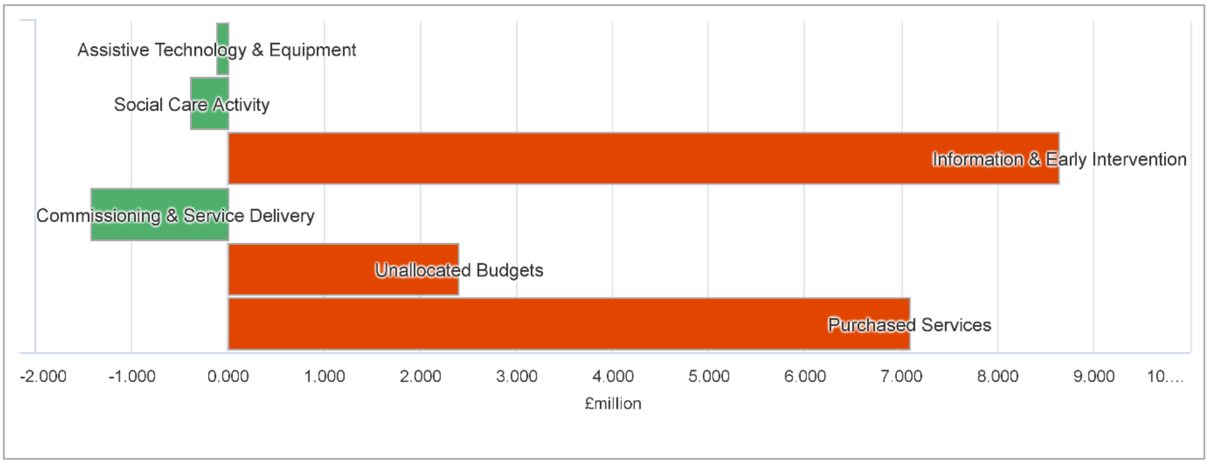
- £X.XXXm – One-Off Income Item 1 Description
- £X.XXXm – One-Off Income Item 2 Description

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

<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



4.4 Key Variances

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

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

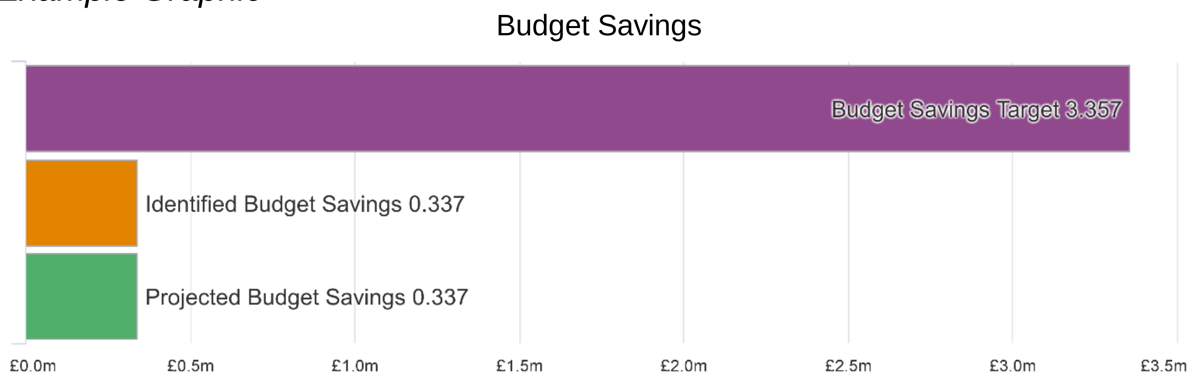
4.5 Budget Savings

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**

4.6 Growth Items and One-Off Funding

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

4.6.1 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>

4.6.2 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>

4.7 Financial 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.

4.8 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

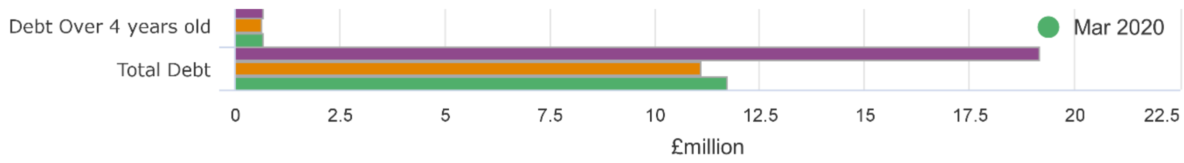
4.9 Debt Position

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.

4.10 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	

5 Alternative Options Considered

Not applicable.

6 Implications

Appendix One sets out the relevant implications considered in the preparation of the report.

7 Background Papers

Held on file within the <name> Department. Officer contacts – <name1> (Finance), <name2> (Performance)

8 Appendices

Appendix 1 – Implications

Appendix 2 – Performance Report Quarter X, 20Y1-Y2

9 Recommendation(s)

That the Cabinet Member notes the report and considers whether there are any further actions that should be undertaken to improve the budget position moving forwards or to address performance, where it has not met the desired level.

10 Reasons for Recommendation(s)

10.1 The forecast outturn report provides a summary of the expected overall financial performance and use of resources against the Portfolio's approved budget for the financial year 20X1-X2. The outturn position supports the development of budgets in both the short and medium term.

10.2 Performance information is important as it enables the Council and the public to see how well the Portfolio is delivering services and where it needs to make improvements.

11 Is it necessary to waive the call-in period?

No

Implications

Financial

1.1 As outlined in the body of the report.

Legal

2.1 None.

Human Resources

3.1 None.

Information Technology

4.1 None.

Equalities Impact

5.1 None.

Corporate objectives and priorities for change

6.1 The Council Plan values commit to spending money wisely, making the best use of the resources that the Council has.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None.

Appendix 2

Example Performance Report and Graphics

<Portfolio Name> Quarter X Performance Report 20Y1/20Y2

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

Page 227

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.

94.1%

Care & support services help improve quality of life

31 MAR 19

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.

41.8

Delayed transfer of care

29 FEB 20

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

78.6%

Adult care homes ‘Good’ / ‘Outstanding’

31 MAR 20

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

Report Sign Off and Version Control

Report Title	Performance and Budget Monitoring/Forecast Outturn Arrangements
Author	Sam Holmes
Meeting and Date	22 March 2022
Version	V0.01
Exempt item	No

Implications	Name and Comments	Date Approved
Finance		
Legal		
Human Resources		
Information Technology		
Equalities		
Corporate Objectives and priorities for change		
Consultation		
Other – please specify		

Author's Directorate Sign Off

		Date
Managing Executive Director/Executive Director		
DMT – if applicable		
CMT – if applicable		
Cabinet Member briefed – if applicable		
Other – please specify		

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Agenda Item

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

22 March 2022

Report of the Assistant Director of Finance (Audit)

Annual Internal Audit Plan 2022-23

1. Purpose

1.1 To present to Members for consideration and approval the proposed Internal Audit Plan for 2022-23.

2. Information and Analysis

2.1. 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.

2.2. 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 current 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
- Sector knowledge of emerging risks

2.3. Throughout 2021/22 the work of Audit Services continued to be disrupted by the impact of the COVID-19 pandemic, reduced staffing levels and increased levels of requests for previously unplanned audit work. This has meant a small percentage of audits from 2021/22 have been rolled forward into the 2022/23 Internal Audit Plan. Although this work will be delivered slightly later than originally scheduled, it is important that work is now completed. This will mean the audit outcomes feature in our progress reports provided to Audit Committee so that members can properly understand the effectiveness of Internal Control, Risk Management and Governance arrangements of the Council.

2.4. The Council's Internal Audit Plan for 2022/23 (Appendix 2) includes time for activities supporting delivery of audit assignments including counter-fraud support, audit advice, liaison, planning, staff development, quality assurance and Audit Committee reporting.

2.5. There is an increased contingency in the 2022/23 Plan: this recognises that the Council now operates in a faster paced environment. This contingency will enable Internal Audit to complete unscheduled audits or provide advice in response to new issues, emerging risks and new opportunities for the Council.

2.6. Public Sector Internal Audit Requirements require all UK Local Authorities to implement a Quality Assurance and Improvement Programme to assist in improving the performance of Internal Audit. This includes requirements for external quality assessments (EQA), at least once every five years. The outcome report of the last EQA was considered by Audit Committee in December 2019; this identified opportunities to use assurance mapping as a tool to target Internal Audit work more effectively.

2.7. Audit time has been made available in the 2022/23 plan to include an 'Assurance Mapping' exercise at the beginning of the new financial year. This will help us to identify opportunities to draw assurance on the control environment, from third parties such as OFSTED, CQC and other regulatory bodies. Internal Audit resources can then be targeted to fill any remaining assurance gaps and focus on areas where it can add greater value for the Council.

2.8. Once the Assurance Mapping exercise is completed, it will be necessary to review the Internal Audit Plan to make sure that resource is effectively targeted to the areas of highest risk. The plan should therefore be viewed as a statement of intent and may be subject to change after the Assurance Mapping Exercise. If significant, these changes will be presented to CMT and reported to a future Audit Committee.

2.9. The proposed Audit Services Plan for 2022-23 is based on a staffing structure which provides for the deployment of 2,772 days. This level of resource is based on several assumptions, including the induction of a new Principal Auditor due to start in April 2022, retention of existing staff and the potential impact of sickness on available days to the deliver the Audit Services Plan.

2.10. Retention of 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. We have made provision within our plans to support and develop staff in our Audit Services.

2.11. 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 2022-23 due to the ongoing challenges which the Unit will face following recovery from the impact of COVID-19 and induction of new team members. Consequently, it would be prudent to fully review and assess the Audit Services Plan around September 2022 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.

2.12. 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.

2.13. The Audit Services Plan is attached at Appendix 2 to this Report and details the Audit Services' coverage for all Directorates and the Corporate Authority, it also identifies the perceived level of risk, the resource to be employed and the expected outcomes of Audit work.

2.14. 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.

2.15. Annual Internal Audit Opinion – I am satisfied that that the level and mix of resources, together with those areas covered in the plan will enable the Annual Head on Internal Audit to be provided in 2023.

3. Consultation

3.1 No consultation is required.

4. Alternative Options Considered

4.1 Audit Committee could choose not to consider the report content and recommendations.

5. Implications

5.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

6. Background Papers

6.1 File held electronically by the Assistant Director of Finance (Audit).

7. Appendices

7.1 Appendix 1 – Implications.

7.2 Appendix 2 – Audit Plan

8. Recommendation(s)

That the Audit Committee:

a) consider and endorse the approach taken to create the proposed Draft Internal Audit Plan for 2022/23

b) note that the plan may be subject to amendment following the completion of an assurance mapping exercise or in response to emerging risks

c) subject to these comments, approve the draft Audit Services Plan which is attached at Appendix 2.

9. Reasons for Recommendation(s)

9.1 Audit Committee is required to approve the annual Audit Plan of the Council.

Report Author: **Dianne Downs**
Contact details: **Dianne.downs@derbyshire.gov.uk**

Appendix 1

Implications

Financial

1.1 Costs associated with the proposed plan will be met from the approved Internal Audit Budget

Legal

2.1 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.

2.2 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.

Human Resources

3.1 The Public Sector Internal Audit Standards require that the Assistant Director of Finance (Audit), as Head of Internal Audit (HIA), ensures that internal audit resources are effectively deployed to achieve the risk-based plan.

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 The Council is committed to ensuring good governance and compliance with applicable laws and regulations.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None

Appendix 2
Audit Plan

DERBYSHIRE COUNTY COUNCIL

AUDIT SERVICES PLAN

2022/23

"Audit Services aspires to enhance and protect organisational value by providing risk based and objective assurance, advice and insight"

DIANNE DOWNS
Assistant Director of Finance (Audit)

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 Policy.

Cabinet has approved the Audit Charter which draws together existing practice and formalises procedures relating to Audit Services, whose mission is to enhance and protect organisational value by providing risk-based assurance, advice and insight.

Our work is carried out in conformance with the UK Public Sector Internal Audit Standards (PSIAS). These 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.'

Public Sector Internal Audit Requirements require all UK Local Authorities to implement a Quality Assurance and Improvement Programme to assist in improving the performance of Internal Audit. This includes requirements for external quality assessments (EQA), at least once every five years. The outcome report of the last EQA was considered by Audit Committee in December 2019; this confirmed Audit Services conforms overall and in each of the four areas of focus assessed. Whilst not making any formal recommendations, the report did identified opportunities to further develop the service including the use of assurance mapping as a tool to target Internal Audit work more effectively.

Assurance Mapping

Audit time has been made available in the 2022/23 plan to include an 'Assurance Mapping' exercise at the beginning of the new financial year. This will help us to map existing assurances and identify opportunities to leverage assurance on the control environment, from third parties such as OFSTED, CQC and other regulatory bodies. Internal Audit resources can then be targeted to fill any remaining assurance gaps and focus on areas where it can add greater value for the Council and strengthen our current approach.

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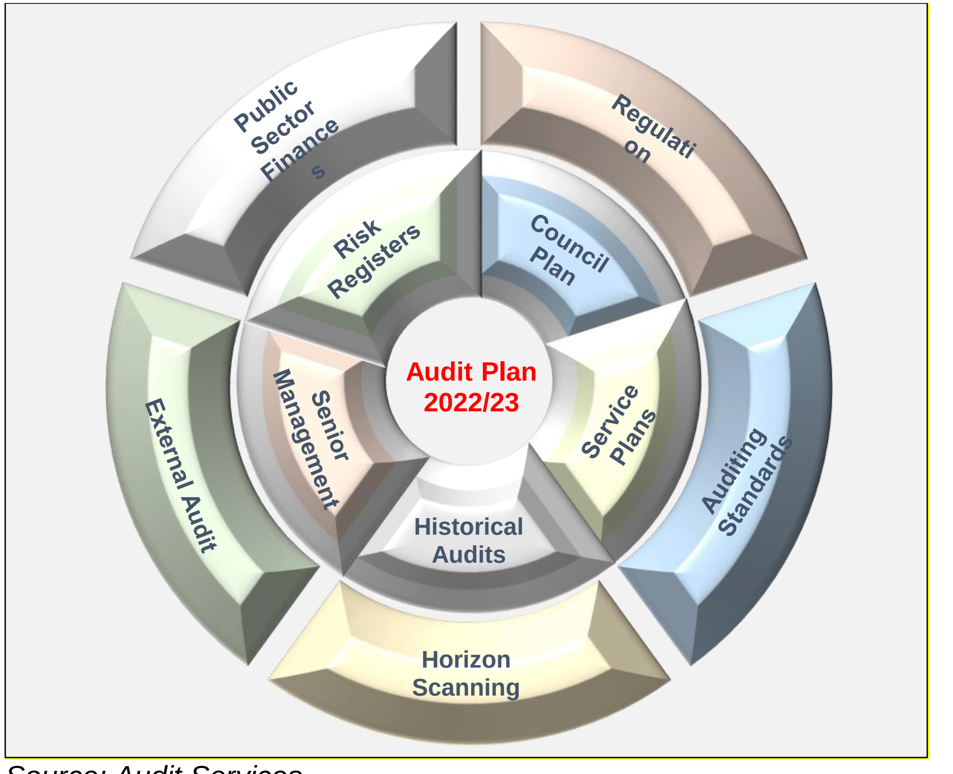
Current Risk Assessment Process

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.
- Sector knowledge and emerging risks

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 reviews of other services, systems and processes according to an assessment of risk and business need.

Throughout 2020/21 and 2021/22 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 2022/23 and beyond. It is anticipated that during 2022/23 the Council will return to more normalised working arrangements and provision of services, but Audit recognise continuing pressures in some service areas during recovery, so will work with management to agree scheduling of assurance work.

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 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.

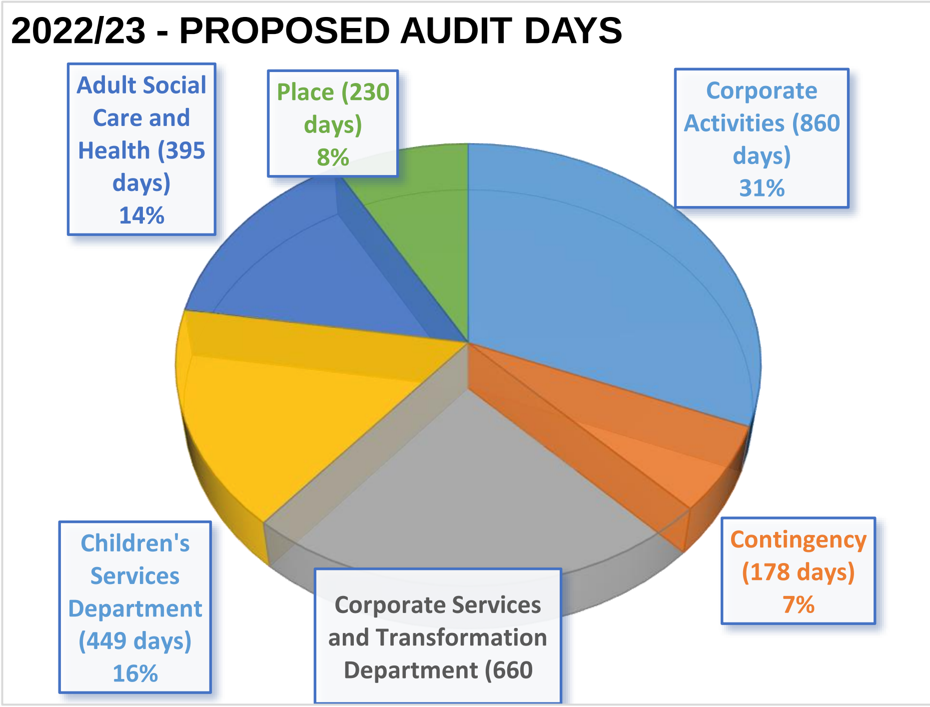
Audits which make up the Audit Services Plan are assigned a priority ranking and resources are directed at those areas of highest risk. Should unforeseen events impact on the delivery of the Audit Services Plan then those areas considered to be of lower risk may not be completed.

Looking forward the Council will face a number of challenges including:-

- funding pressures;
- sector-wide recruitment and retention difficulties impacting on staff capacity and resilience
- matching available resource to increased demand levels in some front-line services
- increasingly volatile world likely to cause ongoing supply chain challenges and potential failures
- increased pressures on local incident planning for major events including flooding
- delivery of climate change actions to achieve agreed targets
- impact of a significant data breach or cyber attack upon the Council's infrastructure
- new ways of working and flexible working arrangements
- introduction of new ways for customers and the public to access services
- recovery from covid-19 pandemic and new globally 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 Assurance Mapping, 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

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Resources

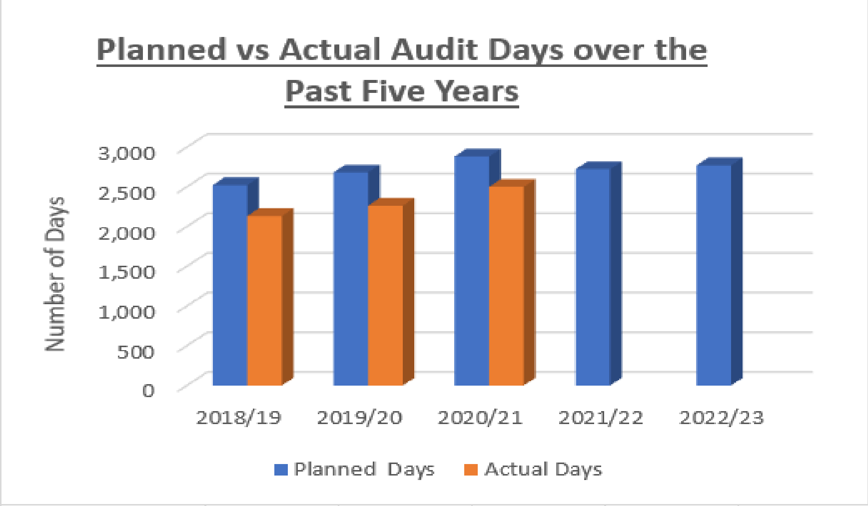
Resource requirements are considered each year as part of the Audit planning process. The Council continues to operate under increasing financial pressures and the demands and restrictions placed upon it by the covid-19 pandemic. The need to seek innovative working methods, generate income and cashable savings is essential in helping to protect vital services.
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, 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.

Retention of 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. We have made provision within our plans to support and develop staff in our Audit Services, including induction of new staff.

The Audit Services Plan for 2022-23 requires the deployment of 2,772 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. Our staffing structure is set out at page 17.

The detailed Audit Services Plan is shown on pages 9 to 16 and includes a contingency for unforeseen work. 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.



	2018/19	2019/20	2020/21	2021/22	2022/23
Planned Days	2,523	2,684	2,884	2,723	2,772
Actual Days	2,134	2,265	2,501		

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.

Client Feedback

The Unit has well established systems in place to collect feedback, which is also used to inform improvements, but these arrangements will be reviewed during 2022/23 as part of our QAIP.

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.

Annual Internal Audit Opinion – I am satisfied that that the level and mix of resources, together with those areas covered in the plan will enable the Annual Head on Internal Audit to be provided in 2023.

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 2022/23

The information summarized below by Service Department identifies our work for the year totalling **2,772** days and the expected outcomes of that work for the Council.

Corporate Activities

It is intended to spend **1,038** days on the Audit of Corporate Activities, over the areas: listed below. This includes contingency to respond to emerging risks and additional management requests.

Audit Area	Risk	Expected Outcomes
Corporate Projects		
emPSN (SCo & ICo)	M	Attendance at Audit Committee meetings as the Council's appointee as a contributor to the adequacy and effectiveness of systems and internal controls in place to deliver the objectives of this collaborative project to Derbyshire schools.
Workforce Development/ Succession Planning	H	Review of the adequacy and effectiveness of systems in place to identify significant workforce issues, develop appropriate skill sets and workforce capacity.
D2N2 LEP	M	Provision of internal audit as part of the Council’s Accountable Body responsibilities.
Supply Chain Failure	H	Assessment of the adequacy and effectiveness of systems in place to monitor supplier resilience, commissioning arrangements and contingency planning.
Corporate Culture	H	Evaluation of the adequacy and effectiveness of governance arrangements, communication and ethics which underpin the purpose, vision, values and priorities of the Council.
New Delivery & Commissioning Models/ Partnership Working	M/H	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 that supports the Enterprising Council approach.
Climate Change	H	Review of the adequacy and effectiveness of systems in place to respond to climate change initiatives including the identification of risks, threats and opportunities.
Modern Ways of Working	M/H	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.
Asset Optimisation	H	Support the programme which is implementing the transition towards a full corporate landlord operating model referred to as Asset Optimisation.

Key to Level of Risk: H - High, M - Medium, L - Low

Audit Area	Risk	Expected Outcomes
East Midlands Freeport	M/H	Governance, support and advice.
County Deals	M/H	Governance, support and advice.
Customer Complaints and Enquiries Process	M	Review of compliance with the Council's complaints and enquiries process.
Thriving Communities	M	Evaluation of the pilot scheme and potential extension across the Council.
Corporate Governance		
Embedding Corporate Governance	H	Attendance and support to the Council's Audit Committee and Governance Group. Work to support the production of the Annual Governance Statement (AGS) and embedding the principles of good corporate governance throughout the Council.
Services to Members	M	Systems and compliance review of operations relating to Members including payment of allowances, declarations, Chairs fund, Member training.
Information Governance Group and Support	H	Attendance and support to the Council's Information Governance Group (IGG), review of associated IT security policies and the maintenance of the Information Security Management System.
Cyber Security Group & Support	H	Assessment of the adequacy and effectiveness of systems in place to protect information systems (hardware, software and associated infrastructure), from unauthorised access, harm or misuse whether intentional or accidental.
Data Protection Group & Support	H	Attendance and support to the Council's Data Protection Group, review of associated policies and guidance on data protection matters including Data Protection Impact Assessments (DPIA).
Corporate Fraud Prevention		
External Audit Liaison	M	Part of the Council's Corporate Fraud Prevention culture including liaison with external partners and the provision for investigative reviews of areas of irregularity/suspected fraud identified within the year.
National Fraud Initiative	H	
National Anti-Fraud Network	M	
RIPA Management & Admin	H	
Internal Audit-Special Investigations	H	
Strategic Management		
Strategic Management	H	Management of the Audit, Insurance and Risk functions.
Assurance Mapping	M	Mapping of key assurances across Council services and activities.
Audit Contingency		
Audit Contingency	-	A 6% (178 days) contingency for unforeseen work, completion of previous year's audit work (2021-22) and training support for new audit staff within the Unit.

Key to Level of Risk: H - High, M - Medium, L - Low

Corporate Services and Transformation Department

It is intended to spend **660** days on the Audit of the Corporate Services and Transformation Department which will be allocated over the following areas:-

Audit Area	Risk	Expected Outcomes
Departmental Review		
Departmental Review Management & Administration	M	Provision of an assurance to the Executive Director of Corporate Services and Transformation and Members with regard to compliance with internal and external regulatory requirements and the effective discharge within the Department of delegated responsibilities/requirements in relation to corporate governance.
External Grants and Certifications	M/H	Review and certification of grant claims to support external funding.
Themed and Operational		
Business Continuity Planning - Corporate Response	H	Provision of an assurance on the adequacy and effectiveness of systems in operation, risk management and the overall control environment.
Communications and Call Derbyshire	H	
Implementation of ICT Strategy	H	
Business Continuity Planning – ICT	H	
Regulatory		
Coroner's Service Review	M	Provision of an assurance on the adequacy and effectiveness of systems in operation and the overall control environment.
Corporate/Departmental ICT Services		
Network Infrastructure Review	H	Provision of an assurance on the adequacy and effectiveness of systems in operation for the network management including firewall administration, software patching and service resilience.
Server Infrastructure Review	H	Assessment of systems in operation for the Council’s on-premise servers including management of legacy systems, patching and service resilience.
Corporate Database Review	H	Systems and compliance review of operations relating to the Council’s database management procedures including vendor updates, service resilience and data security.
Bacs Payment System Review	M	Assessment of the adequacy and effectiveness of systems in place for the creation, review and payment of Bacs transactions.

Key to Level of Risk: H - High, M - Medium, L - Low

Audit Area	Risk	Expected Outcomes
Departmental IT systems & Contracts	H	Assessment of new and existing Departmental IT system development controls together with supporting new system implementations including the SAP ERP solution. Assessments of core data protection principles and ISO27001 controls in accordance with the requirements of the protocol developed with the Director of Finance & ICT.
Core Financial Systems		
General Support and Audit Guidance	M	Provide an assurance on the adequacy of the systems and controls in place for the management of aspects of the Council's key financial functions and human resource activities.
Human Resources Management	H	
Accounts Payable	M	
Corporate Purchasing	H	
Accounts Receivable	M	
Accountancy, Budgetary Control and Financial Resilience	H	
LGPS Central Audit	M	
Treasury Management	M	
Probity and Compliance		
Financial Regulations & Standing Orders	M	Ongoing support and guidance in the review and development of the Council's' Financial Regulations & Standing Orders.
Insurance & Risk Management	M	Due to the Insurance and Risk falling under the responsibility of the Assistant Director of Finance (Audit), work to be undertaken under the guidance of the Interim Director of Finance & ICT to assess compliance with the approved risk management strategy and Insurance procedures.
County Property		
County Property Activities	H	Review of key systems and operational procedures within the Property Division. Assessment of adequacy of processes which manage staff training, external contract compliance and asset valuations.

Key to Level of Risk: H - High, M - Medium, L - Low

Children’s Services Department

It is intended to spend **449** days on the Audit of the Children’s Services Department which will be allocated over the following areas:-

Audit Area	Risk	Expected Outcomes
Departmental Review		
Departmental Review Management & Administration	M	Provision of an assurance to the Executive Director of Children’s Services and Members with regard to compliance with internal and external regulatory requirements and the effective discharge within the Department of delegated responsibilities/requirements in relation to corporate governance.
External Grants and Certifications	M/H	Review and certification of grant claims to support external funding.
Operational Reviews		
Supporting Families Programme	L	Review and certification of grant claims to support external funding.
Starting Point	H	Provision of an assurance on the adequacy and effectiveness of systems in operation, risk management and the overall control environment.
Children at Risk of Missing Education	M/H	
Impact of Children in Care	M/H	
Use of Personal Budgets for Children with SEND	M/H	
Management of Service Demands	H	
Management of School Exclusions	M/H	
Schools		
Nursery, Primary and Special	M/H	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 Department of Education (DfE)
Secondary	M/H	
Schools General Support	-	
Information Security Reviews	M/H	Assessment of new and existing School IT system development controls, together with evaluation of core data protection principles.

Key to Level of Risk: H - High, M - Medium, L - Low

Audit Area	Risk	Expected Outcomes
Establishment Reviews		
Children's Homes	M/H	Review of the adequacy and effectiveness of systems in operation and the overall control environment to support vulnerable children and young adults.
Departmental IT systems & Contracts		
Departmental IT systems & Contracts	M/H	Assessment of new and existing Departmental IT system development controls together with supporting new system implementations. Assessments of core data protection principles and ISO27001 controls in accordance with the requirements of the protocol developed with the Director of Finance & ICT.

Key to Level of Risk: H - High, M - Medium, L - Low

Adult Social Care and Health

It is intended to spend **395** days on the Audit of the Adult Social Care and Health Department which will be allocated over the following areas:-

Audit Area	Risk	Expected Outcomes
Departmental Review		
Departmental Review Management & Administration	M	Provision of an assurance to the Executive Director of Adult Social Care and Health and Members with regard to compliance with internal and external regulatory requirements and the effective discharge within the Department of delegated responsibilities/ requirements in relation to corporate governance.
Public Health	M/H	Provision of an assurance on the adequacy and effectiveness of systems in operation, risk management and the overall control environment.
External Grants and Certifications	M/H	Review and certification of grant claims to support external funding.
Operational Reviews		
Private Residential Care	H	Provision of an assurance on the adequacy and effectiveness of systems in operation, risk management and the overall control environment.
Review of Commissioning Arrangements	M/H	
Deputyship System	M/H	
Disabled Facilities Grants Administration	M/H	
Direct Payments	H	
Financial Assessments	M/H	
Better Lives	M/H	
Establishment Reviews		
Residential Care	M	Provision of an assurance on the adequacy and effectiveness of systems in operation, risk management and the overall control environment.
Day Care	M	
Community Care Centres	M	
Departmental IT systems & Contracts		
Departmental IT systems & Contracts	M/H	Assessment of new and existing Departmental IT system development controls together with supporting new system implementations. Assessments of core data protection principles and ISO27001 controls in accordance with the requirements of the protocol developed with the Director of Finance & ICT.

Key to Level of Risk: H - High, M - Medium, L - Low

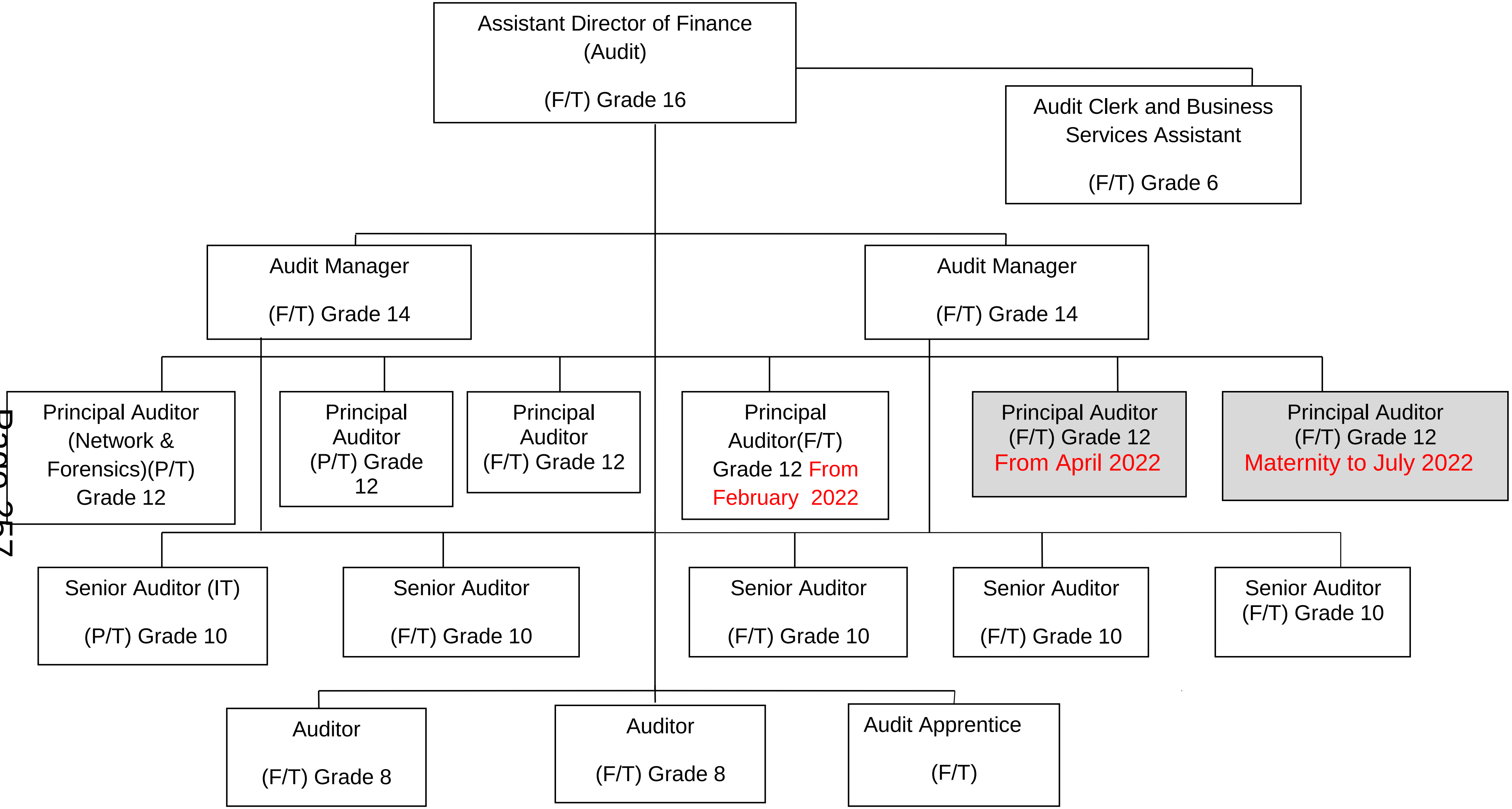
<u>Place</u>

It is intended to spend **230** days on the Audit of the Place Department which will be allocated over the following areas:-

Audit Area	Risk	Expected Outcomes
Departmental Review		
Departmental Review Management & Administration	M	Provision of an assurance to the Executive Director of Place and Members with regard to compliance with internal and external regulatory requirements and the effective discharge within the Department of delegated responsibilities/ requirements in relation to corporate governance.
External Grants and Certifications	M/H	Review and certification of grant claims to support external funding.
Operational Reviews		
Highways Management	H	Provision of an assurance on the adequacy and effectiveness of systems in operation, risk management and the overall control environment.
Countryside Management	M/H	
Public Transport & Taxi Contracts	M/H	
Regeneration	M/H	
Inspection and Control of Highway Assets	H	
Public Library Service	M/H	
Capital Programme	M/H	
Departmental IT systems & Contracts		
Departmental IT systems & Contracts	M/H	Assessment of new and existing Departmental IT system development controls together with supporting new system implementations. Assessments of core data protection principles and ISO27001 controls in accordance with the requirements of the protocol developed with the Director of Finance & ICT.

Key to Level of Risk: H - High, M - Medium, L - Low

AUDIT SERVICES: STAFF STRUCTURE 2022/23



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Note

(F/T) = Full-Time Working

(P/T) = Part-Time Working

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DERBYSHIRE County Council

Agenda Item

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

22 March 2022

Report of the Assistant Director of Finance (Audit)

Annual Internal Audit Plan 2022-23

1. Purpose

1.1 To present to Members for consideration and approval the proposed Internal Audit Plan for 2022-23.

2. Information and Analysis

2.1. 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.

2.2. 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 current 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
- Sector knowledge of emerging risks

2.3. Throughout 2021/22 the work of Audit Services continued to be disrupted by the impact of the COVID-19 pandemic, reduced staffing levels and increased levels of requests for previously unplanned audit work. This has meant a small percentage of audits from 2021/22 have been rolled forward into the 2022/23 Internal Audit Plan. Although this work will be delivered slightly later than originally scheduled, it is important that work is now completed. This will mean the audit outcomes feature in our progress reports provided to Audit Committee so that members can properly understand the effectiveness of Internal Control, Risk Management and Governance arrangements of the Council.

2.4. The Council's Internal Audit Plan for 2022/23 (Appendix 2) includes time for activities supporting delivery of audit assignments including counter-fraud support, audit advice, liaison, planning, staff development, quality assurance and Audit Committee reporting.

2.5. There is an increased contingency in the 2022/23 Plan: this recognises that the Council now operates in a faster paced environment. This contingency will enable Internal Audit to complete unscheduled audits or provide advice in response to new issues, emerging risks and new opportunities for the Council.

2.6. Public Sector Internal Audit Requirements require all UK Local Authorities to implement a Quality Assurance and Improvement Programme to assist in improving the performance of Internal Audit. This includes requirements for external quality assessments (EQA), at least once every five years. The outcome report of the last EQA was considered by Audit Committee in December 2019; this identified opportunities to use assurance mapping as a tool to target Internal Audit work more effectively.

2.7. Audit time has been made available in the 2022/23 plan to include an 'Assurance Mapping' exercise at the beginning of the new financial year. This will help us to identify opportunities to draw assurance on the control environment, from third parties such as OFSTED, CQC and other regulatory bodies. Internal Audit resources can then be targeted to fill any remaining assurance gaps and focus on areas where it can add greater value for the Council.

2.8. Once the Assurance Mapping exercise is completed, it will be necessary to review the Internal Audit Plan to make sure that resource is effectively targeted to the areas of highest risk. The plan should therefore be viewed as a statement of intent and may be subject to change after the Assurance Mapping Exercise. If significant, these changes will be presented to CMT and reported to a future Audit Committee.

2.9. The proposed Audit Services Plan for 2022-23 is based on a staffing structure which provides for the deployment of 2,772 days. This level of resource is based on several assumptions, including the induction of a new Principal Auditor due to start in April 2022, retention of existing staff and the potential impact of sickness on available days to the deliver the Audit Services Plan.

2.10. Retention of 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. We have made provision within our plans to support and develop staff in our Audit Services.

2.11. 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 2022-23 due to the ongoing challenges which the Unit will face following recovery from the impact of COVID-19 and induction of new team members. Consequently, it would be prudent to fully review and assess the Audit Services Plan around September 2022 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.

2.12. 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.

2.13. The Audit Services Plan is attached at Appendix 2 to this Report and details the Audit Services' coverage for all Directorates and the Corporate Authority, it also identifies the perceived level of risk, the resource to be employed and the expected outcomes of Audit work.

2.14. 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.

2.15. Annual Internal Audit Opinion – I am satisfied that that the level and mix of resources, together with those areas covered in the plan will enable the Annual Head on Internal Audit to be provided in 2023.

3. Consultation

3.1 No consultation is required.

4. Alternative Options Considered

4.1 Audit Committee could choose not to consider the report content and recommendations.

5. Implications

5.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

6. Background Papers

6.1 File held electronically by the Assistant Director of Finance (Audit).

7. Appendices

7.1 Appendix 1 – Implications.

7.2 Appendix 2 – Audit Plan

8. Recommendation(s)

That the Audit Committee:

a) consider and endorse the approach taken to create the proposed Draft Internal Audit Plan for 2022/23

b) note that the plan may be subject to amendment following the completion of an assurance mapping exercise or in response to emerging risks

c) subject to these comments, approve the draft Audit Services Plan which is attached at Appendix 2.

9. Reasons for Recommendation(s)

9.1 Audit Committee is required to approve the annual Audit Plan of the Council.

Report Author: **Dianne Downs**
Contact details: **Dianne.downs@derbyshire.gov.uk**

Appendix 1

Implications

Financial

1.1 Costs associated with the proposed plan will be met from the approved Internal Audit Budget

Legal

2.1 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.

2.2 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.

Human Resources

3.1 The Public Sector Internal Audit Standards require that the Assistant Director of Finance (Audit), as Head of Internal Audit (HIA), ensures that internal audit resources are effectively deployed to achieve the risk-based plan.

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 The Council is committed to ensuring good governance and compliance with applicable laws and regulations.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None

Appendix 2
<u>Audit Plan</u>

Agenda Item

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

22 March 2022

Report of the Interim Director of Finance & ICT

Additional External Audit Fees for 2020-21

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is not a Key Decision.

3. Purpose

3.1 To provide Audit Committee with details of a letter from the Council's external auditor setting out and requesting agreement of additional fees in respect of its audit work on the Council's 2020-21 Statement of Accounts.

3.2 For Audit Committee to note the agreement of the Council's Interim Executive Director of Corporate Services & Transformation, as Section 151 Officer, to the request for additional fees in respect of the external auditor's audit work on the Council's and Pension Fund's 2020-21 Statement of Accounts.

4. Information and Analysis

Background

4.1 Full Council opted-in to a sector-led approach to appointing an external auditor on 7 December 2016, approving the use of Public Sector Audit Appointments (PSAA) to undertake the procurement on behalf of the Council. Following this approval, the Council's external auditor, Mazars, was appointed on 14 December 2017.

4.2 PSAA is responsible for appointing auditors and setting scales of fees for relevant authorities that have chosen to opt-in to its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts PSAA enters into with audit firms.

4.3 PSAA consulted on scale fees for the audit of opted-in bodies, up to and including 2022-23. The Council's external audit fee for 2020-21, agreed by PSAA, is £0.097m, with a fee of £0.028m for the Pension Fund.

4.4 Fee variations are determined in accordance with Section 17(2) of the Local Audit (Appointing Person) Regulations. This provides for additional fees to be charged where in PSAA's view, on the basis of information provided by the local auditor it has appointed, the work involved in a particular audit was substantially more than that envisaged by the scale fee set.

4.5 Total audit fees, including additional audit fees, have reduced over a number of years, as a result of the Council opting into national procurement.

4.6 Additional fees for the 2019-20 audit, billed by an agreed fee variation, were £0.018m for the Council and £0.009m for the Pension Fund.

2020-21 Additional Audit Fees

Council's Statement of Accounts

4.7 The Council's external auditor has written to the Council setting out, and requesting agreement of, additional fees in respect of its audit work on the Council's 2020-21 Statement of Accounts, following completion of the audit.

4.8 The external auditor's 2020-21 Audit Strategy Memorandum, Audit Completion Report and Annual Auditor's Report proposed additional fees in several areas. The letter attached at Appendix Two to this report confirms the final external audit fees for 2020-21, also setting out those that are of a recurring nature that will again be necessary for the 2021-22 audit.

4.9 Additional fees for the 2020-21 audit of the Council's Statement of Accounts are £0.032m for the Council. This comprises additional work in the following areas:

- Value for money commentary- £0.014m
- Property, plant and equipment valuation - £0.005m
- Accounting estimates - £0.005m
- Increased regulatory challenge - £0.004m
- Pension valuation - £0.003m
- Covid-19 additional work – £0.001m

4.10 In calculating the additional fees, the external auditor has considered the impact of the good work by the Council's team in working closely with them to complete the audit and the good standard of working papers provided.

4.11 The 2020-21 additional fee detailed is subject to PSAA approval in the usual way. As part of this process, PSAA requires the Council's agreement to the additional fees and also requires that they are brought to the attention of Audit Committee and noted. The Council's Interim Executive Director of Corporate Services & Transformation, as Section 151 Officer, confirmed agreement to the external auditor's request for additional external audit fees of £0.032m on 9 March 2022.

Pension Fund's Statement of Accounts

4.12 Additional fees in respect of the external auditor's work on its audit of the 2020-21 Pension Fund Statement of Accounts were reported to Audit Committee at its meeting on 22 June 2021, within the Audit Strategy Memorandum for the Derbyshire Pension Fund. These additional fees of £0.006m relate to enhanced procedures on unquoted investments in response to increased regulatory expectations.

4.13 On 3 March 2022 the external auditor confirmed that there was no change to these additional fees in respect of its audit of the 2020-21 Pension Fund Statement of Accounts. The Council's Interim Executive Director of Corporate Services & Transformation, as Section 151 Officer, confirmed agreement to the external auditor's request for additional external audit fees of £0.006m in respect of the Pension Fund on 7 March 2022.

5. Consultation

5.1 No consultation is required.

6. Alternative Options Considered

6.1 Not Applicable – the additional fees detailed are acknowledged as being required in respect of the external auditor's completion of its audit work on the Council's and Pension Fund's 2020-21 Statement of Accounts. It is a PSAA requirement of the process for agreeing fee variations that the local authority confirms its acceptance to the external auditor and that any additional fee variations are reported for Audit Committee to note the details.

7. Implications

7.1 Appendix One sets out the relevant implications considered in the preparation of the report.

8. Background Papers

8.1 Papers held electronically by Financial Strategy Section, Financial Management & Strategy, Finance & ICT Services.

9. Appendices

9.1 Appendix One – Implications.

9.2 Appendix Two – Council Fee Variation Letter.

10. Recommendations

10.1 That Audit Committee notes the details of a letter from the Council's external auditor setting out and requesting agreement of additional fees in respect of its audit work on the Council's 2020-21 Statement of Accounts.

10.2 That Audit Committee notes the agreement of the Council's Interim Executive Director of Corporate Services & Transformation, as Section 151 Officer, to the request for additional fees in respect of the external auditor's audit work on the Council's and Pension Fund's 2020-21 Statement of Accounts.

11. Reasons for Recommendations

11.1 The Council Plan values commit to spending money wisely, making the best use of the resources that the Council has.

11.2 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

Report Author:
Eleanor Scriven

Contact details:
Eleanor.Scriven@derbyshire.gov.uk

This report has been approved by the following officers:

On behalf of: Interim Director of Finance and ICT Director of Legal Services and Monitoring Officer	

Implications

Financial

1.1 Referred to in the body of the report.

Legal

2.1 None.

Human Resources

3.1 None.

Information Technology

4.1 None.

Equalities Impact

5.1 None.

Corporate objectives and priorities for change

6.1 The Council Plan values commit to spending money wisely, making the best use of the resources that the Council has.

6.2 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None.

Fee Variation Letter

mazars

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Mr Peter Handford
Director of Finance & ICT
Derbyshire County Council
County Hall
Matlock
DE4 3AG

9 March 2022

Dear Pete

Derbyshire County Council, additional external audit fee for 2020/21

Following completion of the audit, we have reviewed the fee for 2020/21. In calculating the additional fee in this letter, we have carefully considered the impact of:

- the good work by your team in working closely with us to complete the audit; and
- the good standard of the working papers provided.

Additional work

In our 2020/21 Audit Strategy Memorandum, Audit Completion Report and Annual Auditor's Report we highlighted proposed additional fees in a number of areas.

This letter confirms the final fees for 2020/21, also setting out those that are of a recurring nature that will again be necessary for our 2021/22 audit. We may also need to respond to further recommendations from our regulator in relation to future audits.

Confirmed fees 2020/21 (Code of Practice audit work only)

Fee variation category	Definition	2019/20	2020/21	Recurrent to 2021/22?
Scale fee		**96,524**	**96,524**	**Yes**
Pension Valuation	Additional work in relation to responding to increased regulatory challenge in auditing the IAS19 pension figures contained within the financial statements.	**2,998**	**2,998**	**Yes**
Increased FRC challenge for a Major Local Audit	Additional work in relation to the increased regulatory challenge from the FRC. e.g. additional levels of review for major local audits (MLAs), further testing undertaken on specific areas (journals, cut-off, estimates), increased scrutiny of information provided by the entity.	**3,735**	**3,735**	**Yes**
PPE Valuation	Additional work in relation to responding to increased regulatory challenge in auditing the PPE figures contained within the financial statements.	**5,232**	**5,232**	**Yes**
VFM commentary	See separate report which sets out the ranges for this work. https://www.psaa.co.uk/additional-information-for-2020-21-audit-fees/	**-**	**14,063**	**Yes**
COVID-19	Additional work in relation to responding to the impact of Covid-19, both on the financial statements and performing of the audit. e.g. risk assessments/arrangement checklists performed, PPE/pensions valuations work undertaken (Emphasis of Matters), audits taking longer due to impact of remote working.	**4,899**	**1,188**	**No**
ISA540	See separate report which sets out the ranges for this work. https://www.psaa.co.uk/additional-information-for-2020-21-audit-fees/	**-**	**4,644**	**Yes**
McCloud/ Goodwin	Additional work in relation to responding to the McCloud legal ruling which had implications for pension schemes.	**1,246**	**-**	**No**
Sub-total		**18,110**	**31,860**	**-**
Total		**114,634**	**128,384**	**-**

The 2020/21 fee detailed is subject to PSAA approval in the usual way and should you wish to discuss our 2020/21 fees, please do not hesitate to contact me. With the PSAA approval process in mind, please would you send me a brief email agreeing the additional 2020/21 fees detailed to help with the PSAA fee agreement process and share this letter with the Audit Committee at its next meeting as confirmation?

Yours sincerely

Mark Surridge

Mark Surridge
Key Audit Partner For and on behalf of Mazars LLP

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Agenda Item

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

22 March 2022

Report of the Interim Director of Finance & ICT

External Audit – Update on 2020-21 Internal Control Recommendations

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is not a Key Decision.

3. Purpose

3.1 To provide Audit Committee with an update of the actions taken in response to the internal control recommendations outlined in the external auditor's Audit Completion Reports for 2020-21.

4. Information and Analysis

4.1 The external auditor presented its 2020-21 Audit Completion Report for Derbyshire County Council at the Audit Committee meeting on 7 December 2021.

4.2 Two internal control recommendations were raised in respect of the external auditor's audit of the Council's Accounts. Both these recommendations have a 'low priority' ranking, which in the view of the external auditor means that 'internal controls should be strengthened when practicable'. Six recommendations were raised in respect of the Council's Accounts in 2019-20, with one matter re-reported in the 2020-21 report in respect of locating PFI records, also with a 'low priority' ranking. It was acknowledged that the Council had been unable to resolve the issue because of continuing Covid restrictions to that point.

4.3 A reduction in the number of internal control recommendations for 2020-21, and assignment of the lowest priority ranking, is a positive indication of direction of travel in respect of the effectiveness of the Council's internal controls.

4.4 Below is a summary and progress update in respect of these internal control recommendations:

- **Controls in place with regard to the preparation of the provisions note –** All provisions in the Council's accounts were initially classified as non-current but non-material elements of the provision for exit packages and the insurance fund provision were expected to be settled within one year of the balance sheet date. This error was corrected in the final 2020-21 Council's accounts. Controls around preparation of the provisions note have been strengthened and the provision will be appropriately reflected in the Council's general ledger and accounts at 31 March 2022.

- **Controls in place with regard to deferred income -** Some long-standing non-material deferred income balances with NHS entities did not appear to have been recently reviewed to ensure that the income was either recognised appropriately at the year-end or classified as a creditor. Controls around NHS income have been reviewed and strengthened. Income will be reviewed annually, and moved if appropriate, to the relevant scheme identified in the Council's general ledger, as part of the year end process.

- **Private Finance Initiative (PFI) records** – Certain original PFI records could not be provided for the 2019-20 and 2020-21 audits. The Council has begun locating these PFI records, with good progress already made. This work started as soon as staff were permitted to return to the Council's buildings in a phased flexible return to the office from 14 February 2022. No access had been allowed for the staff concerned from the start of the pandemic until then.

4.5 A detailed update on the actions being taken is attached at Appendix Two to this report.

4.6 The external auditor again raised no internal control recommendations in respect of their audit of the 2020-21 Derbyshire Pension Fund Accounts, consistent with the position reported in respect of the 2019-20 audit. This is testament to the strength of the Derbyshire Pension Fund's internal controls.

5. Consultation

5.1 No consultation is required.

6. Alternative Options Considered

6.1 Not Applicable – It is prudent and responsible practice for progress on external audit's internal control recommendations for the previous year to be reported to Audit Committee. If low priority control recommendations are not reviewed and acted upon then they would be re-reported by external audit in the following year, and the Council's internal controls would not be as effective as they could be in their design or operation. Although there are none, if any high priority internal control recommendations were not immediately acted upon then there would be potential for financial loss, damage to reputation or loss of information, which may have implications for the achievement of the Council's business strategic objectives.

7. Implications

7.1 Appendix One sets out the relevant implications considered in the preparation of the report.

8. Background Papers

8.1 Papers held electronically by Financial Strategy Section, Financial Management & Strategy, Finance & ICT Services.

9. Appendices

9.1 Appendix One – Implications.

9.2 Appendix Two – Update on External Audit Internal Control Recommendations.

10. Recommendation

That Audit Committee:

10.1 Notes the actions being taken in response to the recommendations outlined in the external auditor's Audit Completion Reports for 2020-21.

11. Reasons for Recommendations

11.1 It is prudent and responsible practice for progress on external audit's internal control recommendations for the previous year to be reported to Audit Committee.

Report Author:
Eleanor Scriven

Contact details:
Eleanor.Scriven@derbyshire.gov.uk

This report has been approved by the following officers:

On behalf of: Interim Director of Finance and ICT Director of Legal Services and Monitoring Officer	

Implications

Financial

1.1 As outlined in the body of the report.

Legal

2.1 None.

Human Resources

3.1 None.

Information Technology

4.1 None.

Equalities Impact

5.1 None.

Corporate objectives and priorities for change

6.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None.

Update on External Audit 2020-21 Internal Control Recommendations

Recommendation	Responsible Officer	Update
Derbyshire County Council **Controls in place with regard to the preparation of the provisions note** Ranking – Low Priority All provisions had initially been classified as non-current, but on investigation elements of the provision for exit packages and insurance fund provision were expected to be settled within one year of the balance sheet date. This error has been corrected in the final version of the financial statements for 2020-21. Management should review and strengthen its controls relating to the preparation of the provisions note.	Finance Manager – Financial Strategy	A new General Ledger (GL) code 843000 has been created for the current element of the provisions balance. The existing GL Code 852100 has been renamed 'long term provision' to make clear it is the non-current element. A journal has been posted to correct the 2021-22 brought forward balance in the ledger (to reflect the final 2020-21 financial statements). Departmental accountants have been contacted to advise them of the need to separately identify the current and non-current components of any provision. The Statement of Accounts tables which map the trial balance to the tables in the Statement of Accounts will be updated.
Controls in place with regard to deferred income Ranking – Low Priority During our testing of accounts payable, some long-standing non-material deferred income balances with NHS entities did not appear to have been recently reviewed to ensure that the income was either recognised appropriately at the year-end or classified as a creditor. As a result there is circa £1.1m of deferred income that is now under review by the Council as it could be classified incorrectly. Based on the work performed, we have highlighted an extrapolated £1.751m unadjusted misstatement. Management should review and strengthen its controls relating to the review of deferred income from NHS entities.	ASCH Senior Business Partners	Income will be reviewed annually, and moved if appropriate, to the relevant scheme identified in the Council's general ledger as part of the year end process.

Update on External Audit 2019-20 Internal Control Recommendation (where not completely resolved)

Recommendation	Responsible Officers	Update
Derbyshire County Council **Private Finance Initiative (PFI) records** Ranking – Low Priority During the course of the audit it became apparent that no original documents had been kept for Phase 1 of the PFI and no original financial model was available for Phase3 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. **2020-21 Update** For 2020-21 all the supporting information regarding the PFI was not available and similar issues were encountered. However, it should be noted that due to Covid-19 access to the offices has been limited so finding the original PFI documentation will be addressed at a future date.	Finance Team/Legal Services	The Council has begun locating these PFI records, with good progress already made. This work started as soon as staff were permitted to return to the Council's buildings in a phased flexible return to the office from 14 February 2022. No access had been allowed for the staff concerned from the start of the pandemic until then.

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Audit Strategy Memorandum - Draft

Derbyshire County Council

Year ending 31 March 2022

mazars

Contents

Audit Committee
Derbyshire County Council
County Hall
Matlock
DE4 3AG

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

21 February 2022

Dear Audit Committee Members

Audit Strategy Memorandum – Year ending 31 March 2022

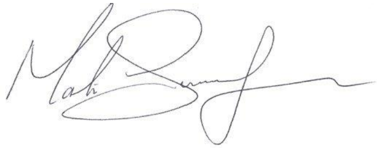
We are pleased to present our Audit Strategy Memorandum for Derbyshire County Council for the year ending 31 March 2022. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

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

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

It is clear that the accounts preparation and audit will once again be significantly impacted by the COVID-19 working arrangements and it is important that we continue to keep in close contact with the finance team and are able to respond to emerging issues.

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



Mark Surridge

Mazars LLP

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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 2022. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

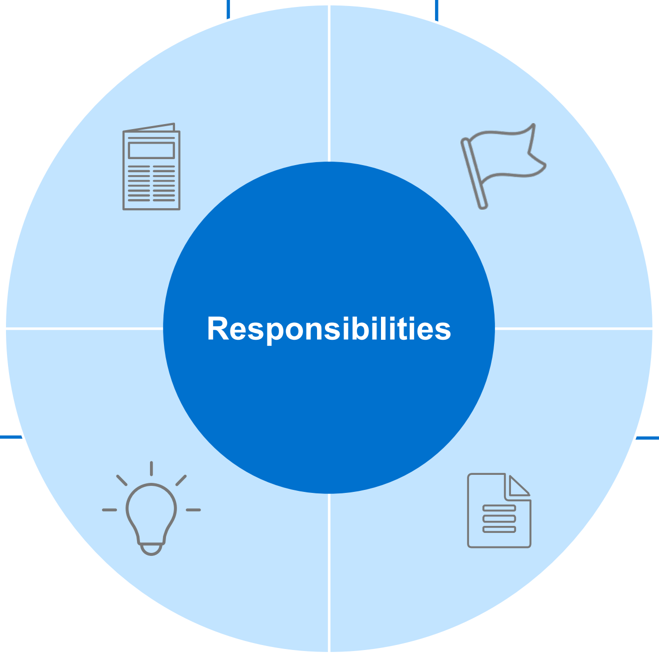
We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

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

Fraud

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

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



Value for money

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

Wider reporting and electors' rights

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

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

02

Section 02:

Your audit engagement team

2. Your audit engagement team

Page 291

Mark Surridge

Engagement Lead

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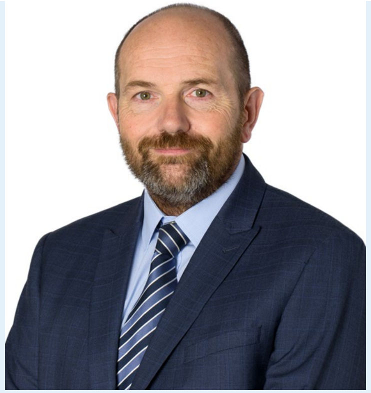
07875 974 291



Mike Norman

Engagement Senior Manager

Michael.Norman@mazars.co.uk

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Bethan Frudd

Engagement Assistant Manager

Bethan.Frudd@mazars.co.uk

07581 020 016

In addition, an Engagement Quality Control Reviewer (EQCR) has been appointed for this engagement.

03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit is designed to comply with all professional requirements.

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

Audit approach

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

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

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

The diagram on the next page outlines the procedures we perform at the different stages of the audit and the indicative timeline at this stage based on the current national timetable proposed by the Department for Levelling Up, Housing and Communities (DLUHC). The specific dates are subject though as always to:

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

COVID-19 Working Arrangements and impact on our audit

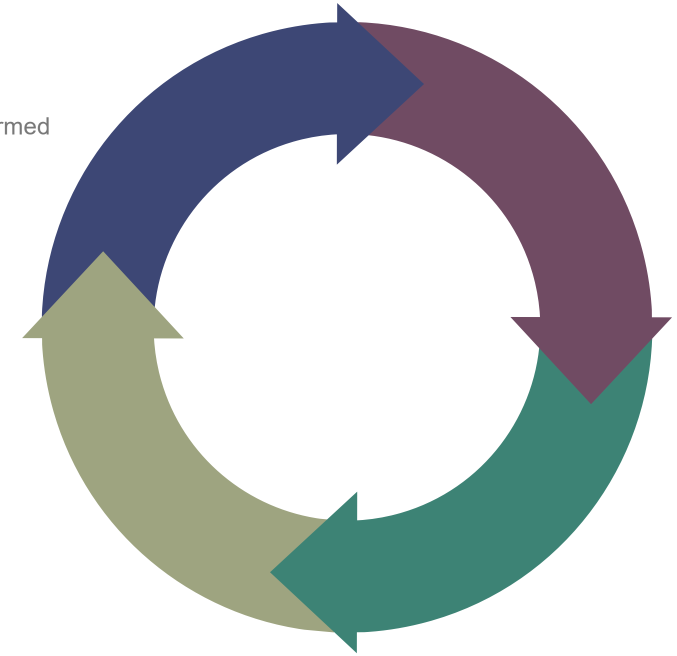
The accounts preparation and audit will once again be significantly impacted by the COVID-19 remote working arrangements and it is important that we continue to keep in close contact with the finance team and are able to respond to emerging issues. The 2021/22 audit is again expected to be carried out largely remotely.

3. Audit scope, approach and timeline

Page 294

Planning January – February 2022
- 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
- Liaison with the Derbyshire Pension Fund audit team

Interim March 2022
- 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 of our VFM risk assessment



Completion by 30th November 2022
- Final review and disclosure checklist of financial statements
- Final Engagement Lead and EQCR review
- Agreeing content of letter of representation
- Reporting to the Audit Committee.
- Reviewing subsequent events
- Updating our VFM risk assessment
- Signing the auditor's report

Fieldwork June – August 2022
- 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
- Reviewing the assurances provided by the Derbyshire Pension Fund audit team
- Communicating progress and issues
- Clearance meeting
- Further work on any identified VFM risks

The timetable above is based on the dates set out in DLUHC's December 2021 consultation for the 2021/22 accounts, which proposed draft accounts and audited accounts deadlines as 31st July 2022 and 30th November 2022 respectively.

3. Audit scope, approach and timeline

Internal audit

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

Management’s and our experts

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

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

Liaison with other auditors

We will again, under the existing protocol in place, liaise with the Mazars audit team carrying out the Derbyshire Pension Fund audit regarding the assurances we need in relation to the Council’s IAS19 valuation report. These assurances are required before we can complete the audit of the Council’s accounts and the audit opinions on the two sets of accounts are issued at the same time.

04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other key judgement areas

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

Significant risk

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

Enhanced risk

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

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

Standard risk

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

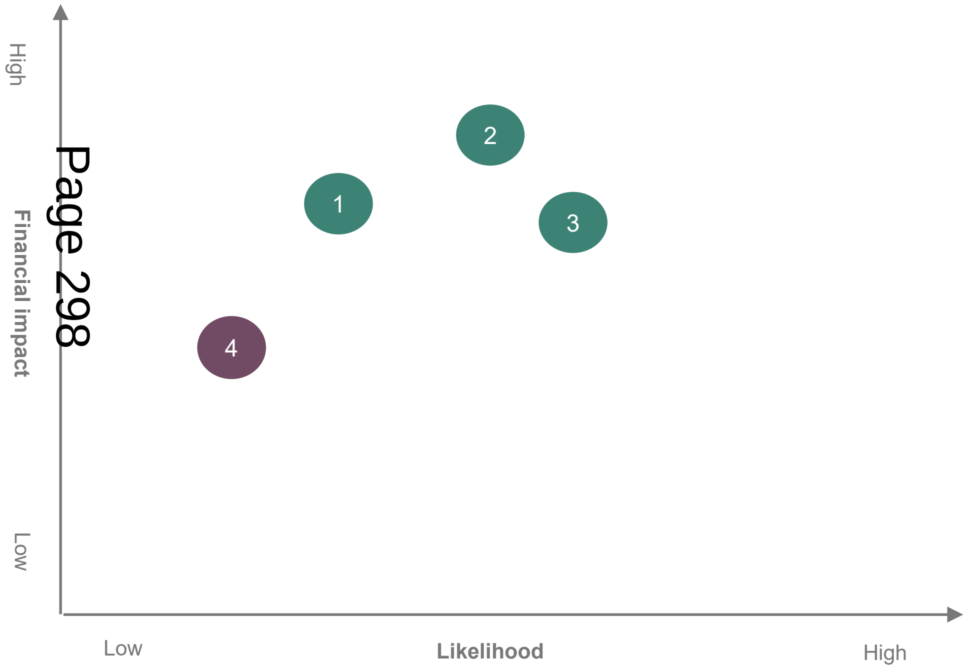
Area of Focus

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

4. Significant risks and other key judgement areas

Summary risk assessment

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



Key: Significant risk   Enhanced risk / significant management judgement

	Risk	Risk rating 2020/21
1	Management override of controls	Significant risk (no change)
2	Net defined benefit liability valuation	Significant risk (no change)
3	Valuation of Land and Buildings	Significant risk (no change)
4	Accounting for the waste management treatment plant (SinFin)	Enhanced (no change)

4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

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

Significant risks

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

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	**Net defined benefit liability valuation** The defined benefit liability relating to the Local Government pension scheme represents a significant balance on the Council's balance sheet. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area. Relevant Account Balances (taken from the 2020/21 financial statements): • Pension Liability – LGPS: £1,027m	-	●	●	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.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	**Valuation of Land and Buildings** Land and buildings assets are a significant balance on the council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements. Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area. At the planning stage of the audit, this risk covers (figures have been taken from the 2020/21 financial statements): • Land & Buildings (£1,198m - 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 2021/22 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Councils valuers.

4. Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
4	**SinFin Waste Recycling** The long-term waste management contract between Derbyshire County Council, Derby City Council and Resource Recovery Solutions came to an end in 2019. Work is underway to determine the condition and capability of the currently non-operational treatment facility. The Council's management will need to make a judgement on how to account for the asset in 2021/22.	-	-	●	We will evaluate the basis of the accounting judgement and the impact on the financial statements for 2021/22 including the adequacy of disclosures.

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4. Significant risks and other key judgement areas

Other areas of focus

	Description	Planned response
5	**IFRS 16 implementation** IFRS 16 is applicable from 1 April 2022. The Council is required to make a disclosure in its 2021/22 accounts on the impact of IFRS 16 as an accounting standard 'not yet adopted'. We know from our engagement with the Council in 2020/21 that it has been undertaking preparation work. Given the importance of the adequate preparations for implementing IFRS 16 on 1 April 2022, we highlight this as an area of audit focus.	We will consider the Council's preparations for implementing IFRS 16As part of our interim audit, we will review the preparation work that the Council has carried out for the implementation of IFRS 16 on 1 April 2022 and discuss the disclosure planned for the 2021/22 accounts.

05

Section 05:

Value for Money

6. Value for Money

The framework for Value for Money work

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

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. We are still required to be satisfied that the Council has proper arrangements in place and to report in the auditor's report where we identify significant weaknesses in arrangements. However, the key output of our work on VFM arrangements will now be a commentary on the Council's 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 risks
3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our approach

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

Planning	Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include: • NAO guidance and supporting information • Information from internal and external sources including regulators • Knowledge from previous audits and other audit work undertaken in the year • Interviews and discussions with staff and members
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report. Our commentary will also highlight: • Significant weaknesses identified and our recommendations for improvement • Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

5. Value for Money

Risks of significant weaknesses in arrangements

We reported our 2020/21 VFM commentary in the Annual Auditor's Report issued to the Council in January 2022. We reported that we had not identified any risks of, or actual, significant weaknesses in the Council's VFM arrangements and there were no recommendations arising from our work. We have not fully completed our 2021/22 planning and risk assessment work at this stage and have so far not identified any risks of, or actual, significant weaknesses.

We have, though, based on our brought forward understanding of the issues faced by the Council, some areas of focus for our continuing risk assessment:

- **Financial resilience:** In the Annual Auditors Report 2020/21, we drew attention to the Council's Medium Term Financial Strategy. Although the 2020/21 budget was balanced savings of £72m were required over the life of the 5 year Strategy with only £38m identified as planned or expected. This left £35m still to be found. The draft 2022/23 budget, presented to the Cabinet in February 2022, is again balanced but highlights that whilst the overall savings target to 2026/27 had fallen to £67m the level of savings still to be found had increased to £40m. Although this situation does not represent an immediate problem to the Council's financial sustainability it does place pressure on reserve levels in future years. Careful monitoring of the situation, advance planning and responding quickly to any changes will be of particular importance moving forward.
- **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.

We will, if necessary, report any identified risks or weaknesses to the Audit Committee on completion of our planning and risk identification and will report our final VFM commentary through the 2021/22 Annual Auditor's Report.

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 2020/21 actual and planned 2021/22 fees are set out below:

Area of work	2021/22 Fees	2020/21 Actual Fee
Scale audit fee	£96,524	£96,524
Fee variations:		
Additional testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes and quality control procedures as a major local audit as a result of changes in regulatory expectations	£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	£4,644 [2]	£4,644 [2]
Additional testing on new audit risks relating to the accounting for Covid-19 grants	-	£1,188
Other additional costs	TBC	-
Sub-total	**£113,133**	**£114,321**
Additional work arising from the change in the Code of Audit Practice	Expected to be at least £10,000 [3]	£14,063
Total	£123,133 [4]	£128,384

We continue to liaise with PSAA regarding the 2020/21 and 2021/22 fee variations and sector-wide adjustments to the scale fee. We will also assess the impact of any additional work arising from the implementation of IFRS16 Leases.

[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.

[3] As explained in section 5, the revised Code of Audit Practice has led to a substantial amount of additional audit work to support the new value for money conclusion and the changes in reporting requirements. The final fee will take into account the extent and complexity of any significant weaknesses in arrangements we identify.

[4] This is a proposed fee for 2021/22 at the point of the issue of our ASM. This figure is subject to change and additional costs will be discussed with management.

6. Fees for audit and other services

Fees for non-PSAA work

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

Area of work	2021/22 Indicative Fee	2020/21 Actual Fee
Assurance services – Teachers' Pensions Return	£4,000	£3,500
Local Transport Plan Grant Assurance	£5,500	£5,000

07

Section 07:

Our commitment to independence

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7. Our commitment to independence

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

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

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

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

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

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

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

08

Section 08:

Materiality and other misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	30,370
Performance materiality	22,770
Specific Materiality - Senior Officer remuneration disclosure	10
Trivial threshold for errors to be reported to the Audit Committee	910

Materiality

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

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

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

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

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

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

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

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

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

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

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

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. This is at the top of the accepted % range in our audit approach and reflects our professional judgement on the risk profile of the Council and its financing. Based on prior year financial statements we anticipate the overall materiality for the year ending 31 March 2022 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. This is close to the top of the accepted % range in our audit approach (80%) and reflects our professional judgement on underlying complexity and volume of the Council's accounts.

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 £910,000 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

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

Mark Surridge

mark.surridge@mazars.co.uk

Mazars

Park View House

58 The Ropewalk,

Nottingham

NG1 5DW

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.

Audit Strategy Memorandum

Derbyshire Pension Fund

Year ending 31 March 2022

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Contents

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

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

21 February 2022

Dear Audit Committee Members

Audit Strategy Memorandum – Year ending 31 March 2022

We are pleased to present our Audit Strategy Memorandum for the Derbyshire Pension Fund for the year ending 31 March 2022. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 6 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

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

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains 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 0738 724 2052.

Yours faithfully

Signed: CWaddell

Cameron Waddell

Mazars LLP

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Derbyshire Pension Fund (the Fund) for the year to 31 March 2022. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

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

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

a) whether a material uncertainty related to going concern exists; and
b) consider the appropriateness of the Director of Finance & ICT's use of the going concern basis of accounting in the preparation of the financial statements.

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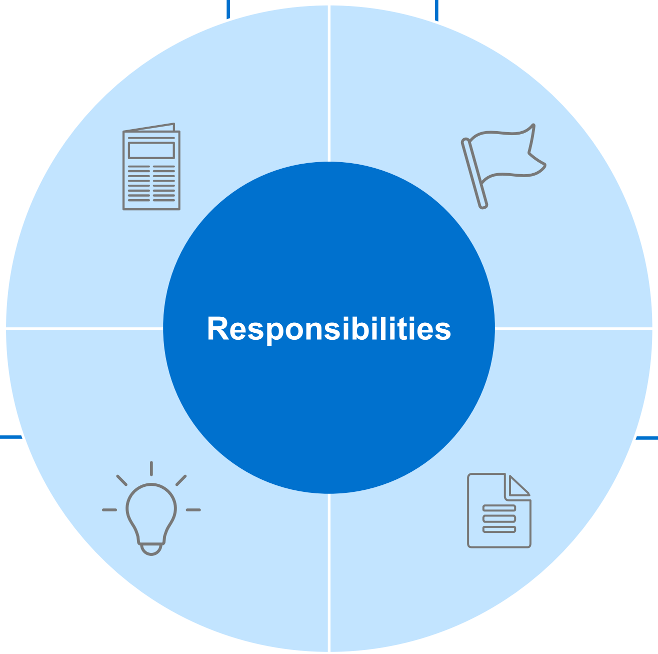

Fraud

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

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

Consistency statement

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

Wider reporting and electors' rights

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

02

Section 02:

Your audit engagement team

2. Your audit engagement team

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03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

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

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

Audit approach

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

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

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

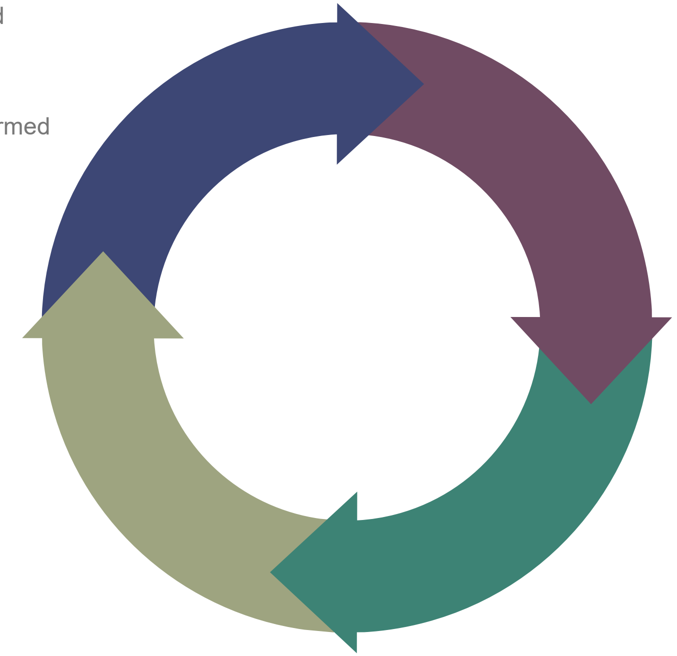
The diagram on the next page outlines the procedures we perform at the different stages of the audit.

3. Audit scope, approach and timeline

Page 330

Planning February

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



Interim March

- 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

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

Fieldwork June - September

- Receiving and reviewing draft financial statements
- Accounting Technical Services (ATS) review of 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

Reliance on internal audit

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

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

Management's and our experts

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

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

Service organisations

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

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

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 risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

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

Enhanced risk

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

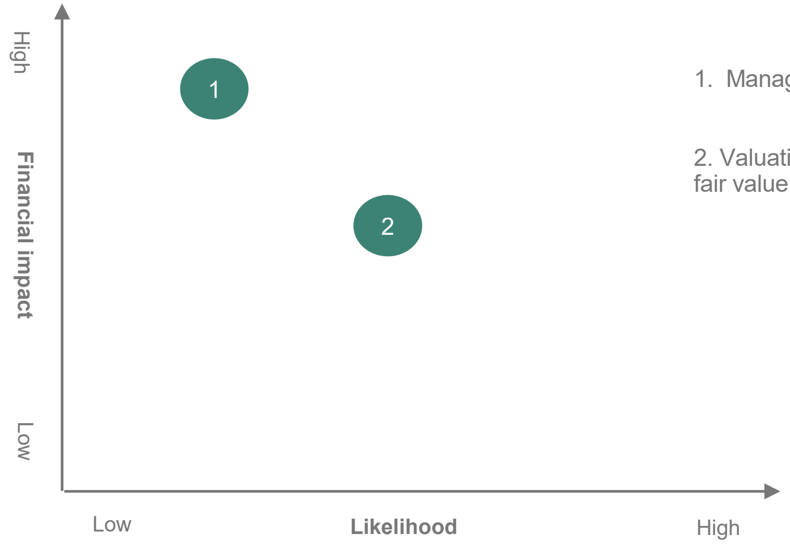
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

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

Summary risk assessment

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



1. Management override of controls

2. Valuation of investments within level 3 of the fair value hierarchy

Key: Significant risk

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
Page 334	**Management override of controls** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	●	○	○	We plan to address the management override of controls risk by performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	**Valuation of investments within level 3 of the fair value hierarchy** At 31 March 2021 the Pension Fund held investments which were not quoted on an active market with a fair value of £344.0 million, accounting for 12.5 per cent of the Fund's net investment assets. This included: Alternatives (£274.3 million), Property (£6.9 million), Infrastructure (£50.4 million) and Private Equity (£12.4 million). Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end. As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances for 2021/22 due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.	○	●	●	We plan to address this risk by completing the following additional procedures on a sample basis: • agree holdings from fund manager reports to the global custodian's report; • agree valuations included in the Pension Fund's underlying financial systems to the most up-to date supporting documentation at the time of audit including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation; • agree the investment manager valuations to audited accounts or other independent supporting documentation, where available; • where audited accounts are available, check that they are supported by an unmodified opinion; • review the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required; and • where available, review independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Pension Fund's financial statements.

Other key areas of management judgement and enhanced risks

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

05

Section 05:

Fees for audit and other services

5. Fees for audit and other services

Fees for work as the Pension Fund's appointed auditor

Area of work	2021/22 Proposed Fee	2020/21 Actual Fee
Code Audit Work		
Scale fee[1]	£22,077	£22,077
Fee variations	TBC	£6,000[2]
Audit related fees		
Pension assurance letters to employer auditors	TBC	£18,200[3]

[1] The scale fee was initially set by PSAA in 2018.

[2] The additional audit cost in 2020/21 relates to enhanced procedures required due to increased regulatory expectations, primarily related to the audit of level 3 investments. This work is required on an annual basis so an additional fee will be required until the scale fee reflects the audit time needed.

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

Fees for non-PSAA work

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

06

Section 06:

Our commitment to independence

6. Our commitment to independence

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

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

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

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

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

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

No threats to our independence have been identified.

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

07

Section 07:

Materiality and misstatements

Page 340

7. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £m
Overall materiality	57.0
Performance materiality	42.8
Specific materiality - We set a specific performance materiality for the fund account using a benchmark of 10% of contributions receivable.	14.3
Trivial threshold for errors to be reported to the Audit Committee	1.7

Materiality

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

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

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

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

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

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

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

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

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

Our provisional materiality is set based on a benchmark of net assets. 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 net assets available to pay benefits remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

7. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 1% of net assets. Based on the accounts for 2020/21 we anticipate the overall materiality for the year ending 31 March 2022 to be in the region of £57.0m (£46.6m in the prior year). After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

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

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £1.7m based on 3% of overall materiality. If you have any queries about this, please do not hesitate to raise these with Cameron Waddell.

Reporting to the Audit Committee

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

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

A

Appendix: Key communication points

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:

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

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

Key communication points at the planning stage as included in this Audit Strategy 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.
- 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.
- 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 the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud.	Audit Completion Report and discussion at the Audit Committee. Audit planning and clearance meetings

Appendix: Key communication points

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

Appendix: Key communication points

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

Cameron Waddell

Mazars

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NE1 1DF

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.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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