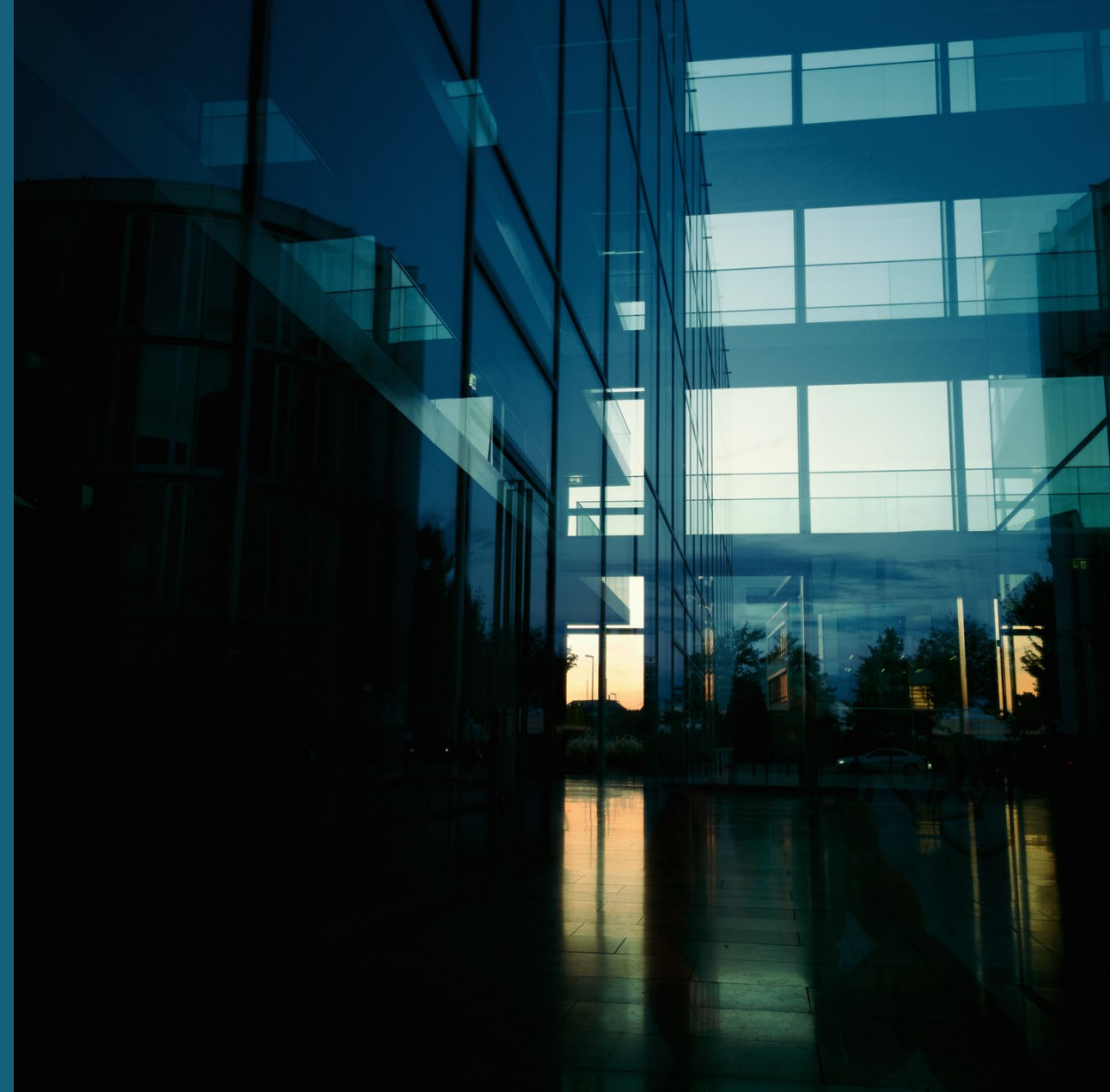


Audit Findings Progress Report

Derbyshire County Council - Year ended
31 March 2022

November 2022



Contents

- 01** Executive summary
- 02** Status of the audit
- 03** Significant findings to date
- 04** Internal control recommendations
- 05** Summary of misstatements
- 06** Value for Money

Appendix A: Independence

Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

01

Section 01:

Executive summary

1. Executive summary

Principal observations and significant findings

The detailed scope of our work as your appointed auditor for 2021/22 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 3 of this report, we have set out the significant findings from our audit work to date. We also confirm that there has been no change in our audit strategy since issuing our Audit Strategy Memorandum, with the significant audit risks remaining:

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

Misstatements and internal control recommendations

Section 4 sets out internal control recommendations and section 5 sets out audit misstatements.

Status and audit opinion

We have made significant progress in our audit in respect of the financial statements for the year ended 31 March 2022. At the time of preparing this report, significant matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through our completion report.

Subject to the satisfactory conclusion of the remaining audit work, we have the following observations:



Audit opinion

From the work performed to date, we anticipate issuing an unqualified opinion, without modification, on the financial statements.

This is subject to the work outstanding, identified in section 2 of this report.



Value for Money

We currently anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 6 of this report.



Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.



Wider powers

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 to consider any objection made to the accounts. No such correspondence from electors has been received.









02

Section 02:

Status of the audit

2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
IT Control Environment	 [Green]	Our review of the Council's general IT controls for 2021/22 is in progress.
Valuations of Land and Buildings	 [Green]	We are clearing the remaining queries arising from our audit testing.
Infrastructure Assets	 [Red]	A consultation is on-going in respect of the accounting treatment of infrastructure assets included on the Council's balance sheet. As infrastructure assets are material, this could create additional work and consideration, and in turn causes a delay with issuing our audit report. Further information has been provided in section 4 of this report.
Defined Benefits Pension – net liability	 [Green]	We are clearing the remaining queries arising from our audit testing.
Internal Quality Review	 [Amber]	We are in the process of finalising our internal quality review procedures with the Council and ensuring that all appropriate and relevant changes are reflected in the financial statements.
Whole of Government Accounts	 [Green]	We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received. This covers both 2020/21 and 2021/22.
Completion procedures	 [Green]	Procedures such as our quality control, review for post balance sheet events, and management representations are ongoing, and will remain as such, through to the date of issuing the auditor's report.
Value for Money	 [Green]	Our VFM work is substantially complete and we have not identified any significant weaknesses that require further work or reporting to members. Our commentary; included within our Annual Auditor's Report, remains open due to the Infrastructure Asset issue above.



[RED]
Likely to result in material adjustment or significant change to disclosures within the financial statements.



[AMBER]
Potential to result in material adjustment or significant change to disclosures within the financial statements.



[GREEN]
Not considered likely to result in material adjustment or change to disclosures within the financial statements.

03

Section 03:

Significant findings to date

4. Significant findings to date

In this section we outline the significant findings from our audit from the work performed to date

Significant risks

Management override of controls	Description of the risk <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>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.</p>
	How we are addressing this risk <p>We are addressing this risk through performing audit workover:</p> <ul style="list-style-type: none">• Accounting estimates impacting amounts included in the financial statements;• Consideration of identified significant transactions outside the normal course of business; and• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit observations <p>From the work performed to date:</p> <ul style="list-style-type: none">• our considerations of estimates has not highlighted any material concerns;• we have not identified any significant transactions outside the normal course of business; and• our testing on journal entries has have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to management override of controls..

4. Significant findings

Defined benefit liability valuation

(Local Government Pension Scheme)

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 2021/22 financial statements):

- Net Pension Liability – LGPS: £741m

How we are addressing this risk

We are:

- critically assessing the competency, objectivity and independence of the Pension Fund's Actuary;
- liaising with the auditors of the Derbyshire Pension Fund to gain assurance that the controls in place at the Pension Fund are designed and implemented correctly. This 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;
- reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuations. This included comparing them to expected ranges, utilising information by the consulting actuary engaged by the National Audit Office; and
- agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

Audit observations

The Council's share of the LGPS pension fund net liability (being a deficit position) of £741m has decreased from £1,024m in the prior year as shown in Note 48 of the financial statements. The main movements being an increase in the value of pension assets from £2,393m to £2,560m; and a decrease in the value of pension liabilities from £3,418m to £3,301m.

The Council has disclosed at Note 4 a Prior Period Adjustment relating to errors identified by the Pension Fund's Actuary in its 2019 actuarial valuation of the fund. We have discussed this with management and have no additional matters to report.

A non-material £10.7m misstatement has been identified, but not adjusted for in relation to the movement on Local Government Pension Fund assets. Further details are in part 5 of this report.

4. Significant findings

Valuation of land and buildings

Description of the risk

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.

Relevant account balances (taken from the 2021/22 financial statements):

- Land & Buildings (£1,227m - Note 14)

How we are addressing this risk

We are:

- 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 were in line with industry practice, the CIPFA code of practice and the Council's accounting policies;
- assessing whether valuation movements were 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 Council's valuers.

Audit observations

We have not identified any material errors or other matters to report from the work carried out to date.

4. Significant findings

Other key areas of management judgement and enhanced risks

Sinfin Waste Recycling	Description
	<p>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.</p>
	How we are addressing this risk
	<p>We have continued to liaise with management regarding facility and considered the basis of the accounting judgement and the impact on the financial statements for 2021/22 including the adequacy of disclosures.</p>
	Audit observations
	<p>The facility has continued to be accounted for as an Asset Under Construction, which we are satisfied is appropriate. The notes to the accounts include relevant disclosures which are consistent with the prior year, and based on the work performed to date, there are no matters that we wish to bring to Members' attention in relation to management's judgements regarding the accounting for and disclosure of the facility.</p>

4. Significant findings

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received published by the Council by the 31 July 2022 deadline and were of a good quality.

Going Concern

The Council's financial statements are prepared on the assumptions that it is a going concern and will continue its operations for the foreseeable future. International Auditing Standard ISA (UK) 570, requires auditors to 'obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern'.

Following the issue of Supplementary Guidance Note 1 (SGN1) by the National Audit Office, we have adopted a sector-specific approach to our work on going concern, which follows the principles of Practice Note 10 (PN10) and the guidance provided in SGN1. The SGN1 and PN10 make it clear that the auditor's focus for non-trading public sector bodies should be on the extent to which there are any indications that the services provided by an entity will cease or transfer outside of the public sector (termed the Continued Provision of Service approach ('CPoS')).

Significant matters discussed with management

Significant matters discussed with management during our audit, and which had implications for our audit testing and reporting included:

- The on-going impact of Covid-19 on the Council's business, including any potential impact on risks of material misstatement;
- How the current financial market, has impacted the Council's budget setting process, and assumptions made within the financial statements, alongside the impact of future funding.
- Note 4 to the financial statements explains the background to the Prior Period Adjustment required following

the Derbyshire Pension Fund Actuary's disclosure in 2021/22 of errors in its allocation of fund assets as part of the 2019 triennial actuarial valuation of the Fund. The errors, which affected the County and Derby City Councils, are material and required changes to all the primary statements as well as many supporting notes. Management raised the issue and the updated reports from the Actuary with us at an early stage, and we were able to discuss the actions required and review the proposed Note 4 and other changes to prior year figures before the draft financial statements were published. We have nothing further to report following our review of these entries as part of the detailed audit work.

- The County Council and Derby City Council are engaged in a project to develop a New Waste Treatment Facility (NWTF) in Sinfin, Derby. The facility was planned to open in 2017 and was being built, was being built on the Councils' behalf by a company set up in partnership between the construction firm building the plant and a waste management company. The Councils' contract with the partnership company was terminated on in August 2019, following the issuing of a legal notice by the banks funding the project. Management has kept us informed of the steps being taken to resolve this matter and there are relevant disclosures at Note 2 (Critical Judgements) and Note 51 (Contingent Liabilities) to the financial statements.
- Earlier this year, the Government became aware of an issue relating to the reporting of infrastructure assets, which has led to delays in local authority audits. In response, CIPFA LASAAC Code Board agreed to try to assist in the resolution of the issue through changes to the Code of Practice on Local Authority Accounting (the Code). An accounting solution has not been found and a proposal has been made for an accounting statutory override under the Local Government Act 2003. Consultation via the Department for Levelling Up, Housing and Communities website closes on 7 November 2022. This means that our audit report will remain open until the issue has been rectified and the Council forms its own conclusion on the appropriateness of its accounting treatment.

4. Significant findings

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2021/22 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been raised.

04

Section 04:

Internal control recommendations

5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit, we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out on the following page. We have assigned priority rankings (as summarized in the table opposite) to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action.

In addition to the internal control recommendation identified in the current financial year (2021/22), we have considered the internal control recommendations reported in the prior year and included an update on progress made.

Priority ranking	Description	Number of issues
1 (high)	In our view , there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view , there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	1
3 (low)	In our view , internal control should be strengthened in these additional areas when practicable.	0

5. Internal control recommendations

Identified deficiencies in internal control – Level 2

Description of deficiency

As part of our journals testing we checked if any unauthorised staff were posting journals. We identified 3 members of staff who were posting journals but were below Grade 10, which is the expected cut-off grade to be able to post journals. Further enquiries with management confirmed that these staff worked in the same team and, although not at the required grade, were experienced and knowledgeable of the specific operational area.

Potential effects

Weaknesses in controls over journal posting could increase the risk of errors in the financial statements.

Recommendation

Revisit the arrangements in place for the staff identified and ensure the Grade 10 requirement is being followed in other areas.

Management response

Management has decided to restrict journal posting rights to just 2 of the 3 staff identified and will continue to monitor. No other exceptions have been highlighted.

05

Section 05:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit that we are required to report to you. There are no material adjustments to the draft financial statements.

Unadjusted Misstatements

The table below outlines the misstatements identified during the audit which are above the trivial threshold for adjustment of £962k and which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Cr (£'000)	Dr (£'000)	Cr (£'000)	Dr (£'000)
1				10,753
	Dr: Other Long Term Liabilities (net Pension Liability)			
			10,753	
	Cr: Unusable Reserves (Pension Reserve)			
	<p>Our work at the Derbyshire Pension Fund indicated a difference between the valuation information supplied by the actuary (and used in Derbyshire County Council's accounts) and the updated valuations in the revised accounts of Derbyshire Pension Fund of £25.8m representing a 0.42% increase in the fund value. The Council's share of this increase is approximately £10.7m. This adjustment reflects a change in value based on updated information between estimates made by the actuary and the final year end assets performance. We are required to report this adjustment as it is above the trivial threshold. However, as this difference is below materiality and not reflected in a formal updated actuarial valuation report the Council does not intend to update its accounts in this regard. In our view, this approach is reasonable, given that it does not have a material impact and would require significant additional work to amend the accounts.</p>			
	Total unadjusted misstatements		10,753	10,753

6. Summary of misstatements

Disclosure amendments

Based on our work undertaken, we have identified a small number of disclosure amendments to the accounts:

- Note 24 – to clarify the description of petty cash
- Note 31 – External Audit Costs – to correct the amounts recorded.
- Note 33 – Officers' Remuneration – to include clarification of the amounts paid.

A number of other disclosures have been amended in line with our internal quality review process to improve compliance with the Code of Accounting Practice.

06

Section 06:

Value for Money

7. Value for Money

Approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **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

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report in January 2023.

Status of our work

From the work completed to date in respect of the Council's arrangements for the year ended 31 March 2022, we have not identified any significant weaknesses in arrangements that have required us to make a recommendation. As noted above, our commentary on the Council's arrangements will be provided in the

Auditor's Annual Report.

As reported in the Executive Summary and section 2 of this report, due to the on-going issue in relation to Infrastructure assets, our proposed audit report and value for money commentary will remain subject to finalisation once the issue has been rectified.

Appendices

A: Independence

Appendix A: Independence

As part of our ongoing risk assessment, we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent. The following non-PSAA work was reported in our Audit Strategy Memorandum document;

Fees for non-PSAA work

We have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work, we consider whether there are any actual, potential or perceived threats to our independence. None have been identified.

Area of work	2021/22 Proposed Fee	2020/21 Actual Fee
Assurance services – Teachers Pensions Return	£4,200	£4,000

Mark Surridge, Key Audit Partner

Mazars

2 Chamberlain Square

Birmingham

B3 3AX

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.