



DRAFT Auditor's Annual Report
Derbyshire County Council – year ended 31 March 2024

February 2025

Contents

| | |
|-----------|---|
| 01 | Introduction |
| 02 | Audit of the financial statements |
| 03 | Commentary on VFM arrangements |
| 04 | Other reporting responsibilities |
| 05 | Audit of the Pension Fund |
| A | Appendix A: Further information on our audit of the Council's financial statements |
| B | Appendix B: Further information on our audit of the Pension Fund's financial statements |

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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01

Introduction

Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Derbyshire County Council ('the Council') for the year ended 31 March 2024. Although this report 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 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Opinion on the financial statements



We expect to issue an audit report which includes a disclaimer of opinion. This means our audit report will not express an opinion on the financial statements and no assurance will be provided. It is necessary to issue a disclaimer of opinion as amendments to the Account and Audit Regulations introduced a statutory deadline for publication of the Council's financial statements. We are unable to complete the audit procedures necessary to obtain sufficient appropriate audit evidence on which to base our opinion before the date the Council publishes its audited financial statements.

Value for Money arrangements



In our audit report we will report that we are not satisfied arrangements were in place for the Council to secure economy, efficiency and effectiveness in its use of resources, this is because we are issuing two recommendations in relation to significant weaknesses in those arrangements that are relevant to the 2023/24 financial year. Section 3 provides our commentary on the Council's arrangements and a summary of our recommendations, and the weaknesses identified.

Wider reporting responsibilities



At the date of reporting our work on the Council's Whole of Government Accounts return remains incomplete whilst we wait for final instructions from the National Audit Office.

02

Audit of the financial statements

Audit of the financial statements

Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. Amendments to the Accounts and Audit Regulations introduced a deadline for publication of local authorities' audited 2023-24 financial statements. Prior to issuing our audit report, the ISAs require us to determine whether we have obtained sufficient appropriate audit evidence based on the audit procedures completed at that date. As reported in our progress report on 28th January 2025, we have completed the majority of our audit work, however, we have identified a number of issues in relation to the Council's property valuations. The Council are required to revisit the valuations in order for us to be able to quantify the impact and conclude on our work in this area. We have therefore concluded that we had not obtained sufficient appropriate audit evidence to enable us to express an opinion on whether the financial statements present a true and fair view and have been prepared, in all material respects, in line with the Code of Practice on Local Authority Accounting. Consequently, as required by the ISAs, we intend to modify our audit report and issue a disclaimer of opinion. This means, in our audit report we will not express an opinion on the Council's financial statements.

03

Our work on Value for Money
arrangements

VFM arrangements

Overall Summary



VFM arrangements – Overall summary

Approach to Value for Money arrangements work

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



Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.



Governance - How the Council ensures that it makes informed decisions and properly manages its risks.



Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources, including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with officers

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risks that we have identified and the work we have done to address those risks on pages 12 and 17.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.




We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements** - we make these recommendations for improvement where we have identified a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations** - we make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant, but which still require action to be taken.

The table on the following page summarises the outcome of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements, or made other recommendations.

VFM arrangements – Overall summary

Overall summary by reporting criteria

| Reporting criteria | | Commentary page reference | Identified risks of significant weakness? | Actual significant weaknesses identified? | Other recommendations made? |
|--|--|---------------------------|---|---|-----------------------------|
|  | Financial sustainability | 13 | Yes – see page 12 | Yes – see recommendation 1 on page 25 | No |
|  | Governance | 18 | Yes – see page 17 | Yes – see recommendation 2 on page 26 | No |
|  | Improving economy, efficiency and effectiveness | 21 | No | No | No |

VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements in relation to Financial Sustainability

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

| | |
|--|-----|
| Significant weaknesses identified in 2022/23 | No |
| Significant weaknesses identified in 2023/24 | Yes |

| Risk of significant weakness in arrangements | Work undertaken and the results of our work |
|--|--|
| <p>1</p> <p>Financial Sustainability The Council has relied on reserves to support the financial position in 2023/24. The overall Council overspend of £21.655m was after substantial one-off support from the use of £37.108m of the Council's Earmarked reserves. The 2023/24 Budget approved by Council in February 2023 included the planned use of £23.707m from the Budget Management Earmarked Reserve for planned service pressures. An additional £13.401m of Earmarked Reserves was drawn down from departmental reserves to support the portfolio outturn positions.</p> <p>Public services have been struggling financially for some time, and understandably, many local authorities have been focusing on short-term measures to plug the finances, however the use of reserves is not sustainable, so we consider this to be a risk of significant weakness in the Council's arrangements for financial sustainability</p> | <p>Work undertaken</p> <p>We have:</p> <ul style="list-style-type: none"> • Obtained and reviewed the 2023/24 budget monitoring reports; • Obtained and reviewed the 2023/24 outturn report; • Obtained and reviewed the monitoring and delivery of 2023/24 savings targets; • Obtained and reviewed the 2023/24 Council plan; • Obtained and reviewed the 2023/24 performance monitoring reports; • Obtained and reviewed the 2024/25 budget including savings targets • Discussed the arrangements in place for financial sustainability with management and the finance team. <p>Conclusions</p> <p>We have identified a significant weakness in the Council's arrangements. This relates to the arrangements the Council has in place to:</p> <ul style="list-style-type: none"> • bridge its funding gaps and identify achievable savings; and • plan finances to support the sustainable delivery of services in accordance with strategic and statutory priorities <p>See page 25 for details of the significant weakness identified and the recommendations made.</p> |

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Overall responsibilities for financial governance

We have reviewed the Council's overall governance framework, including Council and committee reports, the Annual Governance Statement, and Statement of Accounts for 2023/24. These confirm the Council undertook its responsibility to define the strategic aims and objectives, approve budgets and monitor financial performance against budgets and plan to best meet the needs of the Council's service users.

MTFS and budget setting

The Council's budget setting and medium-term financial planning follows a similar process and format to previous years and our review is supported by discussions with officers during the year and experience from prior year audits.

We have read committee reports covering budget setting for 2023/24 and 2024/25, including the Medium-Term Financial Strategy (MTFS). The production of the Council's budget is undertaken in accordance with the requirements of the Council's Constitution, which requires Cabinet publicises a timetable for making proposals to full Council in relation to the annual Revenue Budget, along with arrangements for consultation with stakeholders, which should be for a period of not less than six weeks. Key assumptions underpinning the MTFS are not unreasonable.

We have reviewed the setting of the budget, and the setting of the operational plan. The 2023/24 budget was presented to Cabinet on 2nd February 2023. The Council Plan and Service Plan Refresh 2023/24 went to Cabinet on 16th March 2023. Service Plans set out how each department will contribute to the outcomes and priorities set out in the Council Plan and deliver their own operational priorities. The Council Plan and Service Plans are refreshed annually with a light touch refresh of Plans taking place to ensure they remain up to date and fit for purpose for the period 2023-25.

The Council Plan and financial budget are not set together. The service plans are finalised after the budget has been approved. This results in savings plans not being achievable as they haven't been set in conjunction with the planned service delivery for the year, which hadn't yet been finalised. We believe the lack of connection between the two plans is evidence of a significant weakness in the Council's arrangements to plan finances to support the sustainable delivery of services in accordance with strategic and statutory priorities.

2023/24 Statement of Financial Position

We have reviewed the 2023/24 financial statements. The Council adequately summarises the financial position of the Council, including performance against its budget through the narrative report.

We considered the financial outturn as presented to Cabinet in July 2024. The overall Council overspend was £21.655m for 2023/24, which was after substantial one-off support from the use of £37.108m Earmarked reserves. The 2023/24 Budget approved by Council in February 2023 included the planned use of £23.707m from the Budget Management Earmarked Reserve for planned service pressures. An additional £13.401m of Earmarked Reserves was drawn down from departmental reserves to support portfolio outturn positions.

The overspend in 2023/24 follows the outturn position for 2022/23, which resulted in the Council utilising £55m of its reserves in order to manage its budget to meet inflationary, demand and pay award cost pressures. The 2024/25 budget also includes the planned use of £21m of reserves.

We carried out a high-level analysis of the financial statements subject to our audit, including the Movement in Reserves Statement. The Council's General Reserve was £40.209m at 31 March 2024. This is after the Council's 2023/24 overspend of £21.655m and is also after the agreed release of £31.803m from Earmarked Reserve balances to the General Reserve, which was reported to Cabinet on 1 February 2024. The budget report for 2024/25 approved by Council in February 2024 commented the general reserve balance cannot fall below £25m. This transfer has allowed the Council to ensure their general fund balance remains above this minimum level, however at Q2 of 2024/25 the Council's forecast overspend would reduce this to a balance of £7.301m, which is just 1% of the Council's net expenditure.

Earmarked Reserves totalled £205m as at 31st March 2024. This included £4.6m "Budget Management Reserve" (was £12.3m at 31st March 2023). The Council's Budget Management Earmarked Reserve and the Council's other earmarked reserves available for budget management are forecast to be depleted in 2024/25, mainly in funding the one-off pressures in the 2023/24 Revenue Budget. Measures will need to be considered to replenish these budget management reserves.

If the actual revenue expenditure as at 31 March 2025 requires a further call on reserves then those Earmarked Reserves established for budget management will once again be used to protect the General Reserve. This is not sustainable and the Council must deliver on the transformation of services, demand management and other efficiencies, to ensure future financial sustainability.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria continued

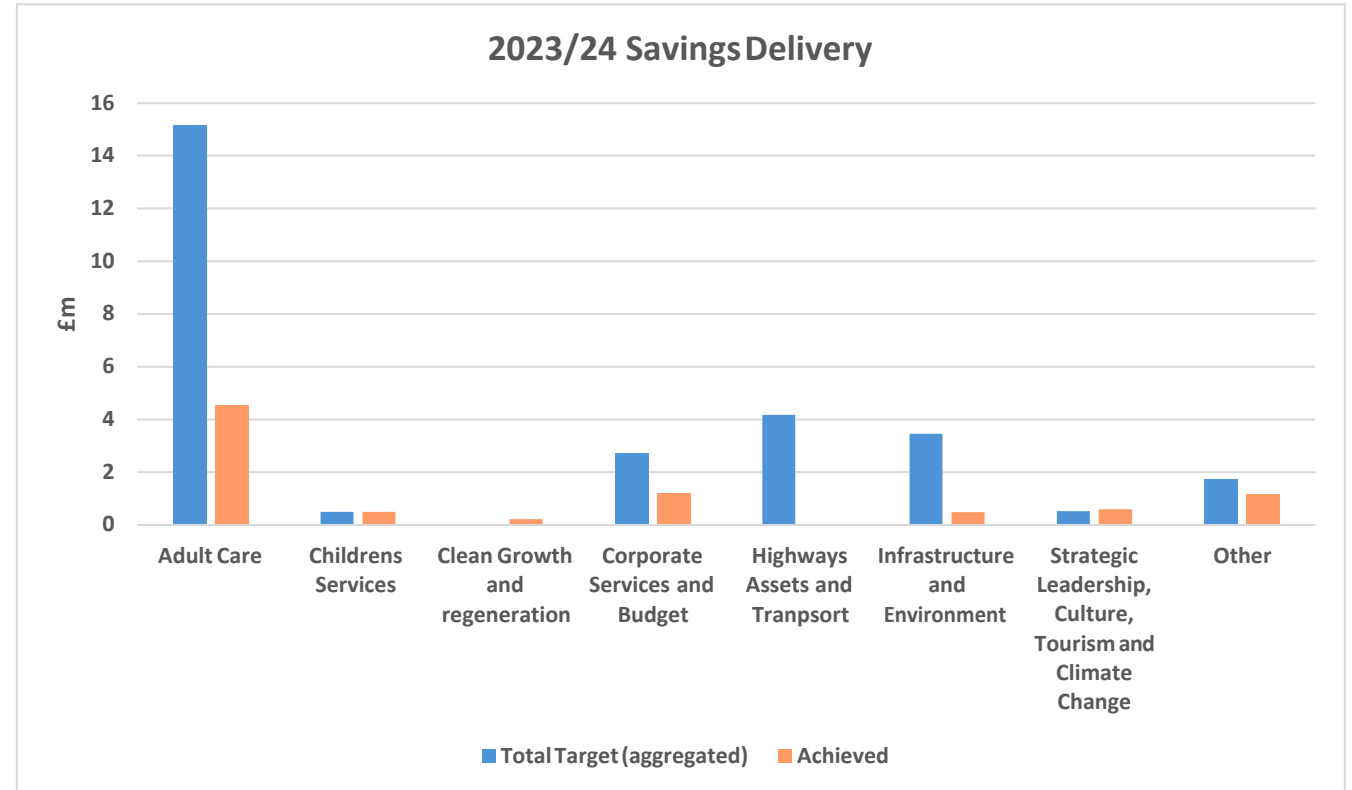
Savings plans

The Council has reviewed all of its savings initiatives and has developed a programme of savings proposals to address the estimated funding gap over the medium term. We reviewed the 2023/24 quarterly monitoring reports to establish if the Council delivered on its planned savings. From our review we found that there were significant shortfalls on planned savings. Within 2023/24, the target savings were £16.19m but only £5.796 were delivered. However, there were also £12.038m of undelivered savings brought forward from 22/23. Therefore, the aggregated target for the year was £28.228m, versus the delivered £8.723m. This is a shortfall of £19.505m. This compares to the total 2023/24 overspend of £21.665m.

Significant undelivered savings are a driver of the Council's overall overspend. This ultimately results in the Council relying on reserves to bridge the funding gap. We conclude that this is evidence of a significant weakness in the Council's arrangements for financial sustainability.

The 2024/25 MTFP included budget savings proposals totalling £66.6m between 2024/25 and 2028/29. In the immediate short term, the Council must deliver savings and efficiency measures of £40m in the 2024/25 year. We have seen an improvement in the delivery of savings plans in 2024/25. At Q1 the Council were forecasting 95% of the savings plan would be delivered by year-end.

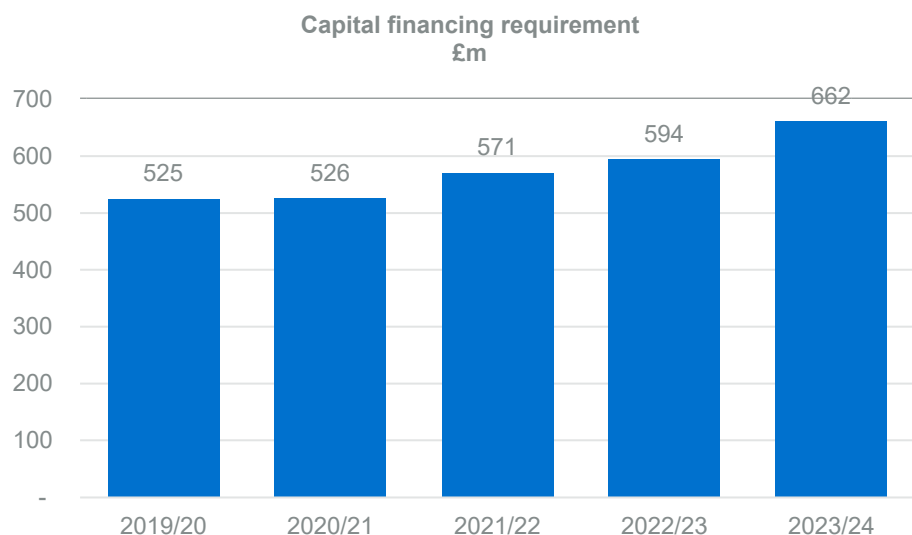
In our view the level of unachieved savings, and the significant planned and unplanned use of reserves to fund the resulting budget gap is evidence of a significant weakness in the Council's arrangements for financial sustainability, in relation to how the Council plans to bridge its funding gaps and identifies achievable savings.



VFM arrangements – Financial Sustainability

The Council's capital expenditure and financing

The Council's arrangements for setting and monitoring capital expenditure are consistent with the previous year, which we deem to be adequate. We considered the Council's capital financing requirement as set out in Note 15 of the financial statements, which has risen from £594m in 2022/23 to £662m in 2023/24, the increase representing the underlying need to borrow to finance capital expenditure.



In 2023/24, the Council spent £166m on capital additions, including £119m of REFCUS (Revenue Expenditure Funded from Capital Under Statute). Our testing of these balances did not identify any material issues.

As part of paying down the capital financing requirement, the Council charged £23m in 2023/24 to the general fund as a "Minimum Revenue Provision". The duty to make Minimum Revenue Provision (MRP) is an important component of the Prudential Framework to ensure capital expenditure and borrowing can be repaid. We reviewed the Council's Policy for 2023/24 and its supporting calculations as part of our work on the financial statements audit and have benchmarked the Council's charge against our database of other County Councils:

| Minimum Revenue Provision as a % of the Capital Financing Requirement | 2022/23 | 2023/24 |
|---|---------|---------|
| County Councils: average | 3.3 % | 3.0 % |
| County Councils: bottom quartile | 3.2 % | 2.7 % |
| Derbyshire County Council | 3.6 % | 3.5 % |

We are satisfied the Council's capital expenditure and capital financing does not give rise to a risk of significant weakness in arrangements, however, the importance and impact of the MRP is often poorly understood outside of finance teams and can lead to significant issues affecting the financial sustainability of a local authority. We are aware that, following a review by the Council's Treasury Management advisors, the Council is proposing to change the MRP policy from the 1 April 2024. The revised policy will result in a reduction in the MRP charge for 2024/25 and 2025/26. We have reviewed the proposed changes and are satisfied that policy appears reasonable and there are no indications of a weakness in the Council's arrangements for financial sustainability in respect of this.

Our work has identified a significant weakness in the Council's arrangements in relation to the Financial Sustainability reporting criteria for the year ending 31 March 2024. See page 25 for details of the weakness and our recommendation.

VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks



VFM arrangements – Governance

Risks of significant weaknesses in arrangements in relation to Governance

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

| | |
|--|-----|
| Significant weaknesses identified in 2022/23 | No |
| Significant weaknesses identified in 2023/24 | Yes |

| Risk of significant weakness in arrangements | Work undertaken and the results of our work |
|---|---|
| <p>Governance</p> <p>1 The Head of Internal Audit’s report for 2023/24 gave a limited opinion on the adequacy and effectiveness of the Council’s framework of governance, risk management, and control. This opinion is provided on the basis that significant weaknesses and/or non-compliance have been identified in key areas which expose the Council’s objectives to a high risk of failure and therefore the framework of governance, risk management and control requires improvement. A high proportion of audits in year gave limited assurance opinions (31%), and there was a lack of clear evidence that previous audit recommendations raised had been fully implemented. We believe this is evidence of a risk of significant weakness in the Council’s governance arrangements in 2023/24.</p> | <p>Work undertaken</p> <p>We have:</p> <ul style="list-style-type: none"> • Obtained and reviewed internal audit reports to understand the recommendations made • Obtained and reviewed minutes to evaluate the Council’s actions in response to recommendations, and assess how effectively these have been implemented • Discuss with the Head of Internal Audit to understand the reason for limited assurance opinion • Discuss with management to understand what changes have been implemented <p>Results of our work</p> <p>We have identified a significant weakness in the Council’s arrangements. This relates to the arrangements the Council has in place to gain assurance over the effective operation of internal controls.</p> <p>See details of the significant weakness identified and recommendation made on page 26</p> |

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

The Authority's governance structure

The Council has a code of corporate governance, which is consistent with the CIPFA/SOLACE Framework Delivering Good Governance in Local Government and demonstrates its commitment to corporate governance stating that “good corporate governance underpins credibility and confidence in our public services”. These are detailed in the Statement of Accounts and Annual Governance Statement. We have considered both documents against our understanding of the Council as part of our audit. Our review of Council and Committee papers confirms that a template covering report is used for all reports, ensuring the purpose, strategic context, governance issues, and recommendations are clear in support of informed decision making. Minutes are published and reviewed by Committees to evidence the matters discussed, challenge and decisions made.

Risk management

The Annual Governance Statement is a critical component of the Council's governance arrangements. It is an evidenced self-assessment by the Council on the Council's governance, assurance and internal control frameworks for the financial year. We reviewed the Annual Governance Statements as part of our work on the financial statements with no significant issues arising. From our review of the minutes, there is sufficient evidence of Member oversight of risk management, including holding Officers to account.

The Audit Committee is responsible for overseeing the effectiveness of the Council's risk management arrangements, challenging risk information and escalating issues to the Cabinet. Our minute review and attendance at meetings confirms regular reports are received and discussed.

We have reviewed the Strategic Risk Register and determined it is adequate for the Authority's purposes, given it links the risk to the corporate strategy, includes a risk owner and current and target risk scores, and progress.

Audit Committee

The Council has an established Audit Committee. We have reviewed supporting documents and confirmed the Audit Committee meets regularly. Our attendance at meetings has confirmed there is an appropriate level of effective challenge.

Internal Audit

We have reviewed Internal Audit's reports to the Audit Committee. We have read the Head of Internal Audit's report for 2023/24 and identified that this gave a limited opinion on the adequacy and effectiveness of the Council's framework of governance, risk management, and control. This opinion is provided on the basis that significant weaknesses and/or non-compliance have been identified in key areas which expose the Council's objectives to a high risk of failure and therefore the framework of governance, risk management and control requires improvement.

31% of all audits over the period had limited assurance. This was an increase in the proportion of limited assurance opinions compared to the prior year. We have reviewed the specific audit conclusions, and noted IT systems was an area of concern with 11/15 audits receiving limited assurance opinions (73%). The findings in the report show there are limited assurance opinions across each of the service areas, which provides evidence of a significant weakness in the Council's arrangements given critical and high recommendations have been made across the organisation, rather than being isolated to specific areas. We have also reviewed progress reports presented to Audit Committee during 2024/25 which include the outcomes of 23/24 audits finalised since the Annual Report was presented. We have noted there have been 5 further internal audit reports issued since the Annual Report was given, 4 of the 5 giving limited assurance.

We found that the internal audit progress reports presented to committee during the year detailed the progress against the 2023/24 audit plan, showing the outcome of any completed audits, and providing an analysis of the number of recommendations made and whether they were classified as Critical, High, Medium, or, Low. But they did not include any updates on previous recommendations. There was no tracking, showing if previous recommendations had been implemented, or how many remained outstanding.

We then reviewed the Internal Audit progress reports in 2024/25. We found that these included a section on “progress of implementation of recommendations”. Since July 2024 all departments have been provided with a monthly audit progress information pack, which includes a summary of the progress of audit work against the Audit Plan agreed by the Audit Committee. As part of this process, a detailed breakdown of the current level of outstanding recommendations by period, assigned officer and priority level can be visualised. Summaries have been included in the progress reports from December 2024 onwards. These summaries show, for each service area, the number of outstanding recommendations by time and risk. This gives the Audit Committee clear oversight of which recommendations are overdue, and we have seen from our attendance at Audit Committee that members are now able to challenge the Council's management on progress. However, as this was not implemented until 2024/25 it further evidences the lack of monitoring arrangements in place during 2023/24.

In recognising the need to improve based on the limited Internal Audit opinion for 2023/24, there were a number of changes implemented by the Council in 2024/25 including quarterly updates to the Corporate Management Team, monthly updates to each Department Management Team and twice-yearly meetings between Head of Internal Audit and the Council Leader. Furthermore, an updated Internal Audit Charter was approved in December 24 that reflects the expectations of the organisation.

We confirmed that the Head of Internal Audit Opinion has been adequately reflected in the Annual Governance Statement.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria continued

Financial reporting

As set out in the commentary on financial sustainability, our minute reviews confirm Cabinet receive regular reporting on financial performance and on progress against the corporate plan. Our review of the Quarterly performance reports demonstrate these are in sufficient detail to enable oversight and/or take corrective action if required and we have not identified any significant weaknesses in the Council's arrangements for governance. Furthermore, our work on the financial statements audit did not highlight any significant issues regarding the Council's arrangements for statutory financial reporting.

Conduct

We have reviewed the Derbyshire Democracy website and the Council website and confirmed policies are in place for:

- Anti-money laundering
- Anti-fraud and anti-corruption strategy
- Fraud response plan
- Whistleblowing policy

The Council has a code of conduct for employees and members, embedded in its constitution. The Council's website provides guidance on complaints about members and a Governance, Ethics and Standards Committee is in place with responsibility for promoting and maintaining high standards of conduct by members and assisting members of the Council to observe our code of conduct.

Our work has identified a significant weakness in the Council's arrangements in relation to the Governance reporting criteria for the year ending 31 March 2024. See page 26 for details of the weakness and our recommendation.

VFM arrangements

Improving Economy, Efficiency and Effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



VFM arrangements – Improving Economy, Efficiency and Effectiveness

| | |
|--|----|
| Significant weaknesses identified in 2022/23 | No |
| Significant weaknesses identified in 2023/24 | No |

Overall commentary on Improving Economy, Efficiency and Effectiveness

Corporate Plan and Performance Monitoring

The Council's corporate plan sets out what it wants to achieve for local residents and communities. The Council Plan is supported by the Financial Plan and an overarching Delivery Plan, and each department has a Service Plan which sets out how that department will deliver the headline initiatives and actions in the Council Plan. The Council's budget endeavours to ensure the provision of the appropriate resources required to deliver the Council's Plan, and the types of action necessary to enable them to be affordable, to allow balanced budgets to be delivered. However, we have noted that the Financial Plan is approved separately to the corporate plan and service plans. See Financial Sustainability commentary on page 13 and see page 25 for related recommendation.

Our review of committee reports confirms Cabinet receive periodic (Quarterly) reports on performance which summarises performance against target to analyse performance and take corrective action as required. The Performance and Budget Monitoring Report presents both Council Plan performance and financial budget monitoring and forecast outturn data. The Performance Summary sets out the progress the Council was making on delivering the Council Plan with a focus on the achievement of the Council Plan priorities. The Revenue Budget Position and Financial Summary provide an overview of the Council's overall budget position and forecast outturn. The reports also summarise progress on Council Plan deliverables and the controllable budget position by Cabinet Member Portfolio. Reports are also considered by Audit Committee in accordance with the Budget Monitoring Policy and Financial Regulations.

Overall, we believe this is sufficient evidence to demonstrate adequate arrangements for scrutiny and oversight of service and financial performance at the Council.

Regulators

Our review of minutes was supported by a review for any reports issued by Ofsted. We obtained the full Children's Services inspection report from November 2023, published in January 2024, where services were rated 'good' and read the focused inspection letters issued in November 2021 and September 2022.

We also reviewed the area SEND inspection of Derbyshire Local Area Partnership, published in November 2024, from the inspection in September 2024. This concluded that "There are widespread and/or systemic failings leading to significant concerns about the experiences and outcomes of children and young people with special educational needs and/or disabilities (SEND), which the local area partnership must address urgently."

As a result of this inspection, His Majesty's Chief Inspector requires the local area partnership to prepare and submit a priority action plan to address the identified areas for priority action. The Partnership is now working on a priority action plan to address areas highlighted by the inspectors for improvement.

Overall, we are satisfied these do not indicate there is a significant weakness in the Council's arrangements for assessing and improving performance in services.

Partnerships and Commissioning

Our work on the financial statements has not identified any significant concerns regarding commissioning or procurement.

There are currently 5 local strategic partnerships operating within Derbyshire. The Derbyshire Partnership Forum is the county-wide local strategic partnership which focuses on strategic issues facing the County, and aims to add value to local partnerships. In addition, there are 4 district based local strategic partnerships with each having an elected board.

D2N2 is the Local Enterprise Partnership (LEPs) and the local assurance framework sets out how D2N2 will continue the process of ensuring value for money, prioritisation, appraisal, business case development and risk management for its Growth Deal programme. It identifies the roles to be taken by D2N2 and its constituent Boards, by the Accountable Body (for D2N2, this is Derbyshire County Council) and by the promoters of projects. It also sets out the process to be followed in selecting priorities for further Growth Deals or other funding programmes if appropriate.

Joined Up Care Derbyshire, also known as Derbyshire's Integrated Care System (ICS), is a collaboration between health and care providers across the County and City, including NHS providers, Derby City Council and Derbyshire County Council.

The Council's cleaning, caretaking and property design services transferred to two new joint venture companies Vertas Derbyshire Limited (VDL), and Concertus Derbyshire Limited (CDL) on 1 September 2020. In addition, on 1 February 2022 Programme and Projects management staff TUPE'd to CDL.

The Council intends to refresh its partnerships database and partnerships protocols during 2024/25

VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness continued

The Council, along with its neighbouring authorities, Nottinghamshire County, Nottingham City and Derby City secured an East Midlands Devolution Deal which will provide a guaranteed funding stream of £38m per annum for 30 years. East Midlands Combined County Authority (EMCCA) was formed in March 2024, is led by an elected mayor, and will focus on transport, housing, skills and adult education, net zero, economic development, and visitor economy across both cities and counties.

None of the above are considered significant to our value for money commentary.

Sinfin Waste Treatment Plant

Derby City Council and Derbyshire County Council contracted with Resource Recovery Solutions Derbyshire (RRS) to manage the Sinfin Waste Plant. The waste treatment centre was due to open in Sinfin in 2017, but RRS has been unable to resolve ongoing issues that would allow the facility to pass the certified performance tests required to bring it into full service. In April 2019, the two Councils issued a formal notice to the project's funders to take action under the contract to progress the project. The agreement with RRS to manage the Sinfin Waste Plant was cancelled in August 2019 when the banks funding the project issued a legal notice. During 2021/22 and 2022/23 work continued to determine the condition and capability of the new waste treatment with the support of professional advisors.

In 2020/21, we reported that we had identified the following as being indicative of adequate arrangements being in place:

- Contracts in place to maintain associated service and maintenance of the facility.
- The appointment of legal and technical advisors and continued joint working with Derby City Council.
- Regular officer led meetings and work plans in place, including reporting to Members and Cabinet.
- Incorporation of Waste Treatment solutions in both the strategic risk register and therein subject to regular review and oversight through the risk management arrangements in place for the Council.
- Incorporate of Waste Treatment solutions into the departmental service plans and therefore the Council's performance management arrangements to support the achievement of the corporate plan.

These remain in place during 2023/24

In February 2023, both Councils had taken the decision to fix and operate the waste treatment centre but in May 2024 the Councils announced they were formally in dispute over plans for the Sinfin New Waste Treatment facility. In January 2024 Derbyshire County Council issued an invoice to the City Council for £93.9m + VAT to recover its share of the costs of the project. The City Council disputed the validity of the invoice and triggered a notice of dispute, which included the county's refusal to formally include regular reviews of project progress, against the business case to fix and operate the facility.

In August 2024, following a period of constructive dialogue, the Councils have successfully addressed the key issues that led to the dispute. Agreement on the terms of a new Inter Authority Agreement has been reached in full – which means both organisations can move forward in partnership with the confidence and certainty required to successfully complete the project. We have maintained ongoing dialogue with the Council regarding the treatment centre and have considered the accounting treatment of the cancelled invoice as part of the accounts audit. This resulted in an adjustment to the accounts as we concluded that the invoice did not meet the IFRS15 criteria for revenue recognition.

Our work has not identified any indication of a significant weakness in arrangements.

Our work has not identified a significant weakness in the Council's arrangements in relation to the economy, efficiency and effectiveness reporting criteria for the year ending 31 March 2024.

VFM arrangements


Identified significant weaknesses in arrangements and our recommendations



VFM arrangements - Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work we have identified significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below.

| Identified significant weakness in arrangements | Financial sustainability | Governance | Improving the 3Es | Recommendation for improvement | Our views on the actions taken to date |
|--|---|------------|-------------------|--|---|
| <p>Financial Sustainability</p> <p>The Council has relied on reserves to support its financial position in 2023/24. The overall Council overspend of £21.655m was after substantial one-off support from the use of £37.108m of the Council's earmarked reserves. This included the planned use of £23.707m from the Budget Management earmarked reserve and an additional £13.401m of earmarked reserves drawn down from departmental reserves to support the outturn position. The Council's aggregated target savings for 2023/24 were £28.228m, but only £8.723m was delivered, a shortfall of £19.505m. The 2024/25 budget also included the planned use of £21.206m of reserves. At Quarter 3, the Council reported that if the forecast overspend for 2024/25 cannot be reduced during the final quarter of the year, it will result in the Council utilising a further £44.130m of reserves. The 2025/26 budget includes the planned use of £2m of reserves.</p> <p>1 Without developing achievable financial plans, to reduce the unsustainable reliance on reserves, the Council faces the risk of not having sufficient resources to be able to deliver a balanced budget in future years.</p> <p>In our view the level of unachieved savings, and the significant planned and unplanned use of reserves to fund the resulting budget gap is evidence of a significant weakness in the Council's arrangements for financial sustainability (how the Council plans to bridge its funding gaps and identifies achievable savings).</p> <p>The 2023/24 budget was presented to Cabinet on 2nd February 2023 and approved at Full Council on 15th February 2023. The 2023/24 Council Plan and Service Plan Refresh went to Cabinet on 16th March 2023. The service plans were finalised after the budget had been approved. We believe the lack of connection between financial and operational plans is evidence of a significant weakness in the Council's arrangements for financial sustainability (how the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities).</p> |  | | | <p>The Council should develop sustainable, deliverable financial plans to ensure services can be provided within available resources. Specifically, the Council should:</p> <ul style="list-style-type: none"> • Consider its operational plans alongside setting the budget, to ensure that the financial impact of the Council's planned services are appropriately reflected within the budget • Develop savings plans that are achievable in conjunction with delivering the Council's operational plans, in order to reduce the reliance on reserves to fund the budget gap | <p>For 2024/25, the budget report, and Council Plan were presented to the same Cabinet meeting. The Council has changed the way it conducts strategic planning by implementing a new Integrated Strategic Planning approach. This has been designed to achieve a closer integration of service and financial planning and better connect the Council's ambition and outcomes to operational activity and resources.</p> <p>There has been an improvement in the delivery of savings in 24/25. At Q3 total savings forecast to be delivered exceed the target for the year. However, the Council are still forecasting a significant overspend, which could result in a further utilisation of reserves to bridge the gap.</p> |

VFM arrangements - Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement continued

| Identified significant weakness in arrangements | Financial sustainability | Governance | Improving the 3Es | Recommendation for improvement | Our views on the actions taken to date |
|---|--------------------------|------------|-------------------|--|--|
| <p>Governance</p> <p>The Head of Internal Audit's report for 2023/24 gave a limited opinion on the adequacy and effectiveness of the Council's framework of governance, risk management, and control. This conclusion was due to a high proportion of audits reported by Internal Audit in year that gave limited assurance opinions, and the lack of clear evidence that previous audit recommendations raised had been fully implemented. The report included limited assurance opinions within each of the Council's service areas, demonstrating control weaknesses exist across the organisation.</p> <p>2 Without addressing the weaknesses identified and implementing robust monitoring going forwards, the Council risks developing a weak control environment which ultimately increases the Council's susceptibility to fraud or error.</p> <p>In our view the Head of Internal Audit opinion, and the reasons underpinning it, is evidence of a significant weakness in the Council's governance arrangements (how the Council gains assurance over the effective operation of internal controls).</p> | | ● | | <p>The Council should:</p> <ul style="list-style-type: none"> • Appropriately respond to recommendations made by internal audit, and take actions as required to address those recommendations • Implement robust monitoring processes to track progress made against internal audit recommendations | <p>Since July 2024, all departments have been provided with a monthly audit progress information pack, which includes a summary of the progress of audit work against the Audit Plan agreed by the Audit Committee. As part of this process, a detailed breakdown of the current level of outstanding recommendations by period, assigned officer and priority level can be visualised. Summaries have been included in the Internal Audit progress reports from December 2024 onwards, giving the Audit Committee clear oversight of which recommendations are overdue. Whilst there has been progress in respect of the implementation of audit recommendations, there are still a significant number of open recommendations, and action needs to be taken by all divisions to ensure that the appropriate controls are put in place to mitigate against the risks that have been identified.</p> <p>The Council have also implemented further monitoring through quarterly updates to the Corporate Management Team, monthly updates to each Department Management Team and twice-yearly meetings between Head of Internal Audit and the Council Leader.</p> <p>Furthermore, an updated Internal Audit Charter was approved in December 24 that reflects the expectations of the organisation.</p> |

Other reporting responsibilities

Other reporting responsibilities

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors 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 the law; and
- issue an advisory notice.

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 accepted one objection from a local elector. Our work is ongoing, and we will update the Audit Committee once we finalise our conclusion on the matter.

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. As at the date of writing, instructions regarding sampled components and regard to the backstop have not yet been received.

Audit of Derbyshire Pension Fund

Audit of Derbyshire Pension Fund

Summary of key information

As the auditor for Derbyshire Pension Fund ('the Pension Fund'), our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). This section of the AAR summarises how we have discharged these responsibilities and the findings from our work we have undertaken as the Pension Fund auditor for the year ended 31 March 2024.



Opinion on the Pension Fund financial statements

We have not yet issued our audit opinion. We expect to issue an unqualified opinion on the financial statements.



Risks, misstatements and internal control recommendations

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix B. We did not identify any uncorrected misstatement or internal control recommendation.



Consistency report

We concluded 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 Derbyshire County Council.



Significant difficulties during the audit

During the course of the audit, we did not encounter any significant difficulties, and we have had the full co-operation of management. We would like to thank the Finance Manager, Senior Accountant (Investments), Pensions Officer (Technical Team) and their team for the support provided throughout the audit to aid in the timely completion of our audit procedures.



Wider responsibilities

We have not exercised any of these powers as part of our Derbyshire Pension Fund's 2023/24 audit.

Appendices

Appendix A: Further information on our audit of the Council's financial statements

Appendix B: Further information on our audit of the Pension Fund financial statements

Appendix A: Further information on our audit of the Council’s financial statements

Significant risks and audit findings

As part of our audit of the Council, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings

| Significant Risk | Our audit response | Findings |
|---|---|---|
| <p>Management override of Controls:</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override would occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p> | <p>We addressed the management override of controls risk through performing audit work over:</p> <ul style="list-style-type: none"> • Material accounting estimates; • Journal entries which meet our risk criteria; and • Significant transactions outside the normal course of business or otherwise unusual. | <p>Our work in this area is complete. We have not identified any issues to report.</p> |
| <p>Net defined benefit liability valuation</p> <p>The defined benefit liability relating to the Local Government pension scheme represents a significant balance on the Council’s balance sheet. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits.</p> <p>Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p> | <p>We addressed this risk by:</p> <ul style="list-style-type: none"> • critically assessing the competency, objectivity and independence of the Pension Fund’s Actuary; • liaising with the auditors of the Derbyshire Pension Fund to gain assurance over the design and implementation of the controls in place at the Pension Fund. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information by the consulting actuary engaged by the National Audit Office; and • agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council’s financial statements. | <p>Our work in this area is complete. We found that the Council had not applied the asset ceiling restriction to the net pension surplus, as required by IFRIC 14. This resulted in an adjustment of £305.259m.</p> |

Appendix A: Further information on our audit of the Council’s financial statements

Significant risks and audit findings continued

As part of our audit of the Council, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings

| Significant Risk | Our audit response | Findings |
|--|---|---|
| <p>Valuation of Land and Buildings</p> <p>Land and buildings assets are a significant balance on the Council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements. Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p> | <p>We addressed this risk by:</p> <ul style="list-style-type: none"> critically assessing the scope of work, qualifications, objectivity and independence of the Council's valuer to carry out the required programme of revaluations; considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA code of practice and the Council's accounting policies; testing a sample of valuations carried out in the year to confirm they have been carried out on the correct basis and that the underlying judgements are based on relevant inputs and are reasonable; assessing whether valuation movements are in line with market expectations by considering valuation trends; and critically assessing the approach that the Council adopts to ensure that assets that are not subject to revaluation in 2023/24 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers. | <p>We identified issues in this area including:</p> <ul style="list-style-type: none"> The valuation method applied to the Elvaston Castle valuation Depreciated Replacement Cost methodology, specifically that the calculations did not include a reduction for depreciation to reflect the remaining life of the building <p>As a result of the backstop, we have not had time to obtain sufficient audit evidence in this area. We are therefore unable to conclude on the impact of the above issues, and do not provide any assurance on these balances in the financial statements</p> |

Appendix B: Further information on our audit of the Pension Fund’s financial statements

Significant risks and audit findings

As part of our audit of the Pension Fund, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

| Significant Risk | Our audit response | Findings |
|--|--|---|
| <p>Management override of Controls:</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override would occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p> | <p>We addressed the management override of controls risk through performing audit work over:</p> <ul style="list-style-type: none"> • Material accounting estimates; • Journal entries which meet our risk criteria; and • Significant transactions outside the normal course of business or otherwise unusual. | <p>Our work has provided the required assurance and we have no matters to report.</p> |
| <p>Valuation of investments within level 3 of the fair value hierarchy</p> <p>At 31 March 2024, the Pension Fund held investments within level 3 of the fair value hierarchy of £3,590.8m (including directly held properties), which accounted for 55.5% of 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 valuing them at year end. As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances for 2023/24 due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.</p> | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> • obtaining an understanding of the skills, experience and qualifications of any external valuers used by the Pension Fund; • obtaining an understanding of the basis of valuation applied in the year, and reviewing the valuation methodologies; • agreeing a sample of valuations to supporting documentation including investment manager valuation statements and cash flow for any adjustments made to the investment manager valuation; • reviewing management’s reconciliation of fund manager reports to the custodian’s report; • agreeing a sample of valuations to audited accounts or other independent supporting documentation, and considering the impact of any modified audit reports on those audited accounts. | <p>Our work has provided the required assurance and we have no matters to report.</p> |

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Forvis Mazars LLP is the UK firm of Forvis Mazars Global, a leading global professional services network. Forvis Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at 30 Old Bailey, London, EC4M 7AU. Registered to carry on audit work in the UK 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: GB 839 8356 73

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