



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.

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This report has been approved by the following officers:

<p>On behalf of:</p> <p>Interim Director of Finance and ICT Director of Legal Services and Monitoring Officer</p>	
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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
<p>Derbyshire County Council</p> <p>Controls in place with regard to the preparation of the provisions note</p> <p>Ranking – Low Priority</p> <p>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.</p>	<p>Finance Manager – Financial Strategy</p>	<p>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.</p> <p>A journal has been posted to correct the 2021-22 brought forward balance in the ledger (to reflect the final 2020-21 financial statements).</p> <p>Departmental accountants have been contacted to advise them of the need to separately identify the current and non-current components of any provision.</p> <p>The Statement of Accounts tables which map the trial balance to the tables in the Statement of Accounts will be updated.</p>
<p>Controls in place with regard to deferred income</p> <p>Ranking – Low Priority</p> <p>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.</p>	<p>ASCH Senior Business Partners</p>	<p>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.</p>

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

Recommendation	Responsible Officers	Update
<p>Derbyshire County Council</p> <p>Private Finance Initiative (PFI) records</p> <p>Ranking – Low Priority</p> <p>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.</p> <p>2020-21 Update</p> <p>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.</p>	<p>Finance Team/Legal Services</p>	<p>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.</p>