

MINUTES of a meeting of the **AUDIT COMMITTEE** held on 23 March 2021.

PRESENT

Councillor K S Athwal (in the Chair)

Councillors N Barker, S Brittain, L M Chilton, A Griffiths and P Murray

Officers in attendance – D Ashcroft, P Handford, C Hardman, J Lakin, J Morgan and P Spencer (representing Derbyshire County Council) and J Pressley and M Surridge (representing Mazars)

Declarations of Interest

There were no declarations of interest

8/21 **MINUTES RESOLVED** that the minutes of the meeting held on 2 February 2021 be confirmed as a correct record.

9/21 **PERFORMANCE AND BUDGET MONITORING/FORECAST OUTTURN ARRANGEMENTS** The Director of Finance & ICT provided Members with details of the latest arrangements for performance and budget monitoring/forecast outturn.

Details of the Council's budget monitoring protocols and developments have previously been reported to Audit Committee. To ensure that the arrangements remained robust, reporting requirements and timescales were set out in the Performance and Budget Monitoring Policy, a copy of which was attached at Appendix One to the report. The Policy was widely distributed to departmental Finance and Performance Managers.

The Accountancy and Budgetary Control audit undertaken by Audit Services last year concluded that Budget Monitoring arrangements were embedded and generally operating effectively. Following a review of the Policy in March 2021, the following changes had been made:

- The schedule of meeting dates between the departmental Finance Managers and the Director of Finance & ICT had been updated.
- The timetable for reporting the monitoring position to Cabinet and Cabinet Member portfolios had been updated.
- A requirement for reports to present performance information detailing progress against the Council Plan and key measures led by the portfolio had been inserted, reflecting changes made in 2020-21.

- A requirement for reports to present a summary of financial performance, where the Council received income in return for providing discretionary services.
- A note that the report format may be subject to any adaptations required to progress towards more integrated reporting, or to accommodate exceptional items of income and expenditure, such as those relating to the Covid-19 pandemic.

The Council's Corporate Peer Challenge, facilitated by the Local Government Association (LGA) in October 2018, reported a number of findings and suggested areas for improvement. Policy and Finance officers had been collaborating throughout 2020-21 to address the concerns raised by the Corporate Peer Challenge. The updated process reflected the already established practice for finance of reporting at portfolio level to Cabinet Members and then collating this along with corporate and cross-cutting information into an overall report to Cabinet.

The reports now included the additional content and features. They:

- are submitted quarterly;
- include financial and Council Plan performance information;
- make enhanced use of charts and graphics; and
- provide a summary of performance against the Council Plan and key measures relevant to the portfolio.

Additional changes that had also been identified were:

- Reporting of risks from the departmental and corporate risk registers.
- More detailed reporting of mitigating and corrective actions taken to address risks and poor financial and non-financial performance.
- Moving the detailed portfolio level financial content, included in the overall report to Cabinet, to an appendix. This would help this report to maintain a concise and strategic focus.

There were a number of services where the Council received income in return for providing discretionary services to external organisations and individuals. In order to improve transparency and to raise Member's awareness of the financial performance of these areas an additional summary will be provided within the reports.

It had been necessary during 2020-21 to adapt the pro-forma reporting format to appropriately capture and present the additional costs and funding associated with the Council's and the Government's response to the Covid-19 pandemic. Similar adjustments were expected to be required in 2021-22. Any necessary changes to the format will be agreed by the Director of Finance & ICT.

RESOLVED to note the details of current performance and budget monitoring arrangements.

10/21 **STATEMENT OF ACCOUNTS 2020-21** Members were provided with details of proposed changes to the Accounts and Audit Regulations 2015 in respect of revised deadlines for publishing the pre-audited and audited Statement of Accounts.

In anticipation of the potential disruption to relevant authorities caused by the spread of coronavirus, the regulations were amended in 2020 to extend the deadlines for relevant authorities to publish and make available for public inspection, their annual accounts and supporting documents in relation to the financial year ending 31 March 2020. These amendments extended the deadlines for publication of both the pre-audited and audited Statement of Accounts.

Following a consultation with authorities early in the 2021 calendar year, the Accounts and Audit Regulations 2021 were published in March 2021 to reflect recommendations made by Sir Tony Redmond in his review of the effectiveness of external audit and transparency of financial reporting. The amendments would come into force on 31 March 2021 and allow authorities to publish their draft accounts for inspection on or before the first working day of August, this being an extension to the 2015 Regulations where the deadline was 31 May. Furthermore, the deadline for publishing audited accounts has been extended to 30 September from 31 July each year. These extensions would apply for both the 2020-21 and 2021-22 financial years.

Within the amended regulations there will be a requirement for authorities to publish a note on their website giving their reasons should they fail to meet the 1 August deadline for the period of inspection.

Members will be aware of the complex nature in valuing the Council's land and buildings and the significant risk that is awarded to it by the Council's external auditors. In addressing the risk, Mazars will consider whether the revaluation methodologies used by the Council are in line with industry standards and complied with the CIPFA Code of Practice and the Council's accounting policies. Furthermore, they will critically assess the treatment of the upward and downward revaluation movements in the Council's Statement of Accounts.

Historically, the date used for valuation of the Council's property has been the 1 April, however, due to the material uncertainty in the market caused by the coronavirus pandemic, the valuations will now take place on the 31 March. In previous years, the information in respect of valuations had meant that the information had been provided to the finance teams by the middle of April, however, the transition to the 31 March valuation date meant that the valuers

cannot provide the required information to support accounts preparation until the middle of May 2021.

Therefore, the Council was committed to publishing the pre-audit Statement of Accounts by the revised statutory deadline of 1 August 2021, however, Members needed to be aware that any slippage in providing the information beyond the middle of May was likely to result in the Council submitting its pre-audited Statement of Accounts beyond the 1 August 2021 deadline.

Historically, the Council has an excellent track record of submitting its pre-audit Statement of Accounts on time, ahead of the statutory deadline and for a number of years was seen as an exemplar in its approach to preparing its accounts. Despite extensions being offered to the statutory deadlines last year to reflect the impact of the coronavirus, the Council had still submitted its pre-audited Statement of Accounts broadly in line with previous years' timetables. The processes which are in place within the finance function are robust and embedded which supports the delivery of the published accounts. In preparing the accounts, there was a reliance on key stakeholders to provide information to support the drafting of the Statement of Accounts. The receipt of valuations information was the most significant element. The current closedown timetable for publication of the Statement of Accounts was 30 June 2021. This would be one month ahead of the revised statutory deadline.

There was a reputational risk to the Council in submitting its accounts late in that it was likely to be named in any Government reports in respect of local authorities who fail to meet the statutory deadlines. The Director of Property was aware of the need to provide the valuations information by the middle of May and the subsequent impact in the event the deadline was not met. Assurance had been received that sufficient resource will be allocated to ensure delivery of the valuation's information by the middle of May 2021.

RESOLVED that the Committee note (1) the proposed revised reporting timeframes in respect of both the pre-audit and audited Statement of Accounts for the financial years ending 31 March 2021 and 31 March 2022 as set out in the Accounts and Audit Regulations 2021;

(2) the revised valuation date which will be used in preparing the 2020-21 Statement of Accounts; and

(3) the reputational risk to the Council in the event that it fails to submit its pre-audited Statement of Accounts within the prescribed statutory timeframes.

11/21 **EXTERNAL AUDIT – UPDATE ON 2019-20 INTERNAL CONTROL RECOMMENDATIONS** The external auditor had presented its

2019-20 Audit Completion Reports at the Audit Committee meeting on 24 November 2020. Six recommendations had been raised in respect of the Council Accounts relating to the following:

- Completeness of related party declarations.
- Private Finance Initiative (PFI) records.
- Property valuation.
- Developer access rights
- Response to IT incidents
- User access reviews

A detailed update on the actions being taken in response to the 2019-20 control recommendations was attached at Appendix One to the report. No recommendations had been raised in respect of the Derbyshire Pension Fund Accounts.

RESOLVED to note the actions being taken in response to the recommendations outlined in the external auditor's Audit Completion Reports for 2019-20.

12/21 **TAX STRATEGY** The Tax Strategy set out the overall framework for the Council's management of its tax affairs, including tax compliance, policies and procedures, tax risk, tax planning and relationship with the tax authorities.

It was prudent and responsible practice for the Council to put in place and to keep up to date a Tax Strategy and for the Council's Tax Strategy to be reviewed and reported to Audit Committee on an annual basis. The Council's Tax Strategy was approved by Audit Committee at its meeting on 27 May 2020. Following a review of the Tax Strategy in February 2021, the following changes had been made to the Background section:

- Update to the companies in which the Council was involved.
- Update to clarify that the D2N2 LEP cannot become VAT registered as it makes no taxable supplies.

The Tax Strategy was attached in the Appendix to the report.

RESOLVED to note that a review and update of the Tax Strategy had taken place.

13/21 **ACCOUNTING POLICIES** Members were provided with amendments to the Accounting Policies for 2020-21 and with the proposed Accounting Policies for 2021-22.

On 27 May 2020 (meeting rescheduled from 24 March 2020 because of the Covid-19 pandemic), Audit Committee approved the proposed Accounting

Policies for the 2020-21 financial year, including amendments for IFRS 16 Leases, which had a scheduled implementation date of 1 April 2020 at the time the Accounting Policies Report was circulated.

At its meeting on 27 March 2020, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Local Authority Accounting Code Board (CIPFA/LASAAC) had agreed to defer the implementation of IFRS 16 Leases to the 2021-22 financial year, with an effective date of 1 April 2021. This decision aligned with the proposals across the public sector but needed to be agreed by the Government's Financial Reporting Advisory Board (FRAB).

In December 2020, CIPFA LASAAC announced a further delay to the implementation of IFRS 16 Leases in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), until the 2022-23 financial year. This aligned with the decision at FRAB to establish a new effective date of 1 April 2022 for the implementation of IFRS 16. CIPFA LASAAC had taken this decision in response to pressures on council finance teams as a result of the Covid-19 pandemic.

The updated 2020-21 Accounting Policies therefore reflect the removal of the IFRS 16 Leases updates, which were previously approved by Members, and the reinstatement of the existing lease accounting standards and interpretations: IAS 17, IFRIC 4, SIC 12 and SIC 27. The updated 2020-21 Accounting Policies were unchanged to those in the approved 2019-20 Statement of Accounts. The 2020-21 Accounting Policies were attached at Appendix One to the report.

CIPFA LASAAC was encouraging finance teams to continue their preparations for implementation and to look to the adoption of this standard in the 2022-23 financial year. Preparations were underway to ensure that the Council was ready for the introduction of IFRS 16. There were significant implications for the accounting treatment of leases. All leases will be recognised in lessee accounts, with a lease liability and a corresponding right-of-use asset. In preparation for the previous expected implementation date, amendments had been made to the Council's Accounting Policies, replacing existing lease accounting standards and interpretations: IAS 17, IFRIC 4, SIC 12 and SIC 27. These amendments will be reviewed in readiness for update and inclusion in the Accounting Policies for 2022-23, which will be provided to Members for approval in March 2022. The transition to accounting for leases as required by IFRS 16 would entail a significant amount of work. Over 90 contracts which contained leases relating to land and buildings had been identified to date. There were also expected to be arrangements which will be identified where the Council is holding over on a lease after the term has expired. Furthermore, it was anticipated that a large number of contracts entered into by the Council's schools, which would be in the scope of IFRS 16, will be discovered. It was

estimated that the lease liabilities reported on the balance sheet would increase by between £5m and £9m, with an equivalent or greater increase to the value of the reported assets relating to these leases. The scale of this change means that the risk of the Statement of Accounts for 2022-23 being materially misstated as a result of an incorrect implementation was not insignificant.

The 2020-21 Accounting Policies had also been updated to reflect a change in Section 1.14, Non-Current Asset Valuation Methodology. Previously the 20% of non-current assets revalued under the five-year rolling programme of revaluations were revalued at 1 April for the financial year, with an impairment review at 31 March to consider whether any material degradation or other impairment had occurred during the financial year. The date of this revaluation had been amended to 31 March for the financial year and the requirement for an impairment review at 31 March has been removed, as it was no longer required.

Appendix Two to the report included the proposed 2021-22 Accounting Policies. No changes had been made to the 2020-21 Accounting Policies. Additional technical guidance was likely to be received and it was possible that this would also impact on the 2021-22 accounting policies. Any further proposed amendments would be reported to Audit Committee in due course.

RESOLVED to approve (1) the changes outlined in the report in relation to the Accounting Policies for 2020-21; and

(2) the Accounting Policies for 2021-22.

14/21 **PSAA UPDATE** Members were provided with an update from the Public Sector Audit Appointments (PSAA) Advisory Panel meeting on 1 February 2021, which covered an update and discussion on the Redmond Review, progress on issuing 2018-19 and 2019-20 audit opinions, audit fees and audit procurement.

An overview of the Redmond Review (Review), the recommendations arising from it and comments on the Council's position, where relevant, were set out in a report to the Audit Committee on 8 December 2020. The Council had commenced a dialogue with its external auditors to discuss the findings of the Review.

MHCLG had contacted several stakeholders, including PSAA, before issuing its response to the Review in December 2020. The MHCLG response to each of the Review's recommendations was included alongside those recommendations and comments on the Council's position, at Appendix One to the report. MHCLG's response referred to £15m funding to help deliver recommendations for 2020-21 and support for the three main strands of the recommendations:

- Action required to support immediate external audit market stability.
- Enhancing the functioning of local audit, and the governance of responding to its findings.
- Improving the transparency of local authorities' accounts for the public.

In many of their responses, MHCLG had indicated that they will work with other parties to deliver the recommendations, including the LGA, NAO, CIPFA and PSAA. However, several of the Review's recommendations were centered around the establishment of a new body called the Office of Local Audit and Regulation (OLAR), a point which MHCLG was currently not persuaded on. In summary, PSAA were contributing to MHCLG's deliberations and MHCLG's final response was awaited.

Members were informed of the progress in delivering 2019-20 public sector audit opinions, by audit firm. In summary, at the statutory deadline of 30 November 2020, there remained 264 opinions that had yet to be delivered, from a total of 479 audits (55%). A further 62 opinions, including the Council's, were signed off in December 2020. Of the audit opinions outstanding at 31 December 2020, the Council's auditor, Mazars, had proportionately the fewest (34%).

PSAA was soon to issue a paper on a new approach to national fee variations. The audit scale fees for 2021-22 must be set by 31 March 2021. Once these fees were set and the financial year had started, PSAA could not change them.

Arrangements for the next PSAA procurement had yet to be determined by MHCLG but the process would need to start very soon. The opt-in/opt-out model was expected to continue.

RESOLVED to note the PSAA update in respect of the Redmond Review, issuance of audit opinions, audit fees and audit procurement.

15/21 **STRATEGIC RISK REGISTER REVIEW** The Strategic Risk Register had undergone an initial full review of both risks and actions that the Council was undertaking to manage the key risks that may have a significant impact on the Council's ability to deliver its services and the Council Plan. The Strategic Risk Register was attached at Appendix A to the report and updates to the risk register were highlighted.

Provisional wordings had been included for risk reference 2020/01 relating to information governance and 2018/15 relating to changing legislation and regulation. Both risks would be updated for the next Audit review.

Several risks had been separated for clarity of actions and assessed risk associated with each: -

- Risk Ref: 2011/9 *Protection of Children and Vulnerable Adults*

Had been split into two risks separating children and adults

- Risk Ref: 2012/2 *Maintenance of Assets*

Had been split into two risks to differentiate between the assets managed by Property Division and ETE.

At present, all identified risks scored 15 and above, putting these into the extreme high-risk category. These risks therefore all required significant management action, control, evaluation or improvements with continued proactive monitoring. The target scores demonstrated that the Council wished to achieve a reduction from extreme to the moderate to high spectrums.

Following the review, risk reference 2011/11 relating to Adapting to Climate Change had increased scoring, with the remainder of the risks remaining static. Ideally, over time, the Council would start to see an increased number of risks decreasing their risk score as actions identified become embedded into practice. The corporate guide to assessing impact and likelihood was included within Appendix B to the report, to assist Audit Committee Members.

The 2019-21 Risk Strategy was currently under review to align to the proposed new Council Plan and will be circulated for comment by April 2021.

RESOLVED that the Committee (1) review the Strategic Risk Register to: a) note the key risks to the Council; b) note the target scores as a reflection of the aims of the Council; and c) note the mitigations identified to achieve the target score; and

(2) note the proposals for the revised Risk Strategy.

16/21 **INTERNAL AUDIT PLAN 2021-22** Members were asked to consider and approve the proposed Audit Services Plan for 2020-21.

Audit projects had been identified which would be developed specifically to address significant Corporate and Departmental risks and build on those areas where frauds/control weaknesses had previously been identified. Those projects which would not be completed during the current year have been considered for inclusion in the proposed Audit Services Plan for 2021-22 in accordance with the Internal Audit Strategy

Throughout 2020-21 the work of the Unit had been disrupted due to the impact of the Covid-19 pandemic and this would continue to affect Audit Services in 2021-22 and beyond. The main factors causing such disruption were reported to Members following the first lockdown and were once again, highlighted. These factors had been considered when formulating the proposed Audit Services Plan.

Whilst it was anticipated that during 2021-22 the Council will return to more normalised working arrangements and provision of services, Audit coverage of establishments including schools, residential establishments and care centres would be restricted. Another significant challenge for the Unit related to its available staffing resource. The Unit was committed to providing a full range of Audit services using only in-house staff, including the specialist areas of investigative and IT Audit work.

The proposed Audit Services Plan for 2021-22 was based on a staffing structure which provided for the deployment of 2,723 days. This level of resource was based on several assumptions regarding recruitment to posts, including the post of Assistant Director of Finance (Audit & Risk), and the potential impact of sickness on available days to deliver the Audit Services Plan. Recruiting staff of the required calibre with suitable knowledge, experience, qualifications and skills was one of the most significant risks facing the Unit in the short term.

In common with previous years the Audit Services Plan will be continually reviewed to ensure that it remained aligned with significant risks whilst remaining responsive to changes in risk, operations, systems and controls. This will be particularly important during 2021-22 due to the on-going challenges which the Unit will face owing to the impact of Covid-19 and the need to fill all established posts. Consequently it would be prudent to fully review and assess the Audit Services Plan around September 2021 and report the findings to the Audit Committee and the Corporate Management Team. Mazars LLP act as the Council's External Auditors and Audit Services will work with them in accordance with the agreed External and Internal Audit Protocol.

The Audit Services Plan was attached at Appendix 1 to the report and detailed the Audit Services' coverage for all Departments and the Corporate Authority, it also identified the perceived level of risk, the resource to be employed and the expected outcomes of Audit work.

RESOLVED that the Committee (1) note the comments regarding the proposals for monitoring and review of the Audit Services Plan for 2021-22; and

(2) approve the details of the Audit Services Plan for 2021-22 which was attached at Appendix 1 to the report.

17/21 **ANNUAL AUDIT LETTER** John Pressley and Mark SurrIDGE from Mazars attended the meeting to present their Annual Audit Letter which summarised the work they had undertaken for the year ended 31 March 2020.

The auditor's report issued on 16 December 2020 included Mazars' opinion that the financial statements provided a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and

income for the year. The financial statements had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting. The report included Mazars' opinion that the other information in the Statement of Accounts was consistent with the audited financial statements.

With regard to the Value for Money conclusion, the auditor's report stated that in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Mr Pressley and Mr Surridge wished to place on record their appreciation to the Director of Finance & ICT, the Finance Manager and the whole finance team for their co-operation and assistance.

On behalf of the Committee, the Chairman thanked Mr Pressley and Mr Surridge for their attendance and informative presentation.

18/21 **AUDIT STRATEGY MEMORANDUM** John Pressley from Mazars presented Members with the Audit Strategy Memorandum for the County Council for the year ending 31 March 2021. The purpose of the document was to summarise their audit approach, highlight significant audit risks and areas of key judgements.

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

- Management override of controls
- Net defined benefit liability valuation
- Property, plant and equipment valuation
- Expenditure recognition
- Revenue recognition
- Covid-19 grants recognition

Mr Pressley highlighted the enhanced risks as follows:

- Minimum revenue provision (MRP)
- Sinfon Waste Treatment Plant

The new Code of Audit Practice had changed the way in which Mazars report their findings in relation to Value for Money (VFM) arrangements from 2020-21. Whilst they were still required to be satisfied that the Council had proper arrangements in place, they would now report by exception in their auditor's report where they had identified significant weaknesses in those arrangements. Under the new Code, the key output of their work on VFM arrangements would

be a commentary on those arrangements which would form part of the Auditor's Annual Report.

The Audit Strategy Memorandum for the Pension Fund would be reported at the next meeting of the Committee.

On behalf of the Committee, the Chairman wished to thank External Audit, Internal Audit and Mr Handford and his Finance Team for the work they had undertaken.

RESOLVED to note the Audit Strategy Memorandum for Derbyshire County Council.

19/21 **CHAIRMAN'S ANNOUNCEMENTS** The Chairman announced that this would be the last meeting for Carl Hardman, Assistant Director of Finance (Audit) as he would be very shortly retiring. On behalf of the Committee, he wished to thank Mr Hardman for his support, assistance and service to the Authority and wished him a long and happy retirement. Members and officers were invited to say a few words and pass on their best wishes.

The Chairman also wished to thank members and officers of the Committee for all their contributions and hard work during his time in the Chair. The Chairman announced this was also the last meeting for Councillors Stuart Brittain, Linda Chilton and Pat Murray as they would not be seeking re-election. The Chairman wished them all the very best for the future.