

Audit Completion Report

Derbyshire County Council - Year ended
31 March 2022

March 2023



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Audit Committee
Derbyshire County Council
County Hall
Matlock
DE4 3AG

13 March 2023

Dear Committee Members

Audit Completion Report – Year ended 31 March 2022

We are pleased to present our final Audit Completion Report for the year ended 31 March 2022. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum dated 21 February 2022. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

The completion of the Audit has been delayed due to the national Infrastructure Accounting matter which we have brought to the Committee's attention in our previous reports, including our findings report to the Committee's November 2022 meeting. CIPFA has now issued its update to the Accounting Code of Practice 2021/22 and its supporting guidance, and DLUHC has confirmed the changes to its relevant Regulations. Our report confirms that a small number of changes have been agreed to the disclosures within the financial statements approved at the November 2022 meeting to comply with the requirements of the updated Code and the amended Regulations. We have identified in Section 2 of the Report the final remaining closure steps which will now be completed before we issue our audit opinion, including our normal consideration of any relevant Post Balance Sheet Events.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail, then please do not hesitate to contact me on Mark.Surridge@mazars.co.uk

Yours faithfully

Mark Surridge, Director

Mazars LLP

Mazars LLP
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01

Section 01:

Executive summary

1. Executive summary

Principal conclusions 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 4 of this report, we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

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

Misstatements and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements.

Status and audit opinion

We reported our findings in respect of the audit of the financial statements for the year ended 31 March 2022 to the November 2022 Audit Committee meeting and the audit work is virtually complete. The few remaining procedures at the time of preparing this report are outlined in section 2. We will provide an update to you in relation to any of these matters through our normal follow up letter.

Subject to the satisfactory conclusion of these remaining steps we have the following conclusions:



Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



Value for Money

We 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 7 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.

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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
Internal Quality Review	 [Amber]	We are finalising our internal quality review procedures and with the Council ensuring that all appropriate and relevant changes are reflected in the final financial statements, including final review and clearance over the changes and disclosures relating to infrastructure assets
Completion procedures	 [Amber]	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.
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.
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 will be included within our Annual Auditor's Report.

-  [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:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £30.3m using a benchmark of 2% of gross operating expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors, is £32.1m using the same benchmark.

Use of experts

Information below was disclosed within our Audit Strategy Memorandum. No changes to our audit approach have been identified.

Item of account	Management's expert	Our expert
Property Plant and Equipment	Internal Valuer	None We have used third party evidence provided via the NAO to support our challenge of valuation assumptions.
Pensions	Hymans Robertson LLP Actuary for Derbyshire Pension Fund (LGPS)	PWC (Consulting actuary appointed by the NAO).
Financial Instrument disclosures	Arlingclose Limited Treasury management advisors	None.



04

Section 04: **Significant findings**

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 15 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks

Management override of controls	<p>Description of the risk</p> <p>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.</p>
	<p>How we addressed this risk</p> <p>We addressed this risk through performing audit work over:</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.
	<p>Audit observations</p> <p>Our considerations of estimates did not highlight any material concerns. We did not identify any significant transactions outside the normal course of business. We applied a combination of audit judgement and computer aided audit tools to analyse and perform tests over journal entries.</p>
	<p>Audit conclusion</p> <p>Our audit procedures 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.</p>



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 addressed this risk

We addressed this risk by:

- 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. As reported at page 15 we have discussed this with management and have no additional matters to report.

A non-material £10.7m misstatement has been identified in relation to the movement on Local Government Pension Fund assets. Management do not propose to adjust the financial statements for this misstatement. Further details are in part 6 of this report.

Audit conclusion

Aside from this unadjusted non-material misstatement there are no further issues noted from our testing that need to be brought to the attention of Members.

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4. Significant findings

Valuation of land and buildings	Description of the risk <p>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.</p> <p>Relevant account balances (taken from the 2021/22 financial statements):</p> <ul style="list-style-type: none">• Land & Buildings (£1,227m - Note 14)
	How we addressed this risk <p>We addressed this risk by:</p> <ul style="list-style-type: none">• 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 <p>We have not identified any material errors or other matters to report from the work carried out to date.</p>
	Audit conclusion <p>We 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 the valuation of land and buildings.</p>



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>
	<p>How we addressed this risk</p> <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>
	<p>Audit observations</p> <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</p>
	<p>Audit conclusion</p> <p>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.

Infrastructure Assets

Balance per draft accounts £380m

Accounting for infrastructure in local government has not historically been considered to be an area of significant audit risk, due to the inalienable nature of the assets and the use of a historical cost basis of accounting. However, concerns have been raised that some authorities are not applying component accounting requirements appropriately. The issue raised is in relation to the derecognition (removal of the carrying amount) of parts of infrastructure assets when replacement expenditure is undertaken. There are also related issues for the reporting of gross historical cost and accumulated depreciation. Infrastructure assets are one of the few categories of property, plant and equipment assets measured at historical cost.

Normal custom and practice for infrastructure assets is that derecognition does not affect asset balances because the assets are expected to have been fully used up before the replacement expenditure takes place; this does require that assets are properly depreciated in line with the requirements of the Accounting Code. This issue arises in part because of limitations on historical information relating to when the assets were first recorded on balance sheets in the early 1990s, and where there have been transfers of assets because of local authority reorganisations. It is also extremely difficult to clearly identify the parts of the assets which are being replaced.

CIPFA's temporary accounting solution (communicated through an updated to the 2021/22 Code of Accounting Practice and a supporting Guidance Bulletin), with a supporting statutory override through DLUHC's changed Regulations, was confirmed in January 2023. Management has now reviewed its accounting records and practices in this area in the light of the flexibilities available through the updated Code and Regulations. This included reviewing the Council's fixed asset register for infrastructure assets and determining whether suitable records were in place to support the balance, including compliance with relevant accounting standards. Following this review, the Council has opted to apply the statutory override, which in effect requires a change in

accounting policy and change in the disclosures to the financial statements.

We have maintained ongoing dialogue regarding the approach taken by the Council and noted the proposal to adopt the temporary Code change and to apply the statutory override option provided by the amended Regulations. We have considered the potential implications on the financial statements and reviewed the disclosure changes made at Note 14 to the updated financial statements. Our work on this area is though subject to final quality control procedures.

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 Sinfen, 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.

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4. Significant findings

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')).

Modifications required to our audit report

We have not identified any matters from the audit work to date which require modifications to our audit report. Our updated draft audit report, which reflects the Council's proposed adoption of the CIPFA Accounting Code update and the amended Regulations, is set out in Appendix B.

Significant difficulties during the audit

During the course of the audit, we did not encounter any significant difficulties and we have had the full co-operation of management. We agreed with management to complete the audit in two separate visits and deferred the planned testing of land and buildings valuation until the second visit in September 2022. The completion of the remaining stages of the audit have also needed to be deferred until CIPFA and DLUHC had issued the updated guidance regarding accounting for Infrastructure assets. As reported at Section 2 this work is now virtually complete and there are no material issues to report at this stage.

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.

Audit fees

As set out in our Audit Strategy Memorandum, we identified the need for a variation to the published scale fee to take account of several matters. Upon finalization of our work, we shall agree the fee with management prior to reporting to the Audit Committee. At this point, we expect to record fee variations for:

- Additional work in relation to responding to increased regulatory challenge in auditing the IAS19 pension figures and the PPE figures contained within the financial statements;
- Additional testing as a result of the implementation of new auditing standards regarding accounting estimates;
- Additional work in relation to auditing the prior period adjustment;
- Additional work in relation to the changes required for infrastructure assets;
- Work undertaken in relation to VFM commentary.



05

Section 05:

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..



5. Internal control recommendations

Follow up on previous internal control points

Description of deficiency <u>Provisions</u> 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.
Potential effects Risk of error in relation to the disclosure made.
Recommendation Management should review and strengthen its controls relating to the preparation of the provisions note.
Update 2021/22 No similar issues were identified during our 2021/22 audit testing.

Description of deficiency <u>Deferred income</u> 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 was circa £1.1m of deferred income that was under review by the Council as it could be classified incorrectly. Based on the work performed, we highlighted an extrapolated £1.751m unadjusted misstatement in our Audit Completion Report.
Potential effects Risk of error in relation to the disclosure made.
Recommendation Management should review and strengthen its controls relating to the review of deferred income from NHS entities.
Update 2021/22 No similar issues were identified during our 2021/22 testing.



06

Section 06:

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.

Based on the work performed to date, we anticipate a further unadjusted misstatement in relation to infrastructure assets, however as we have not yet finalized the quality control review, we will provide an update at the Committee meeting and in our follow up letter.

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Cr (£'000)	Dr (£'000)	Cr (£'000)	Dr (£'000)
1	Dr: Other Long Term Liabilities (net Pension Liability)				10,753
	Cr: Unusable Reserves (Pension Reserve)			10,753	
<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>					

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, we do not judge these warrant itemisation and listing to the Audit Committee.

The Council has also processed changes to disclosures at Note 14 regarding accounting for infrastructure assets, which will be classed as an audit adjustment. Once we have concluded our internal quality review stage on these, we shall set these out in our follow up letter.



07

Section 07:

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 April 2023.

Status of our work

Based on 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. Our draft audit report at Appendix B confirms that we have no matters to report in respect of significant weaknesses. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report.



Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

From:

Paul Stone
Interim Executive Director, Corporate Services and Transformation
Derbyshire County Council
County Hall
Matlock
Derbyshire
DE4 3AG

To:

Mr Mark SurrIDGE
Director
Mazars LLP
2 Chamberlain Square
Birmingham
B3 3AX

Date: xx March 2023

Derbyshire County Council - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of Derbyshire County Council for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;



Appendix A: Draft management representation letter

- additional information that you have requested from me for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Executive Director, Corporate Services and Transformation, that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider them appropriate for the year.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date. There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.



Appendix A: Draft management representation letter

Fraud and error

I acknowledge my responsibility as Executive Director, Corporate Services and Transformation for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - - management and those charged with governance;
 - - employees who have significant roles in internal control; and
 - - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of the Code. I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Charges on assets

All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Future commitments

We have no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.



Appendix A: Draft management representation letter

War in Ukraine

We confirm that we have carried out an assessment of the on-going impact of the war in the Ukraine on the Council, including the impact of mitigation measures and uncertainties, and that the disclosures in the Statement of Accounts fairly reflects that assessment.

Going concern

I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties and I am satisfied that the going concern assumption remains appropriate and that no material uncertainty has been identified.

To the best of my knowledge there is nothing to indicate that the Council will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Annual Governance Statement

I am satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and I confirm that I am not aware of any significant risks that are not disclosed within the AGS.

Narrative report

The disclosures within the Narrative Report fairly reflect my understanding of the Council's financial and operating performance over the period covered by the financial statements.

Unadjusted misstatements

I confirm that there are no unadjusted misstatements above the reporting threshold of £926k. I confirm the Audit Committee agrees with Management's proposal to not adjust for the non-material misstatements identified in Mazars' Audit Completion Report and included as an Appendix to this letter.

[PLEASE ATTACH AN APPENDIX SETTING OUT THE UNADJUSTED MISSTATEMENTS AS SET OUT IN SECTION 6 OF OUR AUDIT COMPLETION REPORT]

Yours sincerely

Executive Director, Corporate Services and Transformation

Date.....



Appendix B: Draft audit report

Independent auditor's report to the members of Derbyshire County Council

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Derbyshire County Council ("the Council") for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, Balance Sheet, Statement of Cash Flows, Movement in Reserves Statement and notes to the financial statements including a summary of significant accounting policies and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ("the Code Update"), published in November 2022.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2022 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Code Update.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance and ICT's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for

issue.

Our responsibilities and the responsibilities of the Director of Finance and ICT with respect to going concern are described in the relevant sections of this report.

Other information

The Director of Finance and ICT is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Finance and ICT for the financial statements

As explained more fully in the Statement of the Section 151 Officer's Responsibilities, the Director of Finance and ICT as Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Code Update, and for being satisfied that they give a true and fair view. The Director of Finance and ICT is also responsible for such internal control as the Director of Finance and ICT determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance and ICT is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Code Update and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Director of Finance and ICT is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

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Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Director of Finance and ICT's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;

- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Director of Finance and ICT's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in September 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in December 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2022.

We will report the outcome of our work on the Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the Council's use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, and to report where we have not been able to satisfy ourselves that it has done so. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;

- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of Derbyshire County Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack;
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Mark Surrige, Key Audit Partner
For and on behalf of Mazars LLP

Address

[Insert date]

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Appendix C: 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 Fee	2020/21 Fee
Assurance services – Teachers Pensions Return	£4,200	£4,000



Appendix D: Other communications

Other communication	Response
Compliance with Laws and Regulations	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
External confirmations	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
Related parties	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	<p>We have not identified any evidence to cause us to disagree with the Executive Director, Corporate Services and Transformation that Derbyshire County Council will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>



Appendix D: Other communications

Other communication	Response
<p>Subsequent events</p>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
<p>Matters related to fraud</p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and Audit Committee, confirming that</p> <ul style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ul style="list-style-type: none"> i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.



Mark Surridge, Key Audit Partner

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.