

PUBLIC

**MINUTES** of a meeting of **AUDIT COMMITTEE** held on Tuesday, 22 March 2022 in the Council Chamber, County Hall, Matlock.

**PRESENT**

Councillor G Musson (in the Chair)

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

Officers present: D Ashcroft, D Downs, T Kearsey, J Lakin and P Stone (representing Derbyshire County Council) and M Norman and J Pressley (representing Mazars).

**9/22      TO RECEIVE DECLARATIONS OF INTEREST (IF ANY)**

There were no declarations of interest.

**10/22     TO CONFIRM THE MINUTES OF THE MEETING HELD ON 1 FEBRUARY 2022**

**RESOLVED** that the minutes of the meeting held on 1 February 2022 be confirmed as a correct record and signed by the Chairman.

**11/22     AUDIT STRATEGY MEMORANDUM - DERBYSHIRE PENSION FUND 2021/22**

Mike Norman from Mazars attended the meeting and presented Members with the Audit Strategy Memorandum for the Derbyshire Pension Fund for the year ending 31 March 2022. The purpose of the document was to summarise their audit approach, highlight significant audit risks and areas of key judgements.

The risk assessment for the financial statements audit had identified the following significant risks:

- Management override of controls
- Valuation of investments within level 3 of the fair value hierarchy

On behalf of the Committee, the Chairman thanked Mr Norman for his report.

**RESOLVED:**

To note the report.

**12/22**      **AUDIT STRATEGY MEMORANDUM - DERBYSHIRE COUNTY COUNCIL 2021/22**

John Pressley from Mazars presented Members with the Audit Strategy Memorandum for the County Council for the year ending 31 March 2022. The purpose of the document was to summarise their audit approach, highlight significant audit risks and areas of key judgements.

The document described how Mazars would deliver their audit work for the Authority and identified any key risks for the financial statements audit. The risk assessment for the financial statements audit had identified the following significant risks:

- Management override of controls
- Net defined benefit liability valuation
- Valuation of land and buildings

Mr Pressley highlighted the enhanced risk as follows:

- Accounting for the waste management treatment plant (Sinfin)

From 2020-21 the new Code of Audit Practice had changed the way in which findings in relation to Value for Money (VfM) arrangements would be reported. Mazars had not fully completed their 2021-22 planning and risk assessment work and had so far not identified any risks of, or actual significant weaknesses in the Council's VfM arrangements.

On behalf of the Committee, the Chairman thanked Mr Pressley for his report.

**RESOLVED:**

That the report be noted.

**13/22**      **ACCOUNTING POLICIES**

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

- Section 1.13 Non-Current Asset Classification – minor textual amendments, which did not constitute a change in Accounting Policy:

- Assets Under Construction were now defined explicitly as a separate category of Property, Plant and Equipment under Non-Operational Assets.
  - Assets Held for Sale were explicitly referenced as 'Non-Current Assets Held for Sale'.
- Section 1.14 Non-Current Asset Valuation Methodology – addition to text which did not constitute a change in Accounting Policy:
    - Non-Current Assets which weren't required to be measured at Current Value were now identified, these being: Infrastructure Assets, Assets Under Construction, Community Assets and Heritage Assets.
    - Fair Value was clarified as a basis of Current Value measurement.
  - Section 1.17 Depreciation/Amortisation Methodology – addition to text which did not constitute a change in Accounting Policy:
    - Explicitly clarified that Assets Under Construction and Heritage Assets (with indefinite lives) were not depreciated.

The updated 2021-22 Accounting Policies were attached at Appendix Two to the report.

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

## **RESOLVED**

That the Committee:

- (i) Approves the changes outlined in the report in relation to the Accounting Policies for 2021-22; and
- (ii) Approves the changes outlined in the report in relation to the Accounting Policies for 2022-23.

## **14/22 TAX STRATEGY**

The Audit Committee was last advised of a review and update of the Council's Tax Strategy at its meeting on 23 March 2021.

Following a review of the Tax Strategy in March 2022, it had been determined that the Tax Strategy remained up to date and that no further changes were required at this moment in time. The Tax Strategy was attached at Appendix Two to the report.

**RESOLVED** that the Committee notes that a review and update of the Tax Strategy had taken place.

**15/22**     **CIPFA/LASAAC CONSULTATION - EMERGENCY PROPOSALS FOR AN UPDATE OF THE 2021-22 CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING AND THE 2022-23 CODE**

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).

CIPFA/LASAAC referred 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'.

Only 9% of local authorities in England had met the audit publication deadline of 30 September 2021 for publication of their audited 2020-21 accounts. The Council had published its certified pre-audit Statement of Accounts 2020-21 on 30 July 2021, before the statutory deadline, and had published notices of delay in publishing its audited Statement of Accounts 2020-21 on 30 September 2021. The final audited Statement of Accounts 2020-21 were published following formal conclusion of the audit, when the external audit opinions had been issued, on 22 December 2021.

In December 2021, the Department of Levelling-up Housing and Communities (DLUHC) had 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.

After considering a wide range of options CIPFA/LASAAC had 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 was for the 2021-22 financial year); this approach also explored 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.

The Council had submitted its response to the Consultation on 28 February 2022, ahead of the deadline of 3 March 2022 and the response was attached at Appendix Two to the report.

**RESOLVED:**

To note 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.

**16/22 UPDATE FROM GOVERNMENT ON MEASURES TO IMPROVE LOCAL AUDIT DELAYS**

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

A copy of the DLUHC Letter on Local Authority Audit was attached at Appendix Two to the report and details were provided of the key measures committed and highlighted by DLUHC.

**RESOLVED:**

To note the details of the letter to local authorities giving an update on action the Government was taking to help tackle audit delays.

**17/22 STRATEGIC RISK REGISTER (Q3) AND CORPORATE RISK MANAGEMENT STRATEGY UPDATE**

The Committee was asked to review the strategic risk register and received an update on the corporate risk management strategy for 2021-2024.

The report covered updates to the Council's strategic risk register up to the end of Quarter 3 (31 December 2021). As the Committee would be aware, the Russian invasion of Ukraine had presented the Council with a range of new or changed strategic and operational risks. These arose from changed relations and substantial sanctions placed on Russia, and

the human and economic impacts currently unfolding from the war.

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

- 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

The Interim Director of Finance & ICT informed the Committee that a report on cyber-attacks had recently been submitted to the corporate management team and work was currently being undertaken with colleagues in IT services. A task and finish group had been established to consider and mitigate any potential disruption in the supply chains.

Members were concerned by the number of wide-ranging risks and the possible implications of this evolving situation. Members thanked the officers for their diligence and welcomed further updates.

The strategic risk register updated to the end of Quarter 3 was attached at Appendix 2 to the report. Details of the risks that had changed their scores since the last report were provided.

#### **RESOLVED:**

That the Audit Committee:

- (i) Notes the work in hand to assess and monitor emerging risks for the Council from the Russian invasion and war with Ukraine;
- (ii) Notes the most severe risks to the Council and changes in scores for three risks in Quarter 3; and
- (iii) Notes that a full report on the progress with implementing the corporate risk management strategy will be presented to the next meeting of the Committee.

**18/22**     **PERFORMANCE AND BUDGET MONITORING/FORECAST  
OUTTURN ARRANGEMENTS**

The Committee was provided with details of the latest arrangements for performance and budget monitoring/forecast outturn.

Departments were required to meet monthly with the Director of Finance & ICT and provide details of their latest budget monitoring position. The departments would show the year to date position and the projected outturn for the year, together with a brief summary of the major variances. To ensure that the arrangements remained robust, reporting requirements and timescales were set out in the Performance and Budget Monitoring Policy, attached at Appendix Two to the report. The Policy had been widely distributed to departmental Finance and Performance Managers.

Following a review of the Policy in March 2022, the following changes had been made:

- The schedule of meeting dates between the departmental Finance Managers and the Director of Finance & ICT had been updated.
- The timetable for reporting the monitoring position to Cabinet and Cabinet Member portfolios had been updated.
- The report format had been aligned with the new standard template required since the introduction of the Modern.Gov report management system.

**RESOLVED:**

That the Committee notes the details of current performance and budget monitoring arrangements.

**19/22**     **ANNUAL INTERNAL AUDIT PLAN 2022-23**

Members were asked to approve the proposed Internal Audit Plan for 2022-23.

The Council's Internal Audit Plan for 2022-23, which was attached at appendix 2 to the report, had included time for activities supporting delivery of audit assignments including counter-fraud support, audit advice, liaison, planning, staff development, quality assurance and Audit Committee reporting. There was an increased contingency in the 2022-23 Plan which would enable Internal Audit to react to new issues and emerging risks.

Audit time had been made available in the 2022-23 plan to include an 'Assurance Mapping' exercise at the beginning of the new financial year. This would help to identify opportunities to draw assurance on the control environment from third parties such as Ofsted, CQC and other regulatory bodies. Once the Assurance Mapping exercise had been completed, it would be necessary to review the Plan to make sure that resource was effectively targeted to the areas of highest risk. The Plan should therefore be viewed as a statement of intent. Any changes to the Plan would be brought back to the Committee.

The Chairman welcomed the Plan, particularly the flexibility it provided to react to emerging risks and considered it to be a major step forward, particularly following on from the challenges of the Covid-19 pandemic.

**RESOLVED:**

That the Committee:

- (i) Endorse the approach taken to create the proposed draft Internal Audit Plan for 2022-23;
- (ii) Notes that the Plan maybe subject to amendment following the completion of an assurance mapping exercise or in response to emerging risks; and
- (iii) Approves the draft Audit Services Plan for 2022-23 which was attached at Appendix 2 to the report.

**20/22 ADDITIONAL EXTERNAL AUDIT FEES FOR 2020-21**

The Committee were provided with details of a letter from Mazars, 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.

The Committee was also asked to note the agreement of the Council's Interim Executive Director Corporate Services and Transformation, as Section 151 Officer, to the request of additional fees in respect of the external auditor's work on the Council's and Pension Fund's 2020-21 Statement of Accounts.

**RESOLVED**

That the Committee:

- (i) Notes the details of a letter from Mazars setting out and requesting agreement of additional fees in respect of its audit work on the Council's 2020-21 Statement of Accounts; and



- (ii) Notes the agreement of the Council's Interim Executive Director Corporate Services and Transformation, as Section 151 Officer, to the request for additional fees in respect of Mazars' audit work on the Council's and Pension Fund's 2020-21 Statement of Accounts.

**21/22**      **EXTERNAL AUDIT UPDATE ON 2020-21 INTERNAL CONTROL RECOMMENDATIONS**

The external auditor had presented its 2020-21 Audit Completion Report for the County Council at the meeting on 7 December 2021. Two internal control recommendations had been raised and both of them had a 'low priority' ranking, which in the view of the external auditor meant that 'internal controls should be strengthened when practicable'. One matter from the Council's Accounts in 2019-20 had been re-reported in the 2020-21 report in respect of locating PFI records, which also had a 'low priority' ranking.

A summary and progress update in respect of these control recommendations was provided and a detailed update on the actions being taken was attached at Appendix Two to the report.

**RESOLVED:**

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

**22/22**      **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.

**23/22**      **TO CONFIRM THE EXEMPT MINUTES OF THE MEETING HELD ON 1 FEBRUARY 2022**

**RESOLVED:**

That the exempt minutes of the meeting held on 1 February 2022 be confirmed as a correct record.

**24/22**      **NATIONAL FRAUD INITIATIVE**

The Committee was provided with information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption.

Members were also informed of the Council's completion of scrutinising the data matches arising from participation in the National Fraud Initiative (NFI) 2020-2021.

**RESOLVED:**

To approve the recommendation in the not for publication report.

**25/22**      **STRATEGIC RISK REVIEW - ORGANISATION DEVELOPMENT AND POLICY AND PROPERTY**

Emma Crapper, the Director of Organisation Development & Policy and Dave Massingham, the Director of Property attended the meeting and gave a short introduction to risk management within their directorates.

**RESOLVED:**

To approve the recommendation in the not for publication report.

The meeting finished at 4.15 pm