

DERBYSHIRE COUNTY COUNCIL

COUNCIL

9 October 2019

Report of the Director of Finance & ICT

**STATEMENT OF ACCOUNTS 2018-19 AND
ANNUAL AUDIT LETTERS 2018-19**

1 Purpose of the Report

This report presents the approved Statement of Accounts 2018-19 and the external auditor's ISA 260 reports for 2018-19 (Audit Completion Reports) and Annual Audit Letters for 2018-19.

2 Information and Analysis

Statement of Accounts 2018-19

The Accounts and Audit Regulations 2015 require the Director of Finance & ICT to certify the Council's pre-audit Statement of Accounts for the year ended 31 March by 31 May and the Audit Committee to approve the post-audit version before 31 July.

The certified pre-audit Statement of Accounts were submitted to the Council's external auditors, Mazars, on 31 May 2019.

Under the Local Audit and Accountability Act 2014 (Sections 25 to 28) and the Accounts and Audit Regulations 2015 (Regulations 10, 14 and 15), the Council's accounts for the year ended 31 March 2019 and certain related documents (comprising books, deeds, contracts, bills, vouchers and receipts) were made available for public inspection from 1 June 2019 to 12 July 2019, Monday to Friday. One query was received, in relation to two grants awarded under the Community Priorities Programme (CPP) and seven projects supported under the Community Leadership Scheme (CLP).

The core financial statements in the Statement of Accounts are:

- Comprehensive Income and Expenditure Statement (CIES)
- Balance Sheet
- Cash Flow Statement

- Movement in Reserves Statement (MiRS)
- Pension Fund Accounts
- Annual Governance Statement

The Statement of Accounts were approved and the external auditor presented its draft ISA 260 reports for 2018-19 and audit opinions at the Audit Committee meeting on 23 July 2019. The Pension Fund Accounts will be reported to the Pensions and Investments Committee in October.

The external auditor acknowledged the Council's positive and constructive approach to their audit and thanked Members and Officers for their support and full co-operation during the audit.

Audit adjustments were required to the Statement of Accounts as follows:

Council Accounts - The Council prepares its accounts in accordance with the CIPFA/LASAAC Code (the Code), which is underpinned by International Financial Reporting Standards. The Code relevant to the 2018-19 accounts was updated for the adoption of a new accounting standard, IFRS 9 Financial Instruments. A technical requirement of the new standard was that the carrying value of some loans, which had been restructured in previous years, was adjusted. The carrying value of these loans was adjusted accordingly, with a modification gain posted through the Comprehensive Income and Expenditure Statement (CIES). As a result of additional work in July, undertaken by Mazars' review team, it was identified that this should have been treated as a transitional adjustment directly between liabilities and reserves and not posted to the CIES. The value of the modification gain was £29.224m.

Council Accounts - Estimation of the Council's net liability to pay pensions depends on several complex judgements relating to: the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, pending cases which could affect the level of future benefits and expected returns on Pension Fund investments. The Council has engaged Hymans Robertson LLP as its Consulting Actuary (Actuary) to provide expert advice about the assumptions to be applied to the Derbyshire Pension Fund (Fund). The effect of changes in these estimates on the net pension liability of the Council are reviewed on an ongoing basis. The following updates were required:

- Update of Fund asset values based on actual asset returns to 31 March 2019, rather than those in the pre-audit accounts projected by the Actuary from the position at December 2018 (as is usual practice). The Council understands that the Actuary uses very broad categories of assets when projecting asset returns, which do not always match the Fund's specific allocations. Furthermore, the high level of uncertainty this year about the implications of Britain leaving the European Union

also impacted on investment returns. The value of the Council's share of Fund assets decreased by £31.662m (increasing Fund net liabilities by the same amount).

- Inclusion of allowances in the Actuary's estimate of pension fund liabilities for 'the McCloud judgement' and 'GMP equalisation'. These were referred to in the Council's pre-audit accounts in Note 5, Assumptions Made and Other Estimation Uncertainty but were excluded from the Actuary's estimate of liabilities. This issue has been the subject of national discussion between external audit firms and actuarial firms, after the pre-audit statutory deadline. Inclusion of an allowance for these two matters has resulted in an increase in the Actuary's estimate of the Council's share of Fund liabilities of £14.317m (around 0.5% of gross Fund liabilities).

Pension Fund Accounts – One Pooled Investment Vehicle was re-classified from quoted to unquoted investments, to correct a coding error in the Fund's general ledger. This impacted only on the Fund's investment disclosure notes and not on the Fund's primary statements.

Audit work was completed to reach a conclusion that there were no unadjusted material errors in the Statement of Accounts. In the Council Accounts the Council's properties were valued as at 1 April 2018, in accordance with usual practice. Indexation of the Council's properties to values as at 31 March 2019 indicated an increase in value of £18.402m. The Council did not adjust its 2018-19 Statement of Accounts for this matter because the increase is immaterial. There were no unadjusted immaterial errors in the Pension Fund Accounts.

Three recommendations were raised in respect of the Council Accounts and action is being taken as follows:

- Valuation process controls – there were a number of issues with land and buildings valuations; a misclassification of agricultural land as residential land, the omission of a school building and an inconsistent approach to the valuation of homes for older people. No material errors were identified. Steps have been taken to correct and address these matters, together with the control weaknesses identified in 2017-18; a valuation manual has been introduced to improve the accuracy and consistency of the valuation work undertaken. The valuation manual is a living document utilised by the asset valuation team to ensure effective valuation delivery. The property valuation team will focus on fully embedding the processes set out in the manual.
- Contracts of employment controls – two contracts of employment could not be located. The Shared Services Centre (SSC) did not hold the full employee file for two school employees, as this was the schools' responsibility. However, the Council acknowledges the importance of

proper procedures for logging and sending documentation in respect of schools who purchase the Council's traded services package and for retaining contractual documentation. Procedures will be reviewed, to ensure that an accurate record is maintained within the SSC for all future documentation generated.

- Completeness of related party transactions controls – three Members had not declared their membership of another public sector body on their declaration forms. No inherent conflicts of interest were involved. The Council's new constitution came into effect on 15 May 2019 and the importance of full disclosures will form part of the training sessions associated with the new constitution.

One recommendation was raised in respect of the Pension Fund Accounts and action is being taken as follows:

- Pension payroll to general ledger reconciliations – during the audit a pension payroll to general ledger reconciliation was provided to Mazars but this took more time than anticipated. The Council will review, develop and implement a reconciliation process during 2019-20.

The external auditor also revisited the following further recommendations from 2017-18:

- Council and Pension Fund Accounts - whilst the position has improved with regard to controls over privileged access users of the Council's SAP financial system, with any changes to the status of users with this access being actively managed by senior finance staff, the Council has additionally agreed to introduce a documented incident management policy which covers user access issues.
- Pension Fund Accounts – recommendations around pension records were to be taken forward with a new Pension Fund Administration System. The new system went live on 4 March 2019. Discussions are ongoing with the supplier of the new system regarding the resolution of a diminishing number of outstanding implementation issues.

Audit Committee will be provided with an update in respect of these control recommendations before the end of the financial year.

The external auditor's ISA 260 reports for 2018-19 for the Council and the Pension Fund (Audit Completion Reports) are attached at Appendix One. Copies of the approved Statement of Accounts are available on the Council's website
https://www.derbyshire.gov.uk/council/council_tax/statement_of_accounts/default.asp

Annual Audit Letter

The Council's external auditor is required to present an Annual Audit Letter to Members and officers of the Council. The letter describes the scope of the audit work for the financial year and reports on matters of significance arising from that work. It is a summary of its conclusions and provides an external assessment of the Council's overall financial position.

The letter is a means by which the appointed auditor fulfils its statutory requirements, which are derived from the Audit Commission Act 1998 and the Audit Commission's Code of Audit Practice. The external auditor is required to provide an opinion on the Council's financial statements and a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

The issuing of the letter, along with an audit certificate, marks the end of the audit process for 2018-19. The Council has published on its website that the audit has been concluded in accordance with the Accounts and Audit Regulations 2015.

The letters issued for the Council and the Pension Fund are attached at Appendix Two.

3 Considerations

In preparing this report the relevance of the following factors has been considered:- financial, human resources, legal and human rights, equality of opportunity, health, environmental, transport, property, crime and disorder and social value considerations.

4 Background Papers

Copies of the approved Statement of Accounts will be made available at the meeting.

5 Officer's Recommendation

That Council notes the report, the approved Statement of Accounts 2018-19 and the external auditor's ISA 260 reports for 2018-19 and Annual Audit Letters for 2018-19.

PETER HANDFORD

Director of Finance & ICT

Audit Completion Report

Derbyshire County Council

Year ended 31 March 2019

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Appendix A – Draft management representation letter

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Appendix C – 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.

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Audit Committee
Derbyshire County Council
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23 July 2019

Dear Members

Audit Completion Report – Year ended 31 March 2019

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. 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 which we presented on 27 March 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

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 0787 5974291.

Yours faithfully

Mark Surridge
Mazars LLP

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We are registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.
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1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Derbyshire County Council ('the Council') for the year ended 31 March 2019, and forms the basis for discussion at the Audit Committee meeting on 23 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 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 of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control;
- Expenditure recognition;
- Revenue recognition;
- Property, plant and equipment valuation; and
- Defined benefit liability valuation

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

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 conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B

Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, by the extended deadline of 13 September 2019. We anticipate reporting that the WGA submission is consistent with the audited financial statements.

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.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Pensions	●	Finalising our work in relation to the significant risk areas relating to the net Pensions liability, reviewing the latest IAS19 valuation report and the disclosures in the final set of the financial statements. We also need to review and action the latest PwC report (for NAO) on the Actuaries' work regarding estimating pension liabilities following the GMP/McCloud judgements. The timeliness of our work in this area has been impacted by this national issue that has resulted in the majority of local authorities having to obtain a revised valuation that has impacted all local Authorities
Valuation of PPE	●	Finalising our work in testing the significant risk areas relating to the valuation of non-current assets, including clearing our queries on indexation with the Council's valuer and Officers
Closure procedures	●	Review and closure processes, including final consideration of adjustments, post balance sheet events and checking the revised financial statements.
Whole of Government Accounts	●	We are awaiting the completed Cycle 2 DCT submission and associated working papers before we can complete our work and issue our audit certificate.

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

In addition to the above, we have some residual procedures to complete, including:

- Checking the amendments to the draft financial statements proposed by management to correct matters identified during the audit; and
- Clearing any remaining quality control review points and completing the remaining audit closure steps.

We will provide the Audit Committee with an update in relation to these outstanding matters, prior to signing the auditor's certificate.

Our audit approach

We have not made any significant changes to our audit approach since the planning stage of our audit.



1. EXECUTIVE SUMMARY

Materiality

Our assessment of materiality has changed slightly since our planning procedures as set out in the table below.

	Planning	Final
Benchmark selected	2017/18 Gross Expenditure	2018/19 Gross Expenditure
Benchmark %	2%	2%
Materiality £'000	31,754	31,169
Performance Materiality £'000	20,640	20,260
Trivial Threshold £'000	953	935

We set materiality at the planning stage of the audit at £31,754m using a benchmark of 2% of Gross Operating Expenditure, although erroneously our Audit Strategy Memorandum said £30.2m. Our final assessment of materiality, based on the final financial statements and qualitative factors is £31.2m, using the same benchmark.

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Council's financial statements. Our performance materiality has decreased slightly from planning from £20.64m to £20.26m.

We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee), at £0.953m based on 3% of overall materiality. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee), at the planning stage of the audit at £0.95m, which has decreased slightly to £0.94m.

Specified Materiality

Area	Rationale	Materiality
Officers' remuneration	Sensitive information: this is an aspect of the accounts that can receive a high profile as it sets out highest paid staff	Pay bandings: £5,000
Termination payments	Sensitive information related to pay	£374,000
Members Allowances	Sensitive information related to pay	£215,000
Audit fee	As this also discloses fees for non-audit services and could be used to interpret potential conflicts of independence it is important that the amount disclosed is accurate	£23,000

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee.

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding 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 12 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 and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls	<p>In all entities, 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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p> <hr/> <p>How we addressed this risk</p> <p>We addressed this risk by:</p> <ul style="list-style-type: none">• Documenting our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding;• Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;• Reviewing the calculation of management's material accruals, estimates and provisions for evidence of management bias;• Evaluating the business rationale for any significant transactions outside the course of the business;• Understanding the oversight given by those charged with governance of management process over fraud;• Making enquiries of management and Internal Audit regarding actual or any suspicions of fraud; and• Considering whether the Council's accounting policies are consistent with industry standards. <p><i>Clarification from the Audit Strategy Memorandum</i></p> <p>In our Audit Strategy Memorandum we also said we would:</p> <ul style="list-style-type: none">• Sample test accruals and provisions based on established testing thresholds; and• Review material aspects of capital expenditure on property plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. <p>This work has been performed, with no issues arising. However, we wish to clarify that this testing was not to address this Significant Risk, they formed part of our standard audit procedures.</p> <hr/> <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>

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Expenditure recognition	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council (FRC), which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular the completeness and valuation of manually accrued payables</p> <p>Due to the nature and/or value of expenditure on employee expenses, interest payments, depreciation, impairments and loss on disposal of assets; we do not believe the risk lies in those balances; but the risk is relevant to premises, transport, and supplies & services.</p> <hr/> <p>Relevant account balances</p> <p>Cost of Services (Expenditure)</p> <p>Creditors</p> <hr/> <p>How we addressed this risk</p> <p>We addressed this risk by:</p> <ul style="list-style-type: none">• Ensuring the accounting policies in relation to expenditure recognition and recognition of accruals are appropriate and consistently applied;• Testing year end creditors to confirm that they have been correctly valued and categorized and are correctly treated as a creditor of the authority; and• Carrying out cut-off testing, and testing for unrecorded liabilities, to confirm expenditure has been coded to the correct accounting year. <hr/> <p>Audit conclusion</p> <p>Our work to date has not identified any material errors in the financial statements</p> <hr/>

SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Revenue recognition	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. Having considered the factors for revenue recognition, we believe the risk is focused on the year-end balance sheet and in particular the existence and accuracy of receivables, specifically those that are material, subject to manual intervention and/or significant estimation. Due to the nature and/or value of income from interest and investment income, council tax, business rates and government grants we do not believe the risk lies in those balances, but the risk is relevant to fees, charges and other service income.</p> <hr/> <p>Relevant account balances</p> <p>Cost of Services (income)</p> <p>Debtors</p> <hr/> <p>How we addressed this risk</p> <p>We addressed this risk by:</p> <ul style="list-style-type: none">• Ensuring the accounting policies in relation to revenue recognition and recognition of accruals are appropriate and consistently applied;• Testing year end debtors to confirm that they have been correctly valued and categorized and are correctly treated as a debtor of the authority; and• Carrying out cut-off testing to confirm income has been coded to the correct accounting year. <hr/> <p>Audit conclusion</p> <p>Our work to date has not identified any material errors in the financial statements</p> <hr/>

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Valuation of property, plant and equipment, investment properties and assets held for sale

Description of the risk

The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.

Relevant account balances

Where relevant, Cost of Services (Expenditure) for any impairment charges

Those items of Property, Plant and Equipment held at valuation being Other Land and Buildings and Surplus Assets as described in Note 14.

Assets held for sale

Investment Properties

How we addressed this risk

There has been no change in our planned audit strategy. We do however, wish to clarify our approach, which results in minor changes of how the tests performed are described versus our Audit Strategy Memorandum.

We addressed this risk through performing the following audit work:

- Reconciling valuations from the valuer's report had been recorded in the Fixed Asset Register;
- Testing a sample of assets valued during the year to valuation reports;
- Where material, testing the basis for impairment of assets, the value and correct accounting treatment;
- Critically assessing the Council's valuer's scope of work and methodology used; and
- Considering the impact of any assets not valued during the year

In our Audit Strategy Memorandum we also said we would test a sample of capital expenditure in 2018/19 where material to confirm that the additions are appropriately valued in the financial statements. This work has been performed, with no issues arising. However, we wish to clarify that this testing was not to address this Significant Risk, it formed part of our standard risk audit procedures.

Audit conclusion

Our work is nearing completion, with some residual steps to complete.

Our 2018/19 testing of land and buildings valuations identified a number of non-material issues. These issues included a misclassification of agricultural land as residential land, the omission of a school building and an inconsistent approach to the valuation of homes for older people. Management has addressed and corrected these matters for the 2018/19 financial statements.

A further matter regarding indexation has been raised and we will provide an update to the Audit Committee on the day of the meeting.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Valuation of net defined pension liability	<p>The Council's accounts contain material liabilities relating to the Local Government Pension Scheme (LGPS). 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.</p> <hr/> <p>Relevant account balances</p> <p>Net defined pension liability</p> <hr/> <p>How we addressed this risk</p> <p>There has been no change in our planned audit strategy. We do however, wish to clarify our approach, which results in minor changes of how the tests performed are described versus our Audit Strategy Memorandum. We addressed this risk through performing the following audit work:</p> <ul style="list-style-type: none">• Reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, 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. <p>In addition, we</p> <ul style="list-style-type: none">• Critically assessed the competency, objectivity and independence of the Derbyshire Pension Fund's Actuary, Hymans Robertson;• Liaised with the auditors of the Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. 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; and• Performed a walkthrough of payroll transactions at the Council to understand how pension contributions which are deducted and paid to the Pension Fund by the Council (note, our Audit Strategy Memorandum implied we would perform detailed tests, which was an incorrect transposition from our Audit file). <hr/> <p>Audit conclusion</p> <p>The procedures we have undertaken to date have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention. Our audit work is however in progress and we will update the Audit Committee on any significant matters which affect our audit conclusion.</p> <p>All local authorities have been affected by an accounting issue that impacts the value of pension liabilities. Two on-going legal cases (Guaranteed Minimum Pensions and McCloud/Sergeant) have created uncertainty over whether pension liabilities are fairly stated. The Council's actuary (via the Pension Fund) did not make an allowance in its actuarial valuation for either of these cases and early guidance given to councils was that the impact would not be material. The Council, as with nearly all local authorities in England, prepared the financial statements on this basis. In our view, these cases give rise to at least a constructive obligation, which is required to be recognised under IAS 19.</p> <p>The Council received an updated IAS19 valuation report to take into account the implications of the GMP and McCloud judgments and changes to the Pension Fund's asset values at 31 March 2019. This resulted in differences from the original report used to prepare the draft financial statements and management have amended the financial statements for these differences.</p>

2. SIGNIFICANT FINDINGS (CONTINUED)

Management judgement

Minimum Revenue Provision (MRP)

Description of the management judgement

Local authorities are normally required each year to set aside some of their revenues as provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is not prescribed although an overarching principle of prudence is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised in determining the level of its prudent provision.

How our audit addressed this area of management judgement

- In relation to the Council's MRP we:
- reviewed the Council's MRP policy to check that it had been developed with regard to the statutory guidance;
 - assessed whether the provision has been calculated and recorded in accordance with the Council's policy;
 - assessed whether the amount provided for the period was appropriate, taking into account the Council's Capital Financing Requirement; and
 - confirmed that any charge has been accounted for in accordance with the Code.

Audit conclusion

Our review of the Council's MRP policy indicated that the Council was intending to take account of a £10m overpayment in respect of previous years. The updated statutory guidance clarifies that changing the method used to calculate MRP can never give rise to an overpayment in respect of previous years, and should not result in a council making a reduced charge on the grounds that it needs to recover overpayments of MRP relating to previous years. The Council is updating its MRP policy to reflect this and has not taken account of overpayments in respect of previous years in preparing its accounts for 2018/19. Our work has provided the assurance we sought in relation to the Council's accounts for 2018/19.

2. SIGNIFICANT FINDINGS (CONTINUED)

Management judgement	Description of the management judgement
Accounting for the schools Private Finance Initiative and other school assets and liabilities	<p>The Council's 2018/19 financial statements set out its accounting policies in relation to the schools Private Finance Initiative and other school assets and liabilities, and their inclusion on the balance sheet. These assets and liabilities are material and the accounting treatment is based on management judgement and interpretation of the relevant accounting standards.</p> <hr/> <p>How our audit addressed this area of management judgement</p> <p>In relation to accounting for the schools Private Finance Initiative and other school assets and liabilities we:</p> <ul style="list-style-type: none">• reviewed the assessments carried out by management relating to the accounting treatment of these assets and liabilities and challenged the reasonableness of the judgments management has made; and• substantively tested these areas as part of our planned testing programmes. <hr/> <p>Audit conclusion</p> <p>Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.</p>

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded that following the amendments that have been agreed they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstance. The Council's policies have been updated appropriately to reflect the changes for 2018/19 in respect of IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers).

In recognition of the demands placed upon staff as a result of the earlier accounts production deadline, the Council has refined its closedown plan to enhance the project management of this complex process. This included providing working papers to aid the audit process, and officers engaging with the audit process in the period leading up to the year end in order to proactively address issues as they emerged.

Draft accounts were received from the Council on 31 May 2019 and were of a good quality. This represents a significant achievement by the finance team.

Opening Balances

We have performed relevant audit procedures on the Council's opening balances. We have no observations or matters to report relating to the opening financial position as at 1 April 2018.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant matters discussed with management

Minimum Revenue Provision (MRP)

Our review of the Council's MRP policy indicated that the Council was intending to take account of a £10m overpayment in respect of previous years. The updated statutory guidance clarifies in paragraph 29 that changing the method used to calculate MRP can never give rise to an overpayment in respect of previous years, and should not result in a council making a reduced charge on the grounds that it needs to recover overpayments of MRP relating to previous years. Management has acknowledged this issue and is updating the Council's MRP policy to reflect this and has not taken account of overpayments in respect of previous years in preparing its accounts for 2018/19.

Valuation of net defined benefit liability

In order to produce the IAS19 report for the accounts by mid April it was necessary for the actuary to use an estimate of the value of the Council's share of Derbyshire Pension Fund assets as at 31 March 2019. In previous years the estimate has been close to the actual valuation. However this year due to significant variations in asset valuations in the final quarter, the difference was greater and proved to be material at £31.662m less than originally estimated. Updated figures actuarial estimates were also required to take into account the impact of judgements made in relation to Guaranteed Minimum Pensions and the McCloud case.

Property valuations

The Code (para 4.1.2.38) permits assets to be valued on a rolling basis. Where assets are valued on a rolling basis there is a requirement that:

Where assets are revalued (i.e. the carrying amount is based on current value), revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period (Code para 4.1.2.37).

As noted in our consideration of the property valuation significant risk, we used a report commissioned by the National Audit Office (NAO) to challenge the assumptions made in the valuation of assets. The NAO report was prepared by Gerald Eve and included details of movements in BCIS (Building Cost Information Service) All-in Tender Price Index indices. We used this report to challenge the judgement that there had not been a material movement in those assets valued at 1 April 2018, or not valued in the year as part of the Council's rolling asset valuations. We are discussing the impact with the Council and will update the Audit Committee of the outcome of our discussions.

3) Group Accounts

The Code of Practice on Local Authority Accounting, paragraph 9.1.1.7 states:

'Authorities with interests in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered not material.' The Council has assessed its subsidiaries, associates and joint ventures and considers them to be not material either qualitatively or quantitatively. We have considered management's judgement and are satisfied that the accounts are not materially misstated as a result of this judgement. In the coming years the Council will need to ensure it reviews this assessment and updates it for any significant changes.

4) New Waste Treatment Facility (NWTF)

The Council has considered whether the NWTF meets the definition of a service concession asset; this is an asset which a public sector entity, in this case the Council and Derby City Council, have control over, which is operated on their behalf by a private sector operator, in this case RRS. The asset has not been certified for full use and therefore the Council has not recognised its share of the assets and liabilities on the balance sheet at 31 March 2019. It is the Council's judgement that the whole unitary charge paid to RRS is, in substance, consideration for waste disposal services and this has been expensed to the CIES. We have reviewed management's judgement in this regard and are satisfied that the accounts are not materially misstated as a result of this judgement, although have recommend small changes to the description in the disclosure notes. For 2019/20 the Council will need to ensure it reviews this assessment to reflect changes in the assets operational effectiveness.



2. SIGNIFICANT FINDINGS (CONTINUED)

Significant matters discussed with management (continued)

5) Accounting for Loans under IFRS 9

The gain on the modification of loans (which has arisen on loans modified prior to 2006) had as a result of the application of IFRS 9 been taken to the CIES by the Council. However, this is a transition adjustment, which should instead have been accounted for in opening reserves rather than in the current year in the CIES. The Council is adjusting the final version of its financial statements by £29.224m to reflect the correct accounting treatment. It should be noted that this adjustment does not impact the Council's General Fund.

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 and staff. We will meet with officers ahead of the 2019/20 audit to provide feedback on the detailed working papers and any improvement opportunities for other areas related to the accounts production and audit processes.

A challenging aspect of the audit related to the actuarial valuation of the Pension Liability that, as explained on page 10, impacted all local authorities and participants in a local government pension scheme. The Council prepared the draft financial statements based on guidance that had been issued at the time, however our view was that the actuarial valuations should have taken into account both the McCloud and GMP judgements. We raised our concerns at an early stage, however this is a complex area, required third party input, and within compressed reporting deadlines meant that the work performed presented some challenges for all parties.

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 2018/19 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. We received one objection to the financial statements that we are in the process of considering.

Our draft audit report, in full, is set out in Appendix B.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is 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. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor 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 below. We have assigned priority rankings 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 summary, the matters arising fall into the following categories:

Priority ranking	Description	2018/19 issues identified	2017/18 issues outstanding
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.	1	1
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	1
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	1	0

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Significant deficiencies in internal control – Level 1

Controls in place in regard to the valuation process

Our 2018/19 testing of land and buildings valuations identified a number of issues, but did not identify any material errors. These issues included a misclassification of agricultural land as residential land, the omission of a school building and an inconsistent approach to the valuation of homes for older people. We do however acknowledge that management has taken steps to correct and address these matters together with the deficiencies identified in 2017/18 and has introduced a valuation manual to improve the accuracy and consistency of the valuation work undertaken.

Potential effects

Valuable assets are held by the Council. Inaccurate valuation or indexation can therefore result in large errors. This increases the risk of the Property, Plant and Equipment figure being materially misstated on the Council's Balance Sheet. For 2018/19 we did however obtain sufficient evidence to conclude the Property, Plant and Equipment figure for 2018/19 was materially correct.

Recommendation

The Council has taken steps to address the deficiencies identified in relation to the valuation of land and buildings, however it should now embed the processes set out in its valuation manual to ensure that valuation work is appropriately completed and checked on a timely basis to enable accurate entries to be made in the pre-audit statement of accounts.

Management response

Agreed. The valuation manual is a living document utilised by the asset valuation team to ensure effective valuation delivery. The team will focus on fully embedding the processes set out in the manual.

Responsible Officer: Sarah Morris

Other deficiencies in internal control – Level 2

Controls in place in regard to contracts of employment

During our payroll testing it became apparent that management could not locate the contracts of employment for 2 members of staff.

Potential effects

Contracts of employment are important documents that may be required to clarify terms and conditions of employment or to provide supporting information in relation to grievances or disputes. Not having access to such information could be prejudicial to the Council.

Recommendation

The Council should ensure that contracts of employment are held and are accessible in relation to all members of staff.

Management response

Management accept the recommendation and acknowledges the importance of contractual documentation. The two cases identified related to employees who work and are employed by Schools and therefore the Shared Services Centre do not hold the full employee file for the employee as this is the responsibility of the School to retain. Procedures for logging and sending paper documentation for employees within Schools who purchase the traded services package offsite will be reviewed in line with the HR retention schedule to ensure that an accurate record is maintained within the Shared Services Centre for all future documentation generated.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Other recommendations on internal control – Level 3

Controls in place in regard to the completeness of related party declarations

During our testing of related parties it was found that three councillors had not declared their membership of another public sector body.

Potential effects

Whilst there were no inherent conflicts of interest involved and it is acknowledged that this may simply have been an oversight, good practice encourages full disclosures to ensure transparency.

Recommendation

The Council should ensure that full disclosures are made and should emphasise the importance of full disclosures during the training sessions associated with the implementation of the Council's new constitution.

Management response

Agreed. The Council's new constitution came into effect on 15 May 2019 and the importance of full disclosures will form part of the training sessions associated with the new constitution.

Follow up of previous internal control points

We set out below an update on internal control points raised by KPMG in the prior year.

Controls in place in regard to the valuation process – Level 1

The 2017/18 testing of land and buildings valuations identified errors for certain of the assets tested, in particular there was a failure to correctly apply indexation in undertaking the 2017/18 valuation work. This issue resulted from an oversight in the preparation of the valuation working papers and was identified by internal audit work after the pre-audit statement of accounts had been issued.

Potential effects

Valuable assets are held by the Council. Inaccurate valuation or indexation can therefore result in large errors. This increases the risk of the Property, Plant and Equipment figure being materially misstated on the Council's Balance Sheet. For 2017/18 the deficiency detailed above resulted in an audit misstatement amounting to £132m which was corrected by the Council.

2018/19 update

Our 2018/19 testing of land and buildings valuations identified a number of errors, but did not identify any material errors. These errors included a misclassification of agricultural land as residential land, the omission of a school building and an inconsistent approach to the valuation of homes for older people. We do however acknowledge that management has taken steps to address the deficiencies identified and has introduced a valuation manual to improve the accuracy and consistency of the valuation work undertaken. We welcome this initiative. We obtained sufficient evidence to conclude the Property, Plant and Equipment figure for 2018/19 was materially correct.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow up of previous internal control points (cont'd)

Controls in place in relation to SAP users with privileged access– Level 2

The predecessor auditor's IT user access testing for 2017/18 identified that controls needed to be implemented to ensure: the activities of SAP users with privileged access could be monitored; appropriate segregation of duties was achieved; and access rights were withdrawn when individuals left the organisation.

Potential effects

Without such controls SAP users with privileged access are not monitored, can access live systems they have developed and are not deactivated in a timely manner when they leave, meaning that inappropriate access to business critical systems would be possible.

2018/19 update

Our 2018/19 testing noted that whilst the position had improved there was not a documented incident management policy which included user access issues in the organisation. We are therefore recommending that further work takes place to put such a policy in place. Management agrees with this recommendation and is currently undertaking work to put such a policy in place.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements discussed including those identified for adjustment during the course of the audit, above the level of our trivial threshold of £0.9 million.

Unadjusted misstatements

We have discussed with management an unadjusted misstatement that has been identified at the closing stage of our audit. This results from the Council's property being valued as at 1 April 2018. Indexation of the Council's property to values as at 31 March 2019 indicates an increase of £18,402,000. This amount is not material and the Council does not intend to adjust its 2018/19 financial statements to reflect this valuation issue. We will update the Audit Committee on the outcome of the discussions held regarding this matter.

Adjusted misstatements 2018/19

The table below outlines the misstatements that have been adjusted by management during the course of the audit.

		Before ((£'000)	After(£'000)
1	Balance Sheet - Net Pension Liability	824,567	870,547
	Comprehensive Income and Expenditure Statement – Cost of Services: Service Costs	92,799	106,927
	Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure: Net interest expense	17,559	17,748
	Total re-measurements recognised in Other Comprehensive Income and Expenditure	135,007	166,670
	Updated figures as a result of revised actuarial valuations taking into account the year-end value of assets in the Derbyshire Pension Fund and assumptions for GMP and the McCloud judgement. As this involves a large number of accounting entries, we have only set out the changes in the largest figures. There are also additional consequential changes to the Pension Fund note, but none of these items significantly impact the Council's General Fund.		

		Comprehensive Income and Expenditure Statement and MIRS		Balance Sheet	
		Debit	Credit	Debit	Credit
		£'000	£'000	£'000	£'000
2	Financing & Investment income and expenditure: loan modification gains	29,224			0
	Movement in Reserves Statement		29,224		
	Being the adjustment to recognise loan transition adjustments arising from the application of IFRS 9, which should have been accounted for in opening reserves rather than in the current year CIES under short term investments				

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Disclosure amendments

During our review of the financial statements we identified the following significant amendments to disclosures. These disclosure issues were corrected by the Council in the final version of its financial statements for 2018/19.

- 1 During our review of the Movement in Reserves Statement and the associated notes to the financial statements (Notes 15 and 31) we identified an inconsistency in relation to the value of transfers to earmarked reserves. In order to address this issue management has made corrections in the final version of its financial statements for 2018/19 to ensure consistency in relation to this information.
- 2 During our review of the notes to the financial statements (Note 48) it became apparent that the Council had not included land amounting to £1m in its operating lease costs. This does not affect the main financial statements, but is incorrect. In order to address this issue management has made a correction in the final version of its financial statements for 2018/19.
- 3 The Council identified that it had incorrectly classified its Revenue Support Grant as departmental and not corporate income in Note 41 on grant income. This does not affect the main financial statements, but is incorrect. In order to address this issue management has made a correction in the final version of its financial statements for 2018/19.
- 4 The Council identified that it had omitted text from the face of the Comprehensive Income and Expenditure Statement to clarify that certain items will not be reclassified to the surplus or deficit on the provision of services. Management has corrected this in the final version of its financial statements for 2018/19.
- 5 We reviewed the proposed disclosures in detail and fed back to management on a number of detailed issues which required amendments to be made for the final version of the financial statements. These issues included the accounting treatment of financial instruments that are held at Fair Value through Other Comprehensive Income (FVOCI). Certain financial instruments like the CCLA Property Fund do not meet the definition of equity in IAS 32 and do not qualify for the election to hold at FVOCI. In order to address this and the other detailed disclosure issues considered management has made corrections in the final version of its financial statements for 2018/19 to ensure the correct disclosures are made.

During our review of the financial statements we also identified some minor amendments to disclosures. These disclosure issues will be corrected by the Council in the final version of its financial statements for 2018/19.

5. VALUE FOR MONEY CONCLUSION

Introduction

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

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our Approach

Our overall approach is set out in our Audit Strategy Memorandum and involves a detailed risk assessment at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As set out in our Audit Strategy Memorandum, for the 2018/19 financial year, we have not identified any significant risks to our VFM conclusion. We have though identified one specific matter which we needed to keep to under close review:

- Financial Sustainability

Our detailed findings are set out below. Based on the work performed, we are satisfied that the Council's arrangements are adequate.

Risk	Work undertaken	Conclusion
Financial sustainability –The Council continues to face financial pressure in the coming years and the Council keeps updating its medium term financial plan (MTFP) to meet these pressures. We needed to ensure our knowledge of the Council's MTFP arrangements and its monitoring of the planned delivery of savings, remained up to date in order to ensure we gave the correct VFM conclusion.	<p>We have assessed whether any matters have come to our attention through the course of our audit that lead us to conclude that a risk to our 2018/19 VFM conclusion does indeed exist.</p> <p>The Council underspent against s final net budget of £488.1m by £13.1m and this amount was put into the General Reserve to support the Council's future financial resilience. We confirmed the Council set a balanced budget for 2019/20 and at the same time updated the MTFP. The financial position post 2020/21 holds some uncertainties, which is a common issue for all bodies in the local government sector. Further work is required to identify specific a full suite of savings plans for 2020/21 and beyond and the outcome of the Fair Funding review will help inform the Council's plans.</p>	We obtained sufficient assurance to conclude that the Council continues to have appropriate arrangements in place.

Matters kept under review

Before drawing our conclusion, we have:

- updated our risk assessment for any new or emerging issues through discussions with management and updating our review of committee reports;
- reviewed the Council's Annual Governance Statement for any significant issues; and
- considered the Council's financial outturn position as presented in the financial statements.

From the work performed, no new significant VFM risks were identified and we have no matters to report.

Our overall Value for Money conclusion

We have completed our procedures and, as set out in our draft auditor's report included at Appendix B, we intend to issue an unqualified Value for Money conclusion for the 2018/19 financial year.



APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

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

23 July 2019

Dear Mark

The Council’s management representation letter should be provided to us on client headed note paper.

Derbyshire County Council - audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the statement of accounts for Derbyshire County Council (the Council) for the year ended 31 March 2019 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 2018/19 (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 ourselves 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 and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us 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 Director of Finance & ICT 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 that have a material effect on the financial statements 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 these policies to faithfully represent the effects of transactions, other events or conditions on the Council’s financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or 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 the Code and applicable law.



APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

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.

Fraud and error

I acknowledge my responsibility as Director of Finance & ICT 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 statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

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.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2018/19 in relation to the Council's PFI schemes that you have not been made aware of.

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.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not 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.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements as included in the auditor's Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Yours sincerely

Director of Finance & ICT
23 July 2019

Executive summary

Significant findings

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recommendations

Summary of
misstatements

Value for Money
conclusion

Appendices

APPENDIX B

DRAFT AUDITOR’S REPORT

Independent auditor’s report to the members of Derbyshire County Council – DRAFT
Report on the financial statements

Opinion

We have audited the financial statements of Derbyshire County Council for the year ended 31 March 2019, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Derbyshire County Council as at 31st March 2019 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 2018/19.

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 as applicable to public interest entities, 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance & ICT’s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance & ICT has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance & 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.



APPENDIX B

DRAFT AUDITOR'S REPORT

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

As explained more fully in the Statement of the Director of Finance & ICT's Responsibilities, the Director of Finance & ICT 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 2018/19, and for being satisfied that they give a true and fair view. The Director of Finance & ICT is also responsible for such internal control as the Director of Finance & 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 & ICT is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Director of Finance & 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.

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.

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.

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.

Conclusion on Derbyshire County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Derbyshire County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council

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



APPENDIX B

DRAFT AUDITOR’S REPORT (CONTINUED)

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. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. 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.

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. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

Mark Surridge
For and on behalf of Mazars LLP

Park View House
58 The Ropewalk
Nottingham
NG1 5DW

26 July 2019



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.

CONTACT

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Manager

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Audit Completion Report

Derbyshire Pension Fund

Year ended 31 March 2019

CONTENTS

1. Executive summary
2. Financial statements audit
3. Internal control recommendations
4. Summary of misstatements

Appendix A – Draft management representation letter

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Appendix C – Draft consistency report

Appendix D – Independence

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Terms of Appointment' issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Pension Fund are prepared for the sole use of the Pension Fund 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.

Audit Committee
Derbyshire County Council
County Hall
Matlock
DE4 3AG

23 July 2019

Dear Members

Audit Completion Report – Year ended 31 March 2019

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. 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 which we presented on 27 March 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

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 07387 242 052.

Yours faithfully

Lucy Nutley
Mazars LLP

Mazars LLP – Park View House, 58 The Ropewalk, Nottingham, NG1 5DW
Tel: 0115 964 4744 – www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.
VAT number: 839 8356 73

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of the Derbyshire Pension Fund for the year ended 31 March 2019, and forms the basis for discussion at the Audit Committee meeting on 23 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 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 of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement..

Sections 2 of this report outlines the detailed findings from our work on the financial statements. As we outline on the following page, our work is substantially complete and, subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

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.

Consistency Report

We anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of the Council. Our draft consistency report is provided in Appendix C.

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 Pension Fund and to consider any objection made to the accounts.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report.

1. EXECUTIVE SUMMARY (CONTINUED)

Status of our audit work

We have substantially completed our work on the financial statements for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Description of outstanding matters
Consistency opinion	We have not yet received the final version of the Pension Fund Annual Report and have not therefore not concluded our work comparing the Pension Fund financial statements within the Statement of Accounts of the Council with the Pension Fund financial statements within the Pension Fund Annual Report.
Closure procedures and review	We will complete our standard closure procedures, including our final review of the financial statements and consideration of post balance sheet events.

We will provide the Audit Committee with an update in relation to these outstanding matters, prior to signing the audit certificate.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set overall materiality at the planning stage of the audit at £46m using a benchmark of 1% of net assets available to pay benefits. Our final assessment of overall materiality, based on the final financial statements is £49m using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee) at £1.4m based on 3% of overall materiality. Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Pension Fund’s financial statements. We have therefore set our performance materiality at 65% of our overall materiality being £32m.

2. FINANCIAL STATEMENTS AUDIT

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding 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 7 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 and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Pension Funds financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk by performing audit work in the following areas:

- accounting estimates impacting on 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 conclusion

Our work has provided us with the assurance we sought and has not highlighted any material issues to bring to your attention.

2. FINANCIAL STATEMENTS AUDIT (CONTINUED)

Significant risk	Description of the risk
Valuation of unquoted investments for which a market price is not readily available	<p>As at 31 March 2018 the fair value of investments which were not quoted on an active market was £634m (£844m as at 31 March 2019), which accounted for 14% (17% as at 31 March 2019) of the Fund's net investment assets. Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.</p> <p>As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.</p>
<hr/>	
How we addressed this risk	
<p>In addition to our standard programme of work in this area we have:</p> <ul style="list-style-type: none">• agreed the valuations to supporting documentation including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuations;• agreed the investment manager valuations to audited accounts. Where these were not available, we agreed the investment manager valuation to other independent supporting documentation;• where audited accounts were available, we checked that they were supported by a clear opinion; and• where available, we reviewed any independent control assurance reports and confirmed that they do not highlight any risks of material misstatement.	
<hr/>	
Audit conclusion	
<p>Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.</p>	

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. We have not identified any such judgements. It is however worth noting that Note 5 to the accounts regarding Britain leaving the European Union outlines that there remains a high level of uncertainty around the impact of the implementation of the 2016 Brexit referendum result.

2. FINANCIAL STATEMENTS AUDIT (CONTINUED)

Opening Balances

We have performed relevant audit procedures on the Pension Fund’s opening balances. We have no observations or matters to report relating to the opening financial position as at 1 April 2018.

Qualitative aspects of the entity’s accounting practices

We have reviewed the Pension Fund’s accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Pension Fund’s circumstances.

Draft accounts were received from the Pension Fund on 31 May 2019 and were of a good quality.

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.

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 2018/19 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. We have not received any questions or objections that relate to the financial statements of the Derbyshire Pension Fund.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is 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. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor 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 below. We have assigned priority rankings 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 summary, the matters arising fall into the following categories:

Priority ranking	Description	2018/19 issues identified	2017/18 issues outstanding
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	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	1
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0	1

Other deficiencies in internal control – Level 2

Controls in place in regard to pensions payroll to general ledger reconciliations – Level 2

The SAP payroll and general ledger provide an integrated system. However achieving a reconciliation between the payroll and ledger entries took more management and audit time than anticipated this year and emphasised the value of having regular reconciliations in place between the information in the pensions payroll reports and the SAP general ledger to avoid such problems for the future.

Potential effects

Whilst the absence of this reconciliation does not indicate that an error has occurred this reconciliation is an important check that the general ledger information populated from pensions payroll is complete and accurate.

Recommendation

Whilst acknowledging that management has taken steps to address this issue for 2018/19 we recommend that pensions payroll to general ledger reconciliations are undertaken, reviewed and authorised on an ongoing basis.

Management response

Agreed. The Council will review, develop and implement a reconciliation process during 2019/20.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow up of previous internal control points

We set out below and overleaf an update on internal control points raised by KPMG in the prior year.

Controls in place in relation to SAP users with privileged access – Level 2 for 2017/18

KPMG's IT user access testing for 2017/18 identified that controls needed to be implemented to ensure: the activities of SAP users with privileged access could be monitored; appropriate segregation of duties was achieved; and access rights were withdrawn when individuals left the organisation.

Potential effects

Without such controls SAP users with privileged access are not monitored, can access live systems they have developed and are not deactivated in a timely manner when they leave, meaning that inappropriate access to business critical systems would be possible.

2018/19 update – Level 3 for 2018/19

Our 2018/19 testing noted that whilst the position had improved there was not a documented incident management policy which included user access issues in the organisation. We are therefore recommending that further work takes place to put such a policy in place.

Management response

Agreed. A policy will be developed, agreed and implemented.

Other recommendations on internal control – Level 3

Controls in place in regard to the Pensions Administration System – Level 3

KPMG's work for 2017/18 identified that work was required to ensure all pension records were readily available and complete to facilitate the efficient operation of the Pensions Administration System. This was to be taken forward with a new pensions administration system.

Potential effects

It is important that pension records are complete, accurate and readily accessible to ensure that pension calculations can be undertaken correctly and efficiently. The Pensions Administration System is key to ensuring that this is the case.

2018/19 update

The new Altair Pensions Administration System successfully went live on 4 March 2019. As with many major new systems, there have been a number of initial issues for the Pension Fund Team and the supplier to work through. Whilst good progress has been made further work is required to fully embed the operation of the new Altair Pensions Administration System. We recommend the Pension Fund continue to progress this matter with the supplier and report to the Audit Committee on this issue.

Management response

Discussions are ongoing with the supplier of the new pension administration system regarding the resolution of a diminishing number of outstanding implementation issues. An update report will be taken to the Audit Committee in December 2019.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £1.4m. Management has agreed to amend the financial statements to address the one issue identified. There are no unadjusted misstatements for 2018/19.

Adjusted misstatements 2018/19

		Fund Account		Notes to the Net Assets Statement	
		Dr (£m)	Cr (£m)	Dr (£m)	Cr (£m)
1	Dr: Pooled Investment Vehicles – Other Unquoted Cr: Pooled Investment Vehicles – Other Quoted			67.459	67.459

Our 2018/19 testing of investments identified the misclassification of a material asset (LGIM World Emerging Markets Index Fund) which was incorrectly classified within Pooled Investment Vehicles - Other Quoted as a Level 2 asset. The correct classification is Pooled Investment Vehicles - Other Unquoted as a Level 3 asset. The client has corrected this classification issue by processing a journal to correct the trial balance and correcting the associated disclosure in the 2018/19 financial statements.

Disclosure requirements not met

A sensitivity analysis for Level 3 investments is required to be disclosed in the accounts by paragraph 2.10.4.1 (3) (d) (e) & (h) of the Code. The Derbyshire Pension Fund has indicated that is not able to provide this disclosure involving fair value information for 2018/19 within the time available, but will provide such a disclosure for 2019/20 and future years.

Disclosure amendments

The following disclosure amendments were made:

Note 1, Basis of preparation: This note has been updated to provide a fuller description on the recognition and measurement of transactions.

Note 2, Accounting Policies – Investment Income: This policy has been updated to indicate that the pension fund accounts have been prepared on a going concern basis.

General: A number of other detailed disclosure changes have been made to the financial statements and notes not requiring individual analysis.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

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

The Council's management representation letter should be provided to us on client headed note paper.

23 July 2019

Dear Lucy

Derbyshire Pension Fund - audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the financial statements of the Derbyshire Pension Fund ('the Pension Fund') for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (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 ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Pension Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance & ICT 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 that have a material affect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Pension Fund 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 these policies to faithfully represent the effects of transactions, other events or conditions on the Pension Fund's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

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

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

(CONTINUED)

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 the Code and applicable law.

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

Fraud and error

I acknowledge my responsibility as Director of Finance & ICT 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 financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Pension Fund 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 Pension Fund's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Pension Fund's related parties and all related party relationships and transactions of which I am aware.

Future commitments

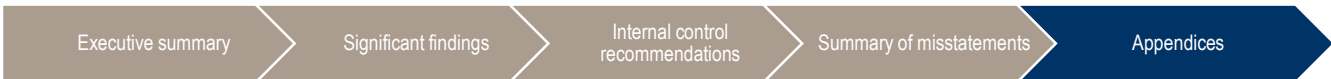
I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Specific representation on unquoted investments

Unquoted investments are included in the net assets statement at the value estimated by the general partner managing each fund in accordance with the guidelines used by the industry, and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, with the valuations, and am not aware of any subsequent events that would have a material impact on the estimated value of the unquoted investments.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements as included in the auditor's Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.



APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

(CONTINUED)

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code requires 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.

Going concern

To the best of my knowledge there is nothing to indicate that the Pension Fund will not 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.

Yours sincerely

Director of Finance & ICT
23 July 2019

APPENDIX B

DRAFT AUDITOR'S REPORT

Independent auditor's report to Members of Derbyshire County Council

Opinion on the Pension Fund financial statements

We have audited the financial statements of Derbyshire Pension Fund for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes, including the 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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinions

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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance & ICT's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance & ICT has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance & 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.

APPENDIX B

DRAFT AUDITOR’S REPORT (CONTINUED)

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

As explained more fully in the Statement of the Director of Finance & ICT’s Responsibilities, the Director of Finance & ICT 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 2018/19, and for being satisfied that they give a true and fair view. The Director of Finance & ICT is also responsible for such internal control as the Director of Finance & 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 & ICT is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Director of Finance & 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.

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.

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.

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 and as administering authority for the Derbyshire Pension Fund, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 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.

Lucy Nutley
For and on behalf of Mazars LLP

Park View House
58 The Ropewalk
Nottingham
NG1 5DW

26 July 2019



APPENDIX C

DRAFT CONSISTENCY REPORT

Independent Auditor's Statement to the Members of Derbyshire County Council on the Pension Fund Financial Statements included within Derbyshire Pension Fund Annual Report

We have examined the Pension Fund financial statements for the year ended 31 March 2019 included within the Derbyshire Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the related notes.

Opinion
In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of Derbyshire County Council for the year ended 31 March 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Respective responsibilities of the Director of Finance & ICT and the auditor
As explained more fully in the Statement of the Director of Finance & ICT's Responsibilities, the Director of Finance & ICT is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of Derbyshire County Council as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of Derbyshire County Council.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of Derbyshire County Council describes the basis of our opinions on the financial statements.

Use of this auditor's statement
This report is made solely to the members of Derbyshire County Council, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of Derbyshire County Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Derbyshire County Council and Derbyshire County Council's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Lucy Nutley
For and on behalf of Mazars LLP

Park View House,
58 The Ropewalk
Nottingham
NG1 5DW

Date to be confirmed

APPENDIX D

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.

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Annual Audit Letter

Derbyshire County Council

Year ended 31 March 2019





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1. Executive summary
2. Audit of the financial statements
3. Value for Money conclusion
4. Other reporting responsibilities
5. Our fees
6. Forward look

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers 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.

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Derbyshire County Council for the year ended 31 March 2019. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Council's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none">• the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 23 August 2019 we reported to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p> <p>We received a question from a local elector that we agreed to treat as a formal objection. Our consideration of the matters raised by the elector took place in August 2018, with a planned conclusion date of 28 September. We are unable to issue the Audit Certificate until at least that date.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified
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The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Council on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure at a Surplus/Deficit on Provision of Services level	£31.169m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.935m
Specific materiality	We applied a lower level of materiality to the following areas of the accounts: <ul style="list-style-type: none">• Officers' Remuneration• Termination Payments• Members' Allowances• Audit Fee	£5,000 per individual officer £374,000 £215,000 £23,000



2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Our response to significant risks

As part of our continuous planning procedures, we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee in our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	We addressed this risk by performing audit work in the following areas: <ul style="list-style-type: none"> documenting our understanding of the processes and controls in place to mitigate the risks identified; testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; evaluating the business rationale for any significant transactions outside the course of the business; understanding the oversight given by those charged with governance of management process over fraud; making enquiries of management and Internal Audit regarding actual or any suspicions of fraud; and considering whether the Council's accounting policies are consistent with industry standards. 	There were no matters arising from our work on management override of controls.
Expenditure recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council (FRC), which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular the completeness and valuation of manually accrued payables. Due to the nature and/or value of expenditure on employee expenses, interest payments, depreciation, impairments and loss on disposal of assets; we do not believe the risk lies in those balances; but the risk is relevant to premises, transport, and supplies & services.	We addressed this risk by: <ul style="list-style-type: none"> ensuring the accounting policies in relation to expenditure recognition and recognition of accruals were appropriate and consistently applied; testing year end creditors to confirm that they had been correctly valued and categorized and were correctly treated as a creditor of the authority; and carrying out cut-off testing, and testing for unrecorded liabilities, to confirm expenditure had been coded to the correct accounting year. 	Our work has not identified any material errors in the financial statements.

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Identified significant risk	Our response	Our findings and conclusions
<p>Revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. Having considered the factors for revenue recognition, we believe the risk is focused on the year-end balance sheet and in particular the existence and accuracy of receivables, specifically those that are material, subject to manual intervention and/or significant estimation. Due to the nature and/or value of income from interest and investment income, council tax, business rates and government grants we do not believe the risk lies in those balances, but the risk is relevant to fees, charges and other service income.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none">• ensuring the accounting policies in relation to revenue recognition and recognition of accruals are appropriate and consistently applied;• testing year end debtors to confirm that they have been correctly valued and categorized and are correctly treated as a debtor of the authority; and• carrying out cut-off testing to confirm income has been coded to the correct accounting year.	<p>Our work has not identified any material errors in the financial statements.</p>
<p>Valuation of property, plant and equipment</p> <p>The Council's accounts contain material balances relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to the high degree of estimation uncertainty associated with those held at valuation, we determined there was a significant audit risk in this area.</p>	<p>We addressed this risk through:</p> <ul style="list-style-type: none">• reconciling valuations from the valuer's report to those recorded in the Fixed Asset Register;• testing a sample of assets valued during the year to valuation reports;• where material, testing the basis for impairment of assets, the value and correct accounting treatment;• critically assessing the Council's valuer's scope of work and methodology used; and• considering the impact of any assets not valued during the year.	<p>The procedures we have undertaken have not identified any material errors or uncertainties in the financial statements.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Identified significant risk	Our response	Our findings and conclusions
<p>Defined benefit liability valuation</p> <p>The Council's accounts contain material liabilities relating to the local government pension scheme. 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 determined there was a significant risk in this area.</p>	<p>We addressed this risk through:</p> <ul style="list-style-type: none">• reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by the consulting actuary engaged by the National Audit Office;• 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;• critically assessing the competency, objectivity and independence of the Derbyshire Pension Fund's Actuary, Hymans Robertson;• liaising with the auditors of the Derbyshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. 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; and• performing a walkthrough of payroll transactions at the Council to understand how pension contributions which are deducted and paid to the Pension Fund by the Council.	<p>Our work provided the assurance sought and we were satisfied the local government pensions liability was not materially misstated.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Description of deficiency	Controls in place in regard to the valuation process - Our 2018/19 testing of land and buildings valuations identified a number of issues, but did not identify any material errors. These issues included a misclassification of agricultural land as residential land, the omission of a school building and an inconsistent approach to the valuation of homes for older people. We do however acknowledge that management has taken steps to correct and address these matters together with the deficiencies identified in 2017/18 and has introduced a valuation manual to improve the accuracy and consistency of the valuation work undertaken.
Potential effects	Valuable assets are held by the Council. Inaccurate valuation or indexation can therefore result in large errors. This increases the risk of the Property, Plant and Equipment figure being materially misstated on the Council's Balance Sheet. For 2018/19 we did however obtain sufficient evidence to conclude the Property, Plant and Equipment figure for 2018/19 was materially correct.
Recommendation	The Council has taken steps to address the deficiencies identified in relation to the valuation of land and buildings, however it should now embed the processes set out in its valuation manual to ensure that valuation work is appropriately completed and checked on a timely basis to enable accurate entries to be made in the pre-audit statement of accounts.
Management response	Agreed. The valuation manual is a living document utilised by the asset valuation team to ensure effective valuation delivery. The team will focus on fully embedding the processes set out in the manual.

Description of deficiency	Controls in place in regard to contracts of employment - During our payroll testing it became apparent that management could not locate the contracts of employment for 2 members of staff.
Potential effects	Contracts of employment are important documents that may be required to clarify terms and conditions of employment or to provide supporting information in relation to grievances or disputes. Not having access to such information could be prejudicial to the Council.
Recommendation	The Council should ensure that contracts of employment are held and are accessible in relation to all members of staff.
Management response	Management accept the recommendation and acknowledges the importance of contractual documentation. The two cases identified related to employees who work and are employed by Schools and therefore the Shared Services Centre do not hold the full employee file for the employee as this is the responsibility of the School to retain. Procedures for logging and sending paper documentation for employees within Schools who purchase the traded services package offsite will be reviewed in line with the HR retention schedule to ensure that an accurate record is maintained within the Shared Services Centre for all future documentation generated.

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations (continued)

Description of deficiency	Controls in place in regard to the completeness of related party declarations - During our testing of related parties it was found that three councillors had not declared their membership of another public sector body.
Potential effects	Whilst there were no inherent conflicts of interest involved and it is acknowledged that this may simply have been an oversight, good practice encourages full disclosures to ensure transparency.
Recommendation	The Council should ensure that full disclosures are made and should emphasise the importance of full disclosures during the training sessions associated with the implementation of the Council's new constitution.
Management response	Agreed. The Council's new constitution came into effect on 15 May 2019 and the importance of full disclosures will form part of the training sessions associated with the new constitution.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion	Unqualified
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Our 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 in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people'. To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and other third parties.

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Completion Report, we reported that we had not identified any significant risks to our VFM conclusion. We did though identify one specific matter which we needed to keep to under close review: The work we completed in relation to this matter is outlined below, which supported our auditor's report, issued to the Council on 31 July 2019, that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019.

Significant Value for Money risk

Risk	Work undertaken	Conclusion
Financial sustainability – The Council continues to face financial pressure in the coming years and the Council keeps updating its medium term financial plan (MTFP) to meet these pressures. We needed to ensure our knowledge of the Council's MTFP arrangements and its monitoring of the planned delivery of savings, remained up to date in order to ensure we gave the correct VFM conclusion.	We have assessed whether any matters have come to our attention through the course of our audit that lead us to conclude that a risk to our 2018/19 VFM conclusion does indeed exist. We addressed this requirement by reviewing the Council's arrangements for developing and delivering its MTFP and for working in partnership.	We obtained sufficient assurance to conclude that the Council continues to have appropriate arrangements in place.



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Consistent
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power 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 statutory reporting powers.

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. We received one such objection or question and have undertaken work to ensure that the matters involved do not have a material impact in relation to our opinion on the financial statements or VFM conclusion.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 23 August 2019.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in March 2019.

We have completed our work for the 2018/19 financial year, but at the time of producing this report, we have not yet finalised our audit fees for the year. We carried out additional audit work to address the risk of material misstatement on the Council's pension liability, arising from the actuarial impact of GMP and McCloud, resulting in an additional fee of £750. In addition, we have proposed an additional fee of £3,500 for the work undertaken in relation to an objection we received from a local elector. These fee variations require the approval of Public Sector Audit Appointments Limited, before finalising the audit fee.

Area of work	2018/19 proposed fee	2018/19 final fee ***
Delivery of audit work under the NAO Code of Audit Practice	£96,524 plus VAT	£100,774 plus VAT

*** Please note that at the time of producing this report, the audit fee has not yet been finalised.

Fees for non-PSAA work

At the present time we have not been separately engaged by the Council to carry out additional work outside of the fees in relation to our appointment by PSAA. Before agreeing to any non-PSAA work we will confirm there were no actual, potential or perceived threats to our independence.

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office’s consultation on the content of the Code (<https://www.nao.org.uk/code-audit-practice/about-code/>).

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Resilience

Fair Funding Review

The Council will need to incorporate the outcome of the Spending Review, due in the latter half of 2019, to its Medium Term Financial Plan. The Spending Review will set out the department allocations for 2020/21 and potentially beyond. Regardless of the timing and period covered by the Spending Review, the Council recognises the key issue is the management of general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. It must, therefore, ensure it clarifies and quantifies how it will bridge the funding gap through planned expenditure reductions and/ or income generation schemes.

Local Authority Financial Resilience Index

CIPFA is moving forward with its financial resilience index, which it believes will be a barometer on which local authorities will be judged. We would expect the Council to have at least considered the index once it is formally released.

Commercialisation

The National Audit Office will be publishing a report on Commercialisation during 2019. Depending on the Council’s appetite for Commercialisation, we would expect the Council to consider the outcome of the report and ensure any lessons learnt are incorporated into business practice.

Further, the UK Debt Management Office’s Annual Report, published on 23 July 2019, reported that, as at 31 March 2019, the Public Works Loan Board’s loan book was £78.3 billion with 1,308 new loans totalling £9.1 billion advanced during the year. As a result, we expect local authorities to clearly demonstrate:

- the value for money in the use of Public Works Loan Board funds to acquire commercial property; and
- the arrangements for loan repayment through the updated Statutory Guidance on Minimum Revenue Provision in 2019/20, 2020/21 and beyond.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Lease accounting

The implementation of IFRS 16 Leases in the Code is delayed until 1 April 2020. The Council will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.



6. FORWARD LOOK (CONTINUED)

Next year’s audit and how we will work with the Council

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to support the Council by:

- continued liaison with the Council’s Internal Auditors to minimise duplication of work;
- attending Audit Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet with the Council to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

The Council has taken a positive and constructive approach to our audit and we wish to thank Members and officers for their support and co-operation during our audit.



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Annual Audit Letter

Derbyshire Pension Fund

Year ended 31 March 2019





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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Pension Fund 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.

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Derbyshire Pension Fund for the year ended 31 March 2019. Although this letter is addressed to the members of Derbyshire County Council, as a body and as administering authority for the Derbyshire Pension Fund, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none">• the other information in the Statement of Accounts is consistent with the audited financial statements.
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Pension Fund.</p>
Consistency Report	<p>We have yet to issue our consistency report setting out that in our opinion the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of the Council. We will issue our audit certificate once this work is completed.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified
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The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Pension Fund and whether they give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Pension Fund's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

We set overall materiality at the planning stage of the audit at £46m using a benchmark of 1% of net assets available to pay benefits. Our final assessment of overall materiality, based on the final financial statements is £49m using the same benchmark.

We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee) at £1.4m based on 3% of overall materiality.

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Pension Fund's financial statements. We have therefore set our performance materiality at 65% of our overall materiality being £32m.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 1% of net assets available to pay benefits	£49m
Performance materiality	Our performance materiality is based on 65% of our financial statement materiality	£32m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£1.4m



2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Our response to significant risks

As part of our continuous planning procedures, we considered whether there were risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee in our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls</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>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none">• accounting estimates impacting on 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>There were no matters arising from our work on potential areas of management override of controls.</p>
<p>Valuation of unquoted investments for which a market price is not readily available</p> <p>As at 31 March 2018 the fair value of investments which were not quoted on an active market was £634m (£844m as at 31 March 2019), which accounted for 14% (17% as at 31 March 2019) of the Fund's net investment assets. Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.</p> <p>As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore considered that there was an increased risk of material misstatement.</p>	<p>In addition to our standard programme of work in this area we have:</p> <ul style="list-style-type: none">• agreed the valuations to supporting documentation including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuations;• agreed the investment manager valuations to audited accounts. Where these were not available, we agreed the investment manager valuation to other independent supporting documentation;• where audited accounts were available, we checked that they were supported by a clear opinion; and• where available, we reviewed any independent control assurance reports and confirmed that they do not highlight any risks of material misstatement.	<p>Our work has provided the assurance we sought and has not highlighted any material errors or uncertainties in the financial statements.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendation

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiency in internal control as part of our audit.

Description of deficiency	Controls in place in regard to pensions payroll to general ledger reconciliations The SAP payroll and general ledger provide an integrated system. However achieving a reconciliation between the payroll and ledger entries took more management and audit time than anticipated this year and emphasised the value of having regular reconciliations in place between the information in the pensions payroll reports and the SAP general ledger to avoid such problems for the future.
Potential effects	Whilst the absence of this reconciliation does not indicate that an error has occurred this reconciliation is an important check that the general ledger information populated from pensions payroll is complete and accurate.
Recommendation	Whilst acknowledging that management has taken steps to address this issue for 2018/19 we recommend that pensions payroll to general ledger reconciliations are undertaken, reviewed and authorised on an ongoing basis.
Management response	Agreed. The Pension Fund will review, develop and implement a reconciliation process during 2019/20.

We also followed up on the internal control recommendations raised by KPMG in relation to 2017/18 and re-raised any outstanding actions required.

3. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Consistency Report - the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of the Council	We have yet to issue our consistency report. We will issue our audit certificate once this work is completed.
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Pension Fund's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power 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 statutory reporting powers.

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. We have not received any questions or objections that relate to the financial statements of the Derbyshire Pension Fund.

Consistency Report

We are required to provide a Consistency Report setting out whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of Derbyshire County Council. We will issue our Consistency Report once this work has been completed including our opinion that the Pension Fund financial statements are consistent with the audited financial statements of Derbyshire County Council for the year ended 31 March 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. We will issue our audit certificate once this work is completed.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Pension Fund. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



4. OUR FEES

Fees for work as the Pension Fund's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in March 2019.

We have completed our work for the 2018/19 financial year, but at the time of producing this report, we have not yet finalised our audit fees for the year. If the final fee varies from that in the table below, we will write to the Director of Finance & ICT setting out the proposed variation and any reasons for the variation, and seeking agreement to it. Any variations to the final fee will also require the approval of Public Sector Audit Appointments Limited, which manages the contracts for our work.

Area of work	2018/19 proposed fee	2018/19 final fee ***
Delivery of audit work under the NAO Code of Audit Practice	£22,077 plus VAT	£22,077 plus VAT

*** Please note the final fee does not include the £16,800 detailed below which is the total chargeable by the Pension Fund to fourteen participating employers for assurances given to their auditors and that at the time of producing this report, the audit fee has not yet been finalised.

Fees for other work

In response to requests received we have reported the results of the performance of our work programme at Derbyshire Pension Fund to the auditors of fourteen participating employers. The fee for this IAS 19 assurance work is £1,200 per employer. We are satisfied this IAS 19 assurance work does not impact our independence or objectivity in relation to the audit of the Pension Fund.

In previous years we have not charged employers or their auditors for this work where the employer was within the PSAA regime and have charged employer auditors where the employer was outside of the PSAA regime. As the number of these requests is increasing year on year, from 2018/19 Mazars is charging all employers for IAS19 assurance work. The PSAA has clarified that fees for all such work, regardless of whether the employer is within the PSAA regime, will be an audit fee variation, which means that the fees for the IAS19 assurance work will be billed to the Pension Fund; the expectation is that the Fund will seek to recover the costs of this work from relevant employers.

At the present time we have not been separately engaged by the Pension Fund to carry out any other additional work outside of the fees in relation to our appointment by PSAA. Before agreeing to any other non-PSAA work we will confirm there were no actual, potential or perceived threats to our independence.

5. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office’s consultation on the content of the Code (<https://www.nao.org.uk/code-audit-practice/about-code/>).

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Next year’s audit and how we will work with the Pension Fund

We will focus our work on the risks that your challenges present to your financial statements.

In the coming year we will continue to support the Pension Fund by:

- continued liaison with Internal Audit to minimise duplication of work;
- attending Audit Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet with management to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

The Pension Fund has taken a positive and constructive approach to our audit and we wish to thank Members and officers for their support and co-operation during our audit.

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