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The Chair and Members of Standards  
and Audit Committee

5 September 2023

Dear Councillor,

Please attend a meeting of the STANDARDS AND AUDIT COMMITTEE to be held on WEDNESDAY, 13 SEPTEMBER 2023 at 2.00 pm in Committee Room 1, Town Hall, Rose Hill, Chesterfield, the agenda for which is set out below.

AGENDA

Part 1(Public Information)

1. Declarations of Members' and Officers' Interests relating to Items on the Agenda
2. Apologies for Absence
3. Minutes (Pages 3 - 10)
4. Review of the Internal Audit Charter (Pages 11 - 22)
5. Implementation of Internal Audit Recommendations (Pages 23 - 40)
6. Updates to Constitution (Pages 41 - 46)
7. Treasury Management Annual Report 2022-2023 (Pages 47 - 64)
8. External Audit Progress Report - September 2023 (Pages 65 - 112)

9. Local Government Act 1972 - Exclusion of Public

To move "That under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 1 of Part 1 of Schedule 12A of the Act".

Part 2 (Non Public Information)

10. Internal Audit Progress Update (Pages 113 - 154)

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Randy', written in a cursive style.

Head of Regulatory Law and Monitoring Officer

**STANDARDS AND AUDIT COMMITTEE****Wednesday, 12th July, 2023**

Present:-

Councillor Caulfield (Chair)

Councillors Jacobs  
Brock  
StatonCouncillors Blakemore  
Thornton  
Nicholls

\*Matters dealt with under the Delegation Scheme

**50 DECLARATIONS OF MEMBERS' AND OFFICERS' INTERESTS  
RELATING TO ITEMS ON THE AGENDA**

No declarations of interest were received.

**51 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor E Tidd.

**52 MINUTES****RESOLVED –**

That the Minutes of the meeting of the Standards and Audit Committee held on 26 April 2023 be approved as a correct record and be signed by the Chair.

**53 DELEGATION SCHEME AND CONSTITUTION**

The Monitoring Officer presented recommendations for changes to the Constitution and the delegations proposed for agreement were shown at Appendix 1.

The changes needed at Appendix 1 included the Execution of Electronic Documents, the Human Resources related functions and Contract Procedure Rules.

**\*RESOLVED –**

That the report be approved with the changes to the Constitution and agreement of the delegations proposed at Appendix 1.

**54 INTERNAL AUDIT PROGRESS UPDATE**

The Head of the Internal Audit Consortium submitted a report for Members consideration. The report detailed progress against the 2022/23 and 2023/24 Internal Audit Plans and provided assurance on the governance, risk and control processes in place in respect of the audits completed.

**\*RESOLVED –**

That the report be noted.

**55 INTERNAL AUDIT CONSORTIUM ANNUAL REPORT 2022/23**

The Head of the Internal Audit Consortium submitted a report detailing a summary of the internal audit work undertaken during 2022/23.

The report noted how 75% of the plan has been completed with plans in place for the completion of the remaining areas as part of the 2023/24 Internal Audit Plan.

The report assessed that reasonable assurance can be provided on the overall adequacy and effectiveness of the council's framework for governance, risk management and control for the year ended 2022/23. Assurance can never be absolute. In the context "reasonable assurance" means that arrangements are in place to manage key risks and to meet good governance principles, but there are some areas where improvements are required.

No fraud was identified.

It was noted that, the quality control procedures in place for the Internal Audit Consortium are documented in the Quality and Assurance Improvement Programme at Appendix 3.

Confirmation was gained that the internal audit activity is organisationally independent. Internal audit reports directly to the Service Manager –

Finance but had direct and unrestricted access to the Corporate Leadership Team and the Standards and Audit Committee.

It was noted that based on the information provided in the report on the completion of the 2022/23 internal audit plan, it was considered that the requirements of the Internal Audit Charter were met during the year.

Explanations were given around the reasons for the areas that were rated as Limited Assurance in the 2022/23 financial year. Assurance was given that the areas in question, housing rents, procurement and cyber risk and network security, had plans in place to introduce the recommendations made and would be reviewed again in this financial year. Members asked if the Head of Procurement would be able to attend the next meeting in order to provide a verbal update.

Members asked questions about the internal audit customer satisfaction survey. It was requested that a copy of the customer satisfaction survey be circulated after the meeting. The low return rates were also questioned. Members asked if a line could be added when sending out the questionnaire saying that the Audit Committee would like to see more responses and that this would be closely monitored.

Members asked if there was an internal audit plan. The Head of the Internal Audit Consortium confirmed that there was and that this would be brought to the next meeting as an appendix to the progress report. The plan had been approved at the previous meeting in April.

**\*RESOLVED –**

That the report be accepted.

**56 STANDARDS AND AUDIT COMMITTEE ANNUAL REPORT 2022/23**

The Head of the Internal Audit Consortium presented the Annual Report of the Standards and Audit Committee 2022/23, which sets out the work of the Standards and Audit Committee for 2022/23 in line with best practice.

A summary of the work of the Standards and Audit Committee for the financial year 2022/23 was shown at paragraph 3.

The work of the Standards and Audit Committee helps to ensure that processes and controls are operating effectively, thereby contributing to ensuring that value for money is obtained.

**\*RESOLVED –**

The Standards and Audit Committee considered the Standards and Audit Committee Annual Report and referred it to Council for approval.

**57 LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF PUBLIC**

**RESOLVED –**

That under Section 100(a)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 1 of Part 1 of Schedule 12A of the Act.

**58 REVIEW OF COUNCILLOR COMPLAINTS 2022**

The Monitoring Officer submitted the Annual Report – Standards of Conduct, giving members an overview of complaints about councillors and the standards system for the two years since the previous annual report in February 2022.

It was noted that local authorities have a duty under the Localism Act 2011 to promote and maintain high standards of conduct by its members. At Chesterfield Borough Council this responsibility is placed with the Standards and Audit Committee. The Council adopted a new Code of Conduct in June 2012 as required by the Localism Act 2011. Since the adoption of the 2012 Code there have been various complaints about councillors. Each complaint is initially assessed in accordance with the Council's complaints assessment process by the Monitoring Officer (or their nominated deputy) and a range of outcomes are possible.

In 2022 there was only one complaint that was formally assessed but this was not sufficiently serious to warrant an investigation. There were therefore too few formal complaints to identify themes. The Monitoring Officer did report that there was a growing trend in complaints about comments made by councillors on social media and he would look specifically at those types of complaints.

It was noted that The Local Government Association produced a new model code at the end of 2020, taking into account The Committee on Standards in Public Life report of 2019. Members have previously been informed about the new model code. The Monitoring Officer intends to present a further report on the Local Government Association Model Code and whether the Council should adopt it, at a meeting later in the year.

**\*RESOLVED –**

That the report be noted.

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## **STANDARDS AND AUDIT COMMITTEE**

**Wednesday, 9th August, 2023**

Present:-

Councillor Caulfield (Chair)

Councillors Jacobs  
Brock

Councillors Nicholls  
(Brimington  
Parish Council)

\*Matters dealt with under the Delegation Scheme

59 **DECLARATIONS OF MEMBERS' AND OFFICERS' INTERESTS  
RELATING TO ITEMS ON THE AGENDA**

No declarations of interest were received.

60 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Blakemore, Staton, Thornton and Tidd (Staveley Parish Council).

61 **CONVENING AN INDEPENDENT REMUNERATION PANEL**

The Monitoring Officer presented a report with an update on the preparations to re-constitute the Independent Remuneration Panel (IRP), to carry out a review of the Members' Allowances Scheme. The Panel last met during 2019 and produced a report which was submitted to Full Council on 18 December 2019.

The Local Authorities (Members Allowances) (England) Regulations 2003 requires the Council to establish an independent remuneration panel (IRP) and have due regard to their findings when establishing or updating their member allowances scheme.

\* **RESOLVED -**

That the report be noted

62 **LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF PUBLIC**

**RESOLVED –**

That under Section 100(a)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 1 of Part 1 of Schedule 12A of the Act.

**63 APPOINTMENT OF AN INDEPENDENT REMUNERATION PANEL**

The Monitoring Officer submitted a report seeking approval for the appointment of the Independent Remuneration Panel 2023-2027.

The previous panel comprised Mr. Tim Nye, Mr. Andy Watterson and Mr. Nick Chischniak and was established in 2019. Mr Watterson agreed to continue to serve on the Panel for an additional term if asked, Mr Nye said he would do so if necessary, Mr Chischniak did not wish to. The Terms of Reference for the Panel (at Appendix 1) state that it should be ensured, where possible, that the Panel includes someone with experience of the Panel's work. It is, therefore, recommended that Mr Watterson be reappointed to the Panel for a further four-year-term.

Applications for panel members were received from Ms Gemma Shepherd-Etchells and Mr Peter Cay, both from neighbouring councils' Independent Remuneration Panels. Each were interviewed by the Chair of Standards and Audit Committee and the Monitoring Officer. Both applicants are recommended for appointment to the Independent Remuneration Panel.

**\* RESOLVED -**

That the following individuals be appointed to the Independent Remuneration Panel for 2023-2027:

- Andy Watterson
- Gemma Shepherd-Etchells
- Peter Cay

## For publication

### Review of the Internal Audit Charter

<b>Meeting:</b>	Standards and Audit Committee
<b>Date:</b>	13th September 2023
<b>Cabinet portfolio:</b>	Governance
<b>Directorate:</b>	Finance
<b>For publication</b>	

#### **1.0 Purpose of the report**

- 1.1 To report to Members for information and approval the results of a review of the Internal Audit Charter. The Public Sector Internal Audit Standards (PSIAS) state that the Head of Internal Audit must periodically review the Internal Audit Charter and present it to the relevant Committee for approval.

#### **2.0 Recommendations**

- 2.1 That Members note the outcome of the review of the Internal Audit Charter.
- 2.2 That subject to any comments Members may wish to make, that the Internal Audit Charter be agreed.
- 2.3 That the agreed Internal Audit Charter be reviewed in a years' time or sooner in the event of any significant changes being made to the Public Sector Internal Audit Standards.

#### **3.0 Reason for recommendations**

- 3.1 To comply with the Public Sector Internal Audit Standards and to clearly set out the purpose, authority and principal responsibilities of the Internal Audit Consortium.

#### **4.0 Report details**

- 4.1 The Public Sector Internal Audit Standards (PSIAS) which took effect from the 1 April 2013 require that the purpose, authority and responsibility of internal audit must be formally defined in an Internal Audit Charter (Appendix 1).

- 4.2 The Internal Audit Charter was last formally approved by this Committee in September 2022. It was agreed that the Charter would be reviewed every year to ensure that it is kept up to date and in accordance with CIPFA best practice.
- 4.3 There have been no updates to the PSIAS since the last review of the Charter.
- 4.4 The current Internal Audit Charter has been reviewed and it is felt that it is still fit for purpose.
- 4.5 The Internal Audit Charter is attached as Appendix 1.
- 4.6 It is worth noting that there has been consultation in respect of some new Global Internal Audit Standards that are due to be issued at the end of 2023. Following this, CIPFA intend to review the Public Sector Internal Audit Standards by the end of 2024. Where necessary I will review our approach to ensure that we remain compliant with the Standards.

## **5 Alternative options**

- 5.1 There are no alternative options.

## **6 Implications for consideration – Financial and value for money**

- 6.1 The adoption of a Charter in line with the PSIAS helps to ensure that the Internal Audit Consortium is operating in line with best practice and thereby providing value for money.

## **7 Implications for consideration – Legal**

- 7.1 The core work of internal audit is derived from the statutory responsibility under the Accounts and Audit Regulations 2015 which requires the Council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

## **8 Implications for consideration – Human resources**

- 8.1 None

## **9 Implications for consideration – Council plan**

- 9.1 A current audit Charter will help to ensure that internal audit operates in accordance with the PSIAS which includes focusing on helping the Council to achieve the objectives within the council plan.

## 10 Implications for consideration – Climate change

10.1 There are not considered to be any direct climate change impacts in relation to this report. However, the adoption of a Charter means that Internal Audit will focus upon the Council's main objectives and risks which include climate change issues.

## 11 Implications for consideration – Equality and diversity

11.1 None

## 12 Implications for consideration – Risk management

12.1 The re-adoption of the Internal Audit Charter will help to ensure that the Internal Audit Consortium continues to provide a quality service in line with the PSIAS reviewing risk management, governance and internal control processes.

### Decision information

<b>Key decision number</b>	<i>All key decisions must be in the Forward Plan at least 28 days in advance. There are constitutional consequences if an item is not in the Forward Plan when it should have been. Contact Democratic Services if in doubt.</i>
<b>Wards affected</b>	

### Document information

<b>Report author</b>	
Jenny Williams Head of the Internal Audit Consortium	
<b>Background documents</b>	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
None	
<b>Appendices to the report</b>	
Appendix 1	Internal Audit Charter

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# **BOLSOVER, CHESTERFIELD AND NORTH EAST DERBYSHIRE DISTRICT COUNCILS'**

## **INTERNAL AUDIT CHARTER**

### **INTRODUCTION**

1. The Public Sector Internal Audit Standards (PSIAS) which took effect from 1 April 2013 require the adoption of an Internal Audit Charter. The Internal Audit Charter describes the purpose, authority and principal responsibilities of the Internal Audit Consortium that have been established to provide the internal audit service to the three Councils'.

### **PSIAS/REGULATORY BASIS OF OPERATION**

2. The adoption of the PSIAS is mandatory and includes a
  - Definition of Internal Auditing
  - Code of ethics
  - International Standards for the Professional Practice of Internal Auditing

3. The Mission of Internal Audit is: -

***To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.***

4. The Internal Audit Consortium adopts the PSIAS and the purpose and definition of Internal Audit as specified by the PSIAS: -

*Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*

5. The Internal Audit Consortium also adopts and is mindful of the Core Principles for the Professional Practice of Internal Auditing. So, the Internal Audit Consortium: -

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.

- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

The requirement for an internal audit function in local government is specified within the Accounts and Audit (England) Regulations 2015, which state:

*A relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*

6. The Consortium agreement details how the Consortium will operate in terms of finance, staffing, reporting and independence.
7. Internal Audit is also governed by policies, procedures, rules and regulations established by the host Council. These include Financial Regulations, Conditions of Service, Codes of Conduct and Anti-Fraud and Corruption strategies.
8. Where key services are to be provided to one of the partner Councils by other contractors or through a partnership, in order for internal audit to form an opinion on the risk management, governance and internal controls in place, a right of access to relevant information and documents should be included in contracts or agreements concerned.

## **DEFINITIONS**

9. The PSIAS require that the Charter must define the terms “Board” and “Senior Management” for the purposes of internal audit activity.
10. The PSIAS glossary defines the board as:
 

*The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically this includes an independent group of directors (e.g. a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the “board” may refer to the head of the organisation, “Board” may refer to an audit committee to which the governing body has delegated certain functions.*
11. At Chesterfield Borough Council the “Board” will be the Standards and Audit Committee.  
At Bolsover District Council the “Board” will be the Audit Committee  
At North East Derbyshire District Council the “Board” will be the Audit Committee.
12. In addition to this the Joint Board will approve and monitor the annual business plan and financial position of the Consortium.
13. “Senior Management” – those responsible for the leadership and direction of the Council. This will be each Council’s Senior Management Team.



14. The PSIAS adopt the term “Chief Audit Executive”, this role is met by the Head of the Internal Audit Consortium.

### **SCOPE AND OBJECTIVES OF INTERNAL AUDIT**

15. The scope of the Internal Audit Consortium encompasses the examination and evaluation of the adequacy and effectiveness of each organisation’s governance, risk management and internal control processes in relation to each organisation’s defined goals and objectives.
16. The Audit Consortium’s remit covers all functions and services for which the Council’s are responsible and this extends to the entire risk management, governance and internal control processes of the organisations and not just financial controls.
17. The Consortium will objectively examine, evaluate and report on the adequacy of the risk management, governance and internal controls in place as a contribution to the proper, economic, efficient and effective use of resources.
18. The internal audit service will be delivered on the basis of a risk assessment of auditable areas at each of the partner authorities. A predominantly systems based approach to most audits will be adopted.
19. The risk management, governance and internal control processes comprises the whole network of systems established within each partner authority to provide reasonable assurance that corporate objectives will be achieved, with particular reference to: -
  - Consistency of operations with established objectives and goals,
  - The reliability and integrity of financial and operational information,
  - The effectiveness and efficiency of operations and programmes,
  - Safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity and corruption,
  - Compliance with laws, regulations, policies, procedures and contracts,
  - The economic and efficient use of resources (value for money) and effective monitoring systems and optimum use of performance management information.
20. With the introduction of the PSIAS, internal audit may also provide “consultancy” services. This work could take any form, provided that the independence of the service is not compromised, but will typically include special reviews or assignments where requested by management, which fall outside the approved plan and for which a contingency is included in the audit plan. There will be no significant consultancy work undertaken without the approval of the relevant Audit Committee.

## **RESPONSIBILITIES AND REPORTING**

21. The PSIAS requires that the Internal Audit Charter should establish the responsibilities and reporting arrangements of internal audit.
22. The Head of the Internal Audit Consortium reports directly to each Council's Audit Committee and to each Chief Financial Officer/Director. The Head of the Internal Audit Consortium also has direct access to each Council's Chief Executive / Directors, Monitoring Officer and where necessary elected Members.
23. The Head of the Internal Audit Consortium will manage the provision of the Internal Audit service to each Council by: -
  - Preparing each year in advance a risk- based audit plan for discussion and agreement by each council's Client Officer and approval by the Audit Committee. Any in-year significant changes to the audit plan shall be agreed by the respective Client Officers and Audit Committees,
  - Preparing the internal audit budget and resource plan for approval by the Joint Board,
  - Presenting an annual report to each Council's Audit Committee that meets the requirements of the PSIAS and includes: -
    - An overall opinion on the adequacy and effectiveness of the organisation's risk management, governance and internal control processes (including any qualifications to that opinion),
    - Presents a summary of the audit work from which the opinion is derived, including reliance placed on the work by other assurance bodies,
    - Draws attention to any issues the Head of the Internal Audit Consortium judges particularly relevant to the preparation of the Annual Governance Statement,
    - Compares work actually undertaken with work that was planned and to report relevant performance measures and targets.
  - Presenting periodic reports to each Audit Committee summarising all internal audit reports issued and if considered necessary providing copies of the reports,
  - Formally report the findings and recommendations of audit work to senior management and the respective Audit Committee throughout the year. Audit reports will: -
    - Include an audit opinion on the reliability of the risk management, governance and internal control processes in the system or area audited,
    - Identify inadequately addressed risks and non-effective control processes,
    - Detail management's response and timescale for corrective action,
    - Identify issues of good practice.
  - Ensuring audit work is supervised, reviewed, recorded and reported,
  - Implementing a follow up process for ensuring the effective implementation of audit recommendations or ensuring senior management are aware of the consequences of not implementing a recommendation and are prepared to accept the risk,

- Liaising as needed with the External Auditor for each Council and with other regulators,
  - Maintaining and managing a risk assessment in relation to the functions of the Consortium,
  - Ensuring that there is an up to date Audit Manual in place setting out expected standards for the service, and monitoring compliance with these standards, including in relation to the planning, conduct, quality assurance and reporting of audit assignments.
24. Senior managers should assist audit to discharge their duties by:
- The prompt provision of information and explanations,
  - Providing input to the audit plan to ensure attention is focused on areas of greatest risk,
  - Informing the Audit Consortium of any plans for change, including new systems,
  - Responding to the draft internal audit report, including provision of management responses to recommendations, within the timescale requested by the audit team,
  - Implementing agreed management actions in accordance with agreed timescales,
25. The respective Audit Committees must:
- Approve the Internal Audit Charter,
  - Approve the risk based internal audit plan,
  - Receive progress reports and an annual report from the Head of the Internal Audit Consortium in respect of the audit plan,
  - Approve any large variances or consulting services not already included in the audit plan.
26. The Joint Board will:
- Approve the internal audit budget and outturn.

## **AUDIT RESOURCES**

27. The Chief Financial Officer at each Council will ensure that the Audit Consortium has the necessary resource to enable the Head of the Internal Audit Consortium to be able to give an annual evidence-based opinion.
28. The staffing and budget of the Internal Audit Consortium will be kept under review by the Head of the Internal Audit Consortium, bearing in mind the resource requirements identified in the audit plan process. Where resources available do not match the resource requirements identified by the annual audit plans, the Head of the Internal Audit Consortium will report to the Joint Board.
29. The Head of the Internal Audit Consortium will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience. The Head of the Internal Audit Consortium

will ensure that the internal audit service is appropriately skilled in terms of qualifications, knowledge and experience.

### **QUALITY AND ASSURANCE PROGRAMME**

30. The PSIAS state that a quality assurance and improvement programme must include both internal and external assessments. Internal assessments should be ongoing and periodical and external assessments must be undertaken at least once every 5 years.
31. All internal audits are subject to a management quality review. Policies and procedures to guide staff in performing their duties have been established within the audit manual.
32. The internal self- assessment of internal audit will be undertaken annually by completing the checklist for assessing conformance with the PSIAS included within the PSIAS Application Note.
33. External assessment can be satisfied by either arranging a full external assessment or by undertaking a self assessment with independent validation. External assessments must be by a qualified, independent assessor from outside the organisations. The Head of the Internal Audit Consortium must discuss the format of the external assessments and the qualifications and independence of the assessor with the Audit Committee.
34. An external assessment of the internal audit function will take place at least once every 5 years and the results reported back to the Audit Committee of each Council.
35. The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

### **INDEPENDENCE, AUTHORITY AND ETHICS**

36. In order to achieve its objectives effectively, Internal Audit must be seen to be independent. Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that no quality compromises are made.
37. The scope of internal audit allows for unrestricted access at each partner authority to all records, personnel, premises and assets deemed necessary to obtain information and explanations as it considers necessary to fulfil its responsibilities in the course of the audit. Such access shall be granted on demand and not subject to prior notice.
38. This right of access is included in the agreement signed by the three authorities establishing the Internal Audit Consortium and in each authority's Financial Regulations. In addition, where necessary, the Head of the Internal Audit Consortium will have unrestricted access at each authority to:

- The Chief Executive / Relevant Director
  - The Chief Financial Officer
  - Members
  - The Monitoring Officer
  - The Chair and Members of the Audit Committee
  - Individual Directors / Heads of Service
  - All Other Employees
  - The External Auditor
39. The Head of the Internal Audit Consortium will confirm to the Audit Committees' at least annually, the organisational independence of the internal audit activity.
40. Independence is further achieved by:
- Reporting to the Audit Committee and senior management at each authority,
  - Not being part of system and procedures being audited,
  - Rotating responsibility for audit assignments within the audit team,
  - Completing declaration of interest forms on an annual basis,
  - Internal Audit staff not undertaking an audit in an area where they have had operational roles for at least two years.
41. If any member of the Internal Audit Consortium considers there is or could be a conflict of interest, this must be declared to the Head of the Internal Audit Consortium who will direct alternative and independent resources to the audit.
42. Where internal audit staff are required to undertake non-audit duties, the Head of the Internal Audit Consortium will make it clear that those audit staff are not fulfilling those duties as internal auditors. The Head of the Internal Audit Consortium will ensure that within the service there remains sufficient impartiality to enable the actions and activities of those internal audit staff to be subject to audit by those independent from the activity.
43. Internal auditors must conform to the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Ethics in addition to those of other professional bodies of which they hold membership.
44. The Code of Ethics promotes an ethical, professional culture to ensure fairness, objectivity and freedom from conflicts of interest. The key principles are: -
- Integrity – to establish trust thus providing reliance on their judgement;
  - Objectivity – in gathering, evaluating and communicating information about the activity or process being examined in order to make a balanced assessment of all relevant circumstances without influence;
  - Confidentiality – to respect the value and ownership of information received which should not be disclosed without appropriate authority or a legal or professional obligation to do so, nor be used for personal gain; and

- Competence – to apply knowledge, skills and experience appropriately.

## **FRAUD AND CORRUPTION**

45. Managing the risk of fraud and corruption is the responsibility of management. Each Council has an Anti Fraud and Corruption strategy and a zero tolerance towards fraud.
46. The Head of the Internal Audit Consortium should be notified of all suspected or detected fraud, corruption or impropriety in accordance with each Council's Financial Regulations and Anti Fraud and Corruption strategies, in order to inform their opinion of the risk management, governance and internal control arrangements in place.
47. Subject to availability of resources with the internal audit plan, internal audit may assist management in the investigation of suspected fraud and corruption.
48. The Head of the Internal Audit Consortium will report any instances of fraud detected as a result of audits undertaken to the Audit Committee.

## **REVIEW OF THE INTERNAL AUDIT CHARTER**

49. The Internal Audit Charter will be reviewed every year by the Head of the Internal Audit Consortium and will be reported to each Council's Audit Committee for approval.

## For publication

### Implementation of Internal Audit Recommendations

<b>Meeting:</b>	Standards and Audit Committee
<b>Date:</b>	13th September 2023
<b>Cabinet portfolio:</b>	Governance
<b>Directorate:</b>	Finance
<b>For publication</b>	

#### **1.0 Purpose of the report**

- 1.1 To present for members' information a summary of internal audit recommendations made, implemented and outstanding.

#### **2.0 Recommendations**

- 2.1 That the report be noted.
- 2.2 That a further summary of outstanding internal audit recommendations be submitted to the Standards and Audit Committee in April 2024.

#### **3.0 Reason for recommendations**

- 3.1 To inform Members of the progress made in respect of implementing internal audit recommendations so that they can assess if appropriate and timely action is being taken.

#### **4.0 Report details**

- 4.1 It has previously been agreed by the Standards and Audit Committee that a report detailing outstanding internal audit recommendations be brought to the Standards and Audit Committee every 6 months. The last report was brought in April 2023.
- 4.2 Attached, as Appendix 1, is a summary of made, implemented and outstanding internal audit recommendations as at the end of August 2023. There are 21 overdue recommendations in total as opposed to 30 at the last review - 4 high priority, 9 medium priority and 8 low priority recommendations. Appendix 1 provides a current update from managers in respect of each outstanding recommendation.

## **5.0 Alternative options**

5.1 The report is for information.

## **6.0 Implications for consideration – Financial and value for money**

6.1 Internal audit recommendations are aimed at ensuring there are controls in place to protect the Council's finances and thus contributing towards achieving value for money.

## **7.0 Implications for consideration – Legal**

7.1 None

## **8.0 Implications for consideration – Human resources**

8.1 None

## **9.0 Implications for consideration – Council plan**

9.1 The implementation of internal audit recommendations helps to ensure that governance, risk and control arrangements are in place and operating which in turn helps to ensure that the council's resources and priorities are focused on achieving the objectives within the council plan.

## **10.0 Implications for consideration – Climate change**

10.1 Whilst there are not considered to be any direct climate change impacts in relation to this report, the implementation of internal audit recommendations will support the achievement of the Council's objectives.

## **11.0 Implications for consideration – Equality and diversity**

11.1 None

## **12.0 Implications for consideration – Risk management**

12.1 The timely implementation of internal audit recommendations helps to ensure that the risk of error or fraud is reduced and that internal controls are operating effectively.

## **Decision information**

<b>Key decision number</b>	
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<b>Wards affected</b>	
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**Document information**

<b>Report author</b>	
<p>Jenny Williams  Head of the Internal Audit Consortium  Finance</p>	
<b>Background documents</b>	
<p>These are unpublished works which have been relied on to a material extent when the report was prepared.</p>	
<b>Appendices to the report</b>	
Appendix 1	Recommendations Made implemented and Outstanding

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### Summary of Internal Audit Recommendations made and implemented 2020/21 – 2023/24 (as at August 2023)

<b>Recommendations Made</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Number of High Priority	1	8	2	8
Number of Medium Priority	28	31	29	16
Number of Low priority	33	49	41	20
<b>Total</b>	<b>62</b>	<b>88</b>	<b>72</b>	<b>44</b>
<b>Recommendations Implemented</b>	<b>62</b>	<b>82</b>	<b>40</b>	<b>0</b>
High Recommendations Outstanding	0	2	2	0
Medium Recommendations Outstanding	0	1	8	0
Low Recommendations Outstanding	0	3	5	0
Not overdue yet	0	0	17	44
Overdue Recommendations	0	6	15	0
<b>Percentage due implemented or carried fwd to next audit</b>	<b>100%</b>	<b>93%</b>	<b>73%</b>	<b>100%</b>

## 2021/22

Report Ref	Audit	Conclusion	Recommendations accepted			Total	Not Overdue	Overdue	Implemented
			High	Medium	Low				
006	Property Safety Inspections	Reasonable		3	4	7		1L	6
011	Queens Park Sports Centre	Limited	5	3	11	19		2L	17
018	Non Housing Property Repairs	Limited	2	2		4		3 (2H 1M)	1
			7	8	15	30		6	24

## 2022/23

Report Ref	Audit	Conclusion	Recommendations accepted			Total	Not Overdue	Overdue	Implemented
			High	Medium	Low				
004	Housing Rents	Limited	2	1	2	5		4 (2H 1M 1L)	1
005	Car Parks	Reasonable		3	7	10		1M	9
009	Refuse Collection	Reasonable		3	1	4		2(1M 1L)	2
010	Procurement	Limited		6	5	11	2L	7 (4M 3L)	2
012	Cyber Risk and Network Security	Limited		4	1	5	1M	1M	3
013	Car Allowances & Expenses	Reasonable		2	2	4	1L		3
014	Accounts Payable	Reasonable		3	2	5	1M		4
016	Risk Management	Reasonable		2	4	6	4(2M 2L)		2
017	Housing Benefits	Substantial			2	2	2L		

018	Venues	Reasonable			6	6	6		
<b>Total</b>			2	24	32	58	17	15	26

**2023/24**

Report Ref	Audit	Conclusion	Recommendations accepted			Total	Not Overdue	Overdue	Implemented
			High	Medium	Low				
001	Payroll	Limited	8	9	7	24	24		
002	Crematorium Income	Reasonable		1	5	6	6		
003	Sickness Absence Management	Reasonable		3	5	8	8		
004	NNDR	Reasonable		3	3	6	6		
<b>Total</b>			8	16	20	44	44		

## Outstanding Recommendations as at August 2023

Audit and date audit completed	Recommendation Outstanding	Priority and Original Target Date	Managers Comment – August 2023
<b>Property Safety Inspections (September 21)</b>	It should be ensured that further work is completed to ensure the electrical testing programme is integrated with the housing system for better monitoring and regular reporting.	Low Ongoing	The new asset management system implementation has been delayed. Monthly Strategic meetings are now taking place with CLT and Tier 4 managers to monitor compliance around the big 6. Weekly reports are still produced by the team in Asset Management.
<b>Queens Park Sports Centre – January 2022</b>	Consideration should be given to reviewing the contract with 'Get Soaked, due to the contract having expired and the subsequent reduction in discount. (Dropped from 15% to 10%)	Low 31 <sup>st</sup> December 2022	We are out of contract and are currently on a rolling agreement. The discount should have been removed at the end of the agreement, but they have continued with the 10%. A Meeting has been held on 22/03/23 with the company to discuss options going forward as the purchase price and deal we get from them is still beneficial and competitive. The spend over an annual period from 1 <sup>st</sup> January 22 with this contractor is £22,700.000. Due to this value, it is recommended that the Council carry out an open procurement process and put a formal contract in place for up to 4 years. This work will progress and be completed by September 2023, which is later than was originally anticipated but this is as a result of the move to the new leisure management

Audit and date audit completed	Recommendation Outstanding	Priority and Original Target Date	Managers Comment – August 2023
			<p>system for Leisure which has, given its critical importance as the main income management system for our leisure centres taken priority. The service is currently working with procurement to complete this process.</p>
<p><b>Queens Park Sports Centre – January 2022</b></p>	<p>It would be prudent to review all vending machines contracts to ensure current and determine terms in respect of income.</p>	<p>Low 31<sup>st</sup> December 2022</p>	<p>Vending machine contract is being looked at corporately on behalf of the whole of CBC as a wider vending provision project within all CBC facilities and as a result QPSC will form part of the wider procured solution for CBC.</p> <p>The service has met with procurement and the current supplier to consider our specific requirements and help to inform the wider procurement approach. In the interim the current supplier has confirmed that they are happy to honour existing contract terms and conditions whilst this wider review is undertaken. Anticipated completion date for the CBC tender award December 2023.</p>

<b>Audit and date audit completed</b>	<b>Recommendation Outstanding</b>	<b>Priority and Original Target Date</b>	<b>Managers Comment – August 2023</b>
<b>Non- Housing Property Repairs – April 2022</b>	It is essential that the review of the Councils maintenance plans for non-operational buildings be completed as soon as practical.	High September 2022	Condition surveys for the Customer Service Centre and the Visitor Information Centre have been procured. The reports commissioned will also include reports on the route to zero for carbon reduction and CBC climate commitments. Once the first two are complete a program is planned for all assets to be done in three phases spread over 18 months. The information will then lead to a planned repairs program and how climate commitments can be met.
<b>Non- Housing Property Repairs – April 2022</b>	Consideration must be given to the financial implications of the results of the condition surveys.	High December 2022	This will flow directly from R1. The plan is to pay for works from capital receipts.
<b>Non- Housing Property Repairs – April 2022</b>	Contribution levels should be reviewed to ensure they are set at a realistic level based on the outcomes of R1.	Medium February 2023	As above
<b>Car Parks – September 2022</b>	The ticketing contract expires in September 22, it is essential to liaise with procurement to ensure adequate time is given to procure a new contract.	Medium October 2022	Tender documentation written, procurement colleagues have advised on a full procurement rather than 3 quotes as such slight delay from July 23 to end August /mid-September 23 for completion. Currently in process.



Audit and date audit completed	Recommendation Outstanding	Priority and Original Target Date	Managers Comment – August 2023
<b>Housing Rents – August 2022</b>	<p>It is essential that arrears cases are reviewed on a regular minimum 3 monthly basis in order to ensure:</p> <ul style="list-style-type: none"> <li>• Contact with tenant to ensure all recovery routes, financial guidance/assistance is provided prior to escalation of arrears and potential eviction</li> </ul> <p>Where tenant is on UC direct and managed payments applied for as soon as practical to prevent increasing arrears</p>	<p>High</p> <p>31<sup>st</sup> January 2023</p>	<p>There are delays in implementing some of the changes, such as the arrangements manager, due to requiring a time allocation from IT and IT having other priority commitments. However the following actions have been taken: -</p> <ul style="list-style-type: none"> <li>• Universal Credit customer tenancies are now marked so that if they fall into arrears, a managed payment request can be made as a priority.</li> <li>• Introductory tenancy cases are now marked so that if they fall into arrears, they are dealt with as a priority.</li> <li>• Working practices have been adjusted so that we are working more closely and effectively with tenancy support officers in Housing to find customers in difficulty with their rent and other financial problems at an early stage and can work with them to provide support.</li> <li>• Tenancy support officers have also agreed to follow a list provided by Lindsey when they have their first meeting with a new tenant following the tenancy sign up. This promotes applying for any benefits and signing up for payment by direct debit. It also means that we are made aware of any</li> </ul>

Audit and date audit completed	Recommendation Outstanding	Priority and Original Target Date	Managers Comment – August 2023
			<p>relevant vulnerability of the tenant at the earliest stage.</p> <ul style="list-style-type: none"> <li>• A meeting with ICT is to take place to put together a project and allocate key ICT resource to improve the escalation processes in NEC. This will ensure that only cases that need an arrears review are being identified by the system for recovery work.</li> <li>• In the meantime, the revenues staff are reviewing cases manually, that are in the NEC rent arrears tray.</li> <li>• The reshape has now taken place, and staff who previously worked on Council Tax are now being trained in Rents work. This means we can direct resources where there is most need.</li> <li>• The recruitment into vacancies within the team is about to begin.</li> </ul>
<b>Housing Rents – August 2022</b>	Arrangements should be reviewed on a regular minimum monthly basis to ensure that the arrangement is being adhered to or where failed recovery escalation is progressed as soon as possible, to prevent increasing levels of arrears	Low November 2022	We have purchased an arrangements manager software package that will speed this process up. The implementation of this will be discussed at the same ICT project meeting mentioned above. In the meantime, arrangements are being monitored on a manual basis. Every payment arrangement that is made is noted on a spreadsheet and they are all checked regularly. The software

Audit and date audit completed	Recommendation Outstanding	Priority and Original Target Date	Managers Comment – August 2023
			will help in that it will highlight accounts on an arrangement that are not up to date, so only those cases need to be checked and action taken.
<b>Housing Rents – August 2022</b>	It is essential that the continued upward trend in arrears is addressed, particularly proactive recovery at an early stage of arrears for each case, which will necessitate a review of resources	High  January 2023	See above response
<b>Housing Rents – August 2022</b>	It is essential that write offs (where appropriate) are undertaken on a regular basis, which would assist in targeting/prioritising cases where there is potential for recovery	Medium  30 <sup>th</sup> November 2022	The last write offs were carried out in March 2023 after approval from Theresa. The April and May cases are not yet approved so other batches have not been sent on. We are seeking information from Theresa about what we can do to make the authorising of writes offs faster.
<b>Refuse Collection – Domestic November 2022</b>	Consideration should be given to reconciling bin replacements on Salesforce to bin stock distributed to Veolia. This would enable stock to be replenished prior to Veolia running out of bins and enable monitoring of the number of bins given out to customer against bins given to	Low  Not specified	Given the technical nature of this work, the service has had discussions with IT colleagues regarding options and opportunities relating to this. Currently the service is awaiting a project / programme resource to be allocated from IT to support the service in developing required system changes. It is however important to note the following;

Audit and date audit completed	Recommendation Outstanding	Priority and Original Target Date	Managers Comment – August 2023
	Veolia.		<p><b><u>Management Information</u></b>  Veolia have and continue to develop a comprehensive suite of reports capable of reporting against many if not all of the Waste Management team operational requirements. These are available online in a secure portal.</p> <p><b><u>Container asset management &amp; reconciliation</u></b>  Specifically, there is a predefined report designed to track and analyse container asset management/replacement. The report tracks containers and has predefined filters to drill into to the volumes and reason for issue. If the current report does not show the exact information required, Veolia are open to developing additional reports that would allow CBC to replenish stock prior to Veolia running out as part of the current contract.  16/8/23. The migration of information from M3 to SF continues to be a work in progress.</p>
<b>Refuse Collection – Domestic November 2022</b>	At the time of this audit most reporting information is being provided by Veolia it would be prudent for the waste management team to be able to run and verify through our own systems the accuracy of the	Medium  Not specified	Given the technical nature of this work, the service has had discussions with IT colleagues regarding options and opportunities relating to this. Currently the service is awaiting a project / programme resource to be allocated from IT to support the service in making any subsequent

Audit and date audit completed	Recommendation Outstanding	Priority and Original Target Date	Managers Comment – August 2023
	information being received from Veolia.		system changes. However, the following assurance should be noted; Waste Management information including property database, asset information, route information, operational activity is stored offsite in Veolia’s Echo platform and as such is live and accessible to CBC. 16/8/23. The migration of information from M3 to SF continues to be a work in progress.
<b>Procurement – December 2022</b>	The Procurement Service must continue to develop and consult with other services to ensure that the Council is fully compliant with Procurement/Financial Regulations (including completeness of the Proactis system contract register) and to assist the Procurement Service in ensuring sufficient resource available to meet planned requirements	Medium 31 <sup>st</sup> March 23	Regulatory procurement meetings implemented across many service areas including ICT, Housing, Regen. Econ Dev, Housing and Housing and FM.  Procurement opportunities being identified through spend data. Procurement are meeting with teams and contract owners to establish current positions and identify opportunities for improvement.  <b>Full procurement update to be provided to the Standards and Audit Committee on the 13<sup>th</sup> September 2023</b>
<b>Procurement – December 2022</b>	The Corporate Leadership Team must be engaged in assisting to ensure Service Managers fully cooperate and	Medium 31 <sup>st</sup> March 23	Compliance and VFM reporting in the remit of the procurement improvement plan. Procurement dashboards have been enhanced, these now include compliance

Audit and date audit completed	Recommendation Outstanding	Priority and Original Target Date	Managers Comment – August 2023
	engage with the Procurement Service to confirm that the Council is fully compliant with Procurement regulations and is achieving value for money.		KPI's. Further work is ongoing to establish KPI's for contract management. Improvement programme is now in place, the dashboard and KPI's will be shared with CLT as part of a State of the Nation report in December 2023.
<b>Procurement – December 2022</b>	Ongoing liaison with Finance Service to achieve introduction of procurement approvals to the Councils Main Accounting System when upgraded.	Medium Not specified	Unit 4 is currently in review and additional functionality configured and rolled out improved data capture and introduce improved purchase to pay processes. An understanding of the full functionality of the system has been sort but any changes will be dependent on the upgrade of the general ledger system.
<b>Procurement – December 2022</b>	It would be prudent to review waiver exemption justifications to incorporate a risk analysis, exemption reasons appraisal and improve clarity	Low 31 <sup>st</sup> March 2023	Procurement engagement is captured within the Waiver approval process. Risk identification and mitigation is part of the procurement improvement plan. Procurement are working with Legal Services to improve the waiver process, the number of waivers has reduced.
<b>Procurement – December 2022</b>	It is essential that where selection from a framework is used and direct award made:- <ul style="list-style-type: none"> <li>• 'justification' as to use of specific framework and selection of supplier must be recorded</li> </ul> To ensure best value, further competition in compliance with	Medium 31 <sup>st</sup> March 2023	Contract Award Report is currently being trialled for all contract awards including framework call offs which includes a benefits analysis on route to market options. This will be implemented for contract awards above £50,000.  From September 2023 there will be a sign off

Audit and date audit completed	Recommendation Outstanding	Priority and Original Target Date	Managers Comment – August 2023
	the framework terms must be undertaken		<p>process in place for contracts over £50k. This will provide a clear audit trail.</p> <p>A light touch approach is being considered for contracts below £50,000. This process is being finalised and rolled out.</p> <p>A sourcing options appraisal is also being considered as part of the procurement improvement plan.</p>
<b>Procurement – December 2022</b>	It would be prudent if a method of identifying ‘savings’ because of procurement involvement could be established to indicate VFM	Low 30 <sup>th</sup> April 2023	<p>This is currently in review.</p> <p>A savings and benefits analysis would be used as a justification for award and documented in a contract award report.</p> <p>A draft savings and benefits methodology has been developed and is being aligned to the budget process. The intention is to create a savings and benefits register that will be shared with CLT.</p>
<b>Procurement – December 2022</b>	Formal KPI’s should be adopted to monitor the performance of the service and associated non-compliance of Services	Low 30 <sup>th</sup> April 2023	<p>A contract management strategy is required for the council. The Council is looking to adopt government best practice. The procurement team are upskilling to enable training to be rolled out across the organisation.</p> <p>We have an advanced contract</p>

Audit and date audit completed	Recommendation Outstanding	Priority and Original Target Date	Managers Comment – August 2023
			management module that is ready to be rolled out that will enable the recording and monitoring of KPI's. Training will be required. This is part of the procurement improvement plan
<b>Cyber Risk and Network Security – February 2023</b>	It is essential that the VMware, ICT Disaster Recovery plan is reviewed and formalised and kept under review.	Medium 31 <sup>st</sup> March 2023	The Project to implement a new disaster recovery solution is still in train. The documentation will be updated and formalised as part of the project deliverables.



## For publication

### Delegation Scheme and Constitution

Meeting:	STANDARDS AND AUDIT COMMITTEE
Date:	13 <sup>TH</sup> SEPTEMBER 2023
Cabinet portfolio:	GOVERNANCE
Directorate:	CORPORATE

#### **1.0 Purpose of report**

1.1 To seek approval of updates to the Constitution.

#### **2.0 Recommendations**

2.1 That members confirm the changes to Constitution, and agree the delegations, proposed at Appendix 1.

#### **3.0 Reasons for Recommendation**

3.1 To ensure effective and efficient operation of the Council.

#### **4.0 Report Details**

4.1 The Constitution is a key document, required by law, which sets out the principal powers, duties and procedures of the Council. It also sets out in Part 3 to whom decision making over the Council's various functions is delegated.

4.2 The current form of Constitution has been in place since the early 2000s, using a government model. Most council constitutions follow a similar format, though some are now moving away from it. The constitution is publicly available on the Council's website at

<https://www.chesterfield.gov.uk/your-council/the-council/the-constitution.aspx>

4.3 The Constitution needs to be changed and updated from time to time to ensure it reflects current legislation, practices, functions, structures and efficient working of the authority.

4.4 Full Council considers the main changes and other changes are delegated to Standards and Audit Committee. Any consequential amendments and general updates are the responsibility of the Monitoring Officer.

4.5 Council approved and confirmed the Constitution at its 15<sup>th</sup> May 2023 Annual Business Meeting<sup>1</sup>.

4.6 At the same meeting Council approved<sup>2</sup> various changes to:

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<sup>1</sup> <https://chesterfield.moderngov.co.uk/documents/s45983/Report%20to%20Council%20-%20Delegation%20Scheme%20and%20Constitution%20-%20May%202023.pdf>

- Cabinet portfolios and frequency
- Changes to the size of certain committees
- overview and scrutiny arrangements

These approved changes are being incorporated into the Constitution.

4.7 Additional proposed changes were approved by this Committee at its July meeting.

### Decision information

<b>Key decision number</b>	<i>All key decisions must be in the Forward Plan at least 28 days in advance. There are constitutional consequences if an item is not in the Forward Plan when it should have been. Contact Democratic Services if in doubt.</i>
<b>Wards affected</b>	All
<b>Links to Council Plan priorities</b>	to provide value for money services

### Document information

<b>Report author</b>	<b>Contact number/email</b>
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<b>Background documents</b>	
The Council's Constitution – on Council website <a href="https://www.chesterfield.gov.uk/your-council/the-council/the-constitution.aspx">https://www.chesterfield.gov.uk/your-council/the-council/the-constitution.aspx</a>	
<i>This must be made available to the public for up to 4 years.</i>	
<b>Appendices to the report</b>	
Appendix 1	Proposed changes to Constitution
Appendix 2	Proposed changes to HR related delegations

## Appendix 1

### Constitution changes requiring approval by Standards and Audit Committee

#### Council Constitution:

<https://www.chesterfield.gov.uk/your-council/the-council/the-constitution.aspx>

Where appropriate changes are shown in red below.

#### **Part 3 – Delegation Scheme – Community Grants, CIL Neighbourhoods Fund, Health and Wellbeing Partnership grants and spending**

The Council awards community grants from the community grants fund, CIL neighbourhoods fund and other grants/spend within the health and wellbeing partnership. These awards are to voluntary and community organisations. Decisions on these (usually under £10,000 but occasionally may be up to £50,000) are usually made by the Service Director - Leisure, Culture and Community Wellbeing under a general delegation.

However, it is considered that there should be a specific officer delegation for spend in these areas for avoidance of doubt. It is proposed that a new officer delegation should be agreed as follows:

#### **Community Grants**

*OFFICER DELEGATIONS: To the Service Director - Leisure, Culture and Community Wellbeing:*

#####D To make decisions on awards of grants or spending under Council community grants schemes including Community Grants, CIL Neighbourhoods Fund, and the Health and Wellbeing Partnership in consultation with any relevant partnership, and in consultation with the relevant Cabinet member if the proposed award or spend is over £25,000.

#### **Part 4 – Rules of Procedure: Contract Procedure Rules (CPRs)**

##### **Waivers**

Under Part 4 there are limited circumstances where the usual procurement rules (quotes, tenders etc) may be waived. These circumstances are set out in detail in Paragraph 3 of the CPRs. Any waiver application receives initial consideration by the Procurement Unit and only once it is considered to be approvable is it submitted for a decision. The Procurement Unit is currently reviewing waiver procedures.

Currently waiver applications may only be granted by the Head of Regulatory Law (and together with the Chief Executive they receive reports from Service Directors on urgent waivers). This means that when the Head of Regulatory Law is absent there is currently no substitute officer to consider waiver applications. While rare, this can lead to delay decisions on waiver applications.

Accordingly, it is proposed that in the absence of the Head of Regulatory Law one of the Regulatory Law solicitors be authorised to consider and approve any waiver application (or receive any report on an urgent waiver).

### Contract Award Letters

Members will recall that at the July meeting of this committee some changes were made to the Contract Procedure Rules following a review by the Head of Procurement and the Property, Procurement and Contracts Law (PPC) Team Manager over the number of contracts requiring a formal contract document.

The changes approved at the meeting meant that contracts with a value of between £25,000 and £50,000 may now be formalised by the issue of an award letter, rather than a formal contract document, unless there are reasons for it to be dealt with otherwise.

A further amendment is required, referred to in brief at the meeting, but not minuted, in order for the Head of Procurement to be authorised to sign award letter in these circumstances. So a further change is proposed to the table in the CPRs (previously agreed amendments shown in blue and the proposed changes in red):

CONTRACT VALUE	SIGNATORY/EXECUTION REQUIREMENTS
Over £100,000.00	<p>The contract must be executed as a deed or subject to paragraph 14.4 and 14.5, if not executed as a deed, signed by:</p> <ul style="list-style-type: none"> <li>• the Chief Executive OR</li> <li>• The Head of Regulatory Law and Monitoring Officer OR</li> <li>• two officers of the Council who are Solicitors or Chartered Legal Executives of five or more years standing*</li> </ul>
£50,000.00 to £100,000.00	<p>A contract signed by:</p> <ul style="list-style-type: none"> <li>• the Chief Executive OR</li> <li>• the Head of Regulatory Law and Monitoring Officer OR</li> <li>• an officer of the Council who is a Solicitor or Chartered Legal Executive of five or more years standing*</li> </ul>
£25,000.00 to £50,000.00	<ul style="list-style-type: none"> <li>• Formalised by the issue of an award letter, signed by the Head of Procurement, and the subsequent issuing of a purchase order where the contract is for works or services</li> </ul> <p>Or, where appropriate on the advice of the Head of Procurement and / or the Property, Procurement and Contracts</p>

	<p><b>Law Manager, a contract signed by:</b></p> <ul style="list-style-type: none"> <li>• the Head of Regulatory Law and Monitoring Officer OR</li> <li>• an officer of the Council who is a Solicitor or Chartered Legal Executive of five or more years standing*</li> </ul>
< £25,000.00	Formalised by the issue of an award letter and the subsequent issuing of a purchase order where the contract is for works or services

\* and authorised as signatories by the Head of Regulatory Law and Monitoring Officer

***It is therefore recommended that the Head of Regulatory Law be authorised to make the above changes to the CPRs and any consequential changes.***

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## For publication

### **Treasury Management Annual Report 2022/23 and Monitoring Report 2023/24**

<b>Meeting:</b>	Standards and Audit Committee Council
<b>Date:</b>	13 <sup>th</sup> September 2023 18 <sup>th</sup> October 2023
<b>Cabinet portfolio:</b>	Deputy Leader
<b>Directorate:</b>	Finance

#### **1.0 Purpose of report**

- 1.1 To consider the Annual Treasury Management Report for 2022/23.
- 1.2 To consider the Treasury Management activities for the first five months of 2023/24.
- 1.3 To approve the Revised Minimum Revenue Provision Statement in respect of the financial year 2023/24.

#### **2.0 Recommendations**

That the Standards and Audit Committee recommends to the full Council that:

- 2.1 The outturn Prudential Indicators for 2022/23 be approved.
- 2.2 The treasury management stewardship report for 2022/23 be approved.
- 2.3 The treasury management position for the first five months of 2023/24 be noted.
- 2.4 The Revised Minimum Revenue Provision Statement in respect of the financial year 2023/24 be approved.

#### **3.0 Reasons for recommendations**

- 3.1 To keep Members informed about the council's treasury management activities and to comply with the CIPFA Code of Practice for Treasury Management in the Public Services.

## 4.0 Report Details

### Background

- 4.1 The Council's Treasury Management Strategy requires the full Council to receive three treasury reports each financial year; the Strategy report before the start of each financial year, an annual report for the previous financial year and a mid-year review for the current year.
- 4.2 The Annual Report for 2022/23 is attached at Appendix A. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.
- 4.3 Following the Icelandic banks collapse in 2008 the regulatory framework places a much greater emphasis on the review and scrutiny by Members of treasury management activities. The attached report provides details of the treasury management activities in 2022/23 and confirms compliance with the Council's approved policies.

### Summary of the Annual Report

- 4.4 During 2022/23, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2021/22 Actual £'000	2022/23 Revised £'000	<b>2022/23 Actual £'000</b>
Actual capital expenditure	58,185	36,800	<b>30,284</b>
Capital Financing Requirement:			
- General Fund	56,560	59,900	<b>57,170</b>
- HRA	124,579	122,700	<b>125,711</b>
Total	181,139	182,600	<b>182,881</b>
External debt	143,489	145,700	<b>135,442</b>
Investments	27,167	10,000	<b>15,127</b>
Net borrowing	116,322	135,700	<b>120,315</b>

- 4.5 Other prudential and treasury indicators are to be found in Appendix A. The Service Director - Finance also confirms that borrowing over the medium term is only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached in 2022/23.
- 4.6 The Bank of England base rate at the start of the 2022/23 financial year stood at 0.75%. In order to control rapidly rising inflation rates the Monetary



Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25% at the end of the 2022/23 financial year.

- 4.7 **Investments** – Interest income received for the year was £649,000 against a budgeted amount of £79,000. The increase was as a direct result of the interest rate rises throughout the year which were not anticipated at the time of setting the 2022/23 budget. During the 2022/23 financial year the Council continued with its policy of prioritising its investments with Money Market Funds and the Debt Management Office in order to achieve greater security. Further information can be found in Appendix A.
- 4.8 The in-house team managed average balances of £24m earning an average rate of return of 2.9%.
- 4.9 **Borrowing** – The Council’s capital financing requirement (CFR) increased during the year as a result of both the General Fund and HRA capital programmes. The Council was able to utilise internal borrowing during the year and as a result no new long-term external borrowing was undertaken during 2022/23. In addition, £2m of long term loan repayments were made. £10m of short-term borrowing was repaid and re-financed during the financial year.
- 4.10 **Treasury Management Advisors** – Arlingclose continued to provide treasury management advice to the Council throughout 2022/23. Treasury recommendations were incorporated into the 2022/23 Treasury Management Strategy Statement that was approved by Council in February 2022.

#### Mid-year Review 2023/24

- 4.11 **Annual Investment Strategy** - Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 4.12 The Bank of England’s Monetary Policy Committee reaccelerated monetary policy tightening over the period with a 0.25% rise in May to a 0.5% rise in June, taking Bank Rate to 5.0%. Arlingclose, the authority’s treasury adviser, revised its interest rate forecast to forecast a further 0.5% of monetary tightening to take Bank Rate to 5.5%. The risks, however, are that rates could be higher.
- 4.13 Given the risk of short-term unsecured bank investments, the Council continues to invest with the Debt Management Office to achieve greater security.

- 4.14 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the five months ended 31<sup>st</sup> August 2023.
- 4.15 **Investments** - In the first quarter of the year the interest rates achieved were higher than those assumed when setting the budget (4.74% against 4.25%), which has resulted in internal investment returns being £68,000 better than forecast for the first quarter of the year.
- 4.16 **Borrowing activities in the period** – Short-term borrowing of £10m has been repaid and re-financed during the first quarter of 2022/23. Interest rates on short term borrowing were higher than those assumed when setting the budget (4.55% against 4.00%) which will result in interest costs being £55,000 more than forecast. The Council's average interest rate on its' total borrowings stands at 3.65%.
- 4.17 **Compliance with Treasury & Prudential Limits** - All treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices have been maintained.

The main Prudential Indicators relating to borrowing are:

- Authorised Borrowing Limit – the limit for the year was set at £181.9m, the limit has not been breached.
- Operational Boundary – this was set at £165.3m for the year, again the limit has not been breached.

Revised Minimum Revenue Provision Statement 2023/24

- 4.18 Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). The statutory requirement to make MRP contributions does not apply to the Housing Revenue Account, however the Council may, if it chooses, make a Voluntary Revenue Provision (VRP). Historically the Council has chosen to make a VRP contribution of 1.5% of the outstanding Housing Revenue Account Capital Financing Requirement in respect of housing assets and this was reflected in the 2023/24 Minimum Revenue Provision Statement that was approved by Council in February 2023.
- 4.19 During the 2022/23 financial year a number of pressures emerged in relation to the Housing Revenue Account, particularly regarding unprecedented and unpredicted inflationary pressures around energy, fuel, contracts, building materials, interest rates (including the cost of borrowing), and pay budgets. These pressures are expected to continue into 2023/24 and beyond.
- 4.20 In order to allow greater flexibility to ensure that the HRA balance is maintained at an appropriate level to avoid the risk of a negative balance in the event of an exceptional cost arising, it is proposed that the Minimum

Revenue Provision Statement 2023/24 is revised to remove the requirement for the HRA to make the 1.5% VRP (Appendix B).

- 4.21 This revision is anticipated to be a temporary measure and will be reviewed as part of the Medium Term Financial Plan and the Treasury Management Strategy for 2024/25. The revision has no impact on the General Fund.

## **5 Alternative options**

- 5.1 It is a legislative requirement that the Council receives an annual report covering its treasury activities for the financial year. There are no alternative options to consider.

## **6 Implications for consideration – Council Plan**

- 6.1 These arrangements enable the priorities set out in the Council Plan to be achieved.

## **7 Implications for consideration – Financial and value for money**

- 7.1 The report in its entirety deals with financial and value for money implications.

## **8 Implications for consideration – Legal**

- 8.1 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003. There are no other legal implications.

## **9 Implications for consideration – Human resources**

- 9.1 There are no human resource considerations arising from this report.

## **10 Implications for consideration – Risk management**

- 10.1 There are a number of risks inherent within any treasury management strategy, the most significant risks at the moment include:

- Reporting is not compliant with statutory guidelines.
- Investment and borrowing activity is outside the approved TM framework.
- Long term borrowing is taken at rates that are not advantageous.
- Investment of principal sums with insecure counterparties.
- Investment returns are volatile and may not meet budgeted amounts.
- Borrowing is not affordable.

## **11 Implications for consideration – community wellbeing**

- 11.1 Although there are no direct community wellbeing implications to consider in this report, the ability for the Council to appropriately manage its day to day finances and to be able to achieve a balanced budget position is critical to the continued delivery of the full range of council services that are targeted at supporting community wellbeing across the borough.

## **12 Implications for consideration – Economy and skills**

- 12.1 Although there are no direct economy and skills implications to consider in this report, the ability for the Council to appropriately manage its day to day finances and to be able to achieve a balanced budget position is critical to the continued delivery of the full range of council services that are targeted at supporting the economy and skills agenda across the borough.

## **13 Implications for consideration – Climate Change**

- 13.1 Individual climate change and environmental impact assessments are not required for the budget process. These are included as part of the decision-making processes for specific spending options.

## **14 Implications for consideration – Equality and diversity**

- 14.1 There are no and diversity impact implications arising from this report.

### **Decision information**

<b>Key decision number</b>	
<b>Wards affected</b>	

### **Document information**

<b>Report author</b>	<b>Contact number/email</b>
Karen Ludditt	01246 936276 Karen.ludditt@chesterfield.gov.uk
<b>Background documents</b> These are unpublished works which have been relied on to a material extent when the report was prepared.	
<i>This must be made available to the public for up to 4 years.</i>	
<b>Appendices to the report</b>	
Appendix A	Annual Treasury Management Report 2022/23
Appendix B	Revised Minimum Revenue Provision Statement 2023/24

## Treasury Management Outturn Report 2022/23

### Introduction

The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve a treasury management annual report after the end of each financial year.

The Council's treasury management strategy for 2022/23 was approved on 16<sup>th</sup> February 2022. The Authority has invested and borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report.

The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 16<sup>th</sup> February 2022.

### External Context

**Economic background:** The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food

and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

Credit review: Credit Default Prices had been rising since the start of the period on the back of the invasion of Ukraine, and in the UK rose further in September/October at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the period as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Local authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.

### **Local Context**

On 31<sup>st</sup> March 2023, the Authority had net borrowing of £120.3m arising from its revenue and capital income and expenditure, an increase on 2022 of £4.0m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	<b>31.3.22 Actual £000</b>	<b>2022/23 Movement £000</b>	<b>31.3.23 Actual £000</b>
General Fund CFR	56,560	610	57,170
HRA CFR	124,579	1,132	125,711
<b>Total</b>	<b>181,139</b>	<b>1,742</b>	<b>182,881</b>
Less: Usable reserves	(48,535)	4,000	(44,535)
Less: Working capital	(16,282)	(1,749)	(18,031)
<b>Net borrowing</b>	<b>116,322</b>	<b>3,993</b>	<b>120,315</b>

Net borrowing has increased due to a rise in the CFR as a result of expenditure on the capital programme to be met from borrowing (£1.7m) and a reduction in the level of reserves held (£4.0m), partly offset by an increase in working capital (£1.7m).

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31<sup>st</sup> March 2023 and the year-on-year change is shown in table 2 below.

Table 2: Treasury Management Summary

	<b>31.3.22 Balance £000</b>	<b>2022/23 Movement £000</b>	<b>31.3.23 Balance £000</b>	<b>31.3.23 Rate %</b>
Long-term borrowing	128,489	(3,047)	125,442	3.74%
Short-term borrowing	15,000	(5,000)	10,000	2.72%
<b>Total borrowing</b>	<b>143,489</b>	<b>(8,047)</b>	<b>135,442</b>	
Long-term investments	0	0	0	
Short-term investments	12,400	(12,400)	0	0%
Cash and cash equivalents	14,767	360	15,127	4.03%
<b>Total investments</b>	<b>27,167</b>	<b>(12,040)</b>	<b>15,127</b>	
<b>Net borrowing</b>	<b>116,322</b>	<b>3,993</b>	<b>120,315</b>	

## **Borrowing Strategy and Activity**

As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March around 2% - 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. The PWLB 10 year maturity certainty rate stood at 4.33% at 31<sup>st</sup> March 2023, 20 years at 4.70% and 30 years at 4.66%.

A new HRA PWLB rate of gilt yield plus 0.4% (0.4% below the currently available certainty rate) was announced on 15<sup>th</sup> March 2023. This discounted rate is to support local authorities borrowing for Housing Revenue Accounts and the delivery of social housing and is expected to be available from June 2023, initially for a period of one year.

At 31<sup>st</sup> March 2023, the Authority held £135m of loans, a decrease of £8m on the previous year, as part of its strategy for funding previous years' capital programmes. The year-end borrowing position and the year-on-year change in show in table 3 below.

**Table 3: Borrowing Position**

	<b>31.3.22 Balance £000</b>	<b>2022/23 Movement £000</b>	<b>31.3.23 Balance £000</b>	<b>31.3.23 Rate %</b>	<b>31.3.23 Average maturity years</b>
Public Works Loan Board	128,489	(3,047)	125,442	3.59	27 years
Short-term borrowing	15,000	(5,000)	10,000	2.72	<1 year
<b>Total borrowing</b>	<b>143,489</b>	<b>(8,047)</b>	<b>135,442</b>		



The Authority has an increasing CFR due to the 2022/23 capital programme spending and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital.

### **Investment Activity**

CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20<sup>th</sup> December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22, the Authority's investment balance ranged between £12m and £42m million due to timing differences between income and expenditure. The year-end investment position and the year-on-year change in show in table 4 below.

Table 4: Investment Position

	<b>31.3.22 Balance £000</b>	<b>2022/23 Movement £000</b>	<b>31.3.23 Balance £000</b>	<b>31.3.23 Rate %</b>	<b>31.3.23 Average maturity years</b>
Government (incl. local authorities)	12,400	(12,400)	0	0	
Money Market Funds	14,767	360	15,127	4.03	<1 year
<b>Total investments</b>	<b>27,167</b>	<b>(12,040)</b>	<b>15,127</b>		

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

In furtherance of these objectives, the Authority continued to increase deposits into more secure asset classes during 2022/23. As a result, investment risk was lowered.

Bank Rate has increased from 0.75% at the beginning of the year to 4.25% at the end of March 2023. Short-dated cash rates, which had ranged between 0.7% - 1.5% at the beginning of April, rose by around 3.5% for overnight/7-day maturities and 3.3% for 6-12 month maturities.

By end March 2023, the rates on DMADF deposits ranged between 4.05% and 4.15%. The return on the Council's Money Market Funds ranged between 3.8% and 3.9% for the same period.

### **Other Non-Treasury Holdings and Activity**

The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also broadens the definition of investments to include all such assets held partially or wholly for financial return.

The Authority holds £37m of directly owned investment property and land. The Authority also holds service loans of £357,500 to Staveley Town Council, £421,000 to Chesterfield Football Club Community Trust and £270,000 to Baylight Properties in respect of Peak Resort.

### **Performance Report**

The Authority measures the financial performance of its treasury management activities in terms of its impact on the General Fund and Housing Revenue Account revenue budgets, as shown in table 5 below.

Table 5: Performance

	<b>Actual £000</b>	<b>Budget £000</b>	<b>Over/ under</b>
<b>Total investment income</b>	(649)	(79)	(570)
<b>Total debt expense</b>	4,719	4,764	(45)
<b>GRAND TOTAL</b>	4,070	4,685	(615)

### Compliance Report

The Service Director - Finance is pleased to report that all treasury management activities undertaken during 2022/23 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 6 below.

Table 6: Investment Limits

	<b>2022/23 Maximum</b>	<b>31.3.23 Actual</b>	<b>2022/23 Limit</b>	<b>Complied</b>
Any single organisation (excluding Central Government)	<b>£0m</b>	<b>£0</b>	<b>£5m</b>	✓
Any group of funds under the same management	<b>£0m</b>	<b>£0</b>	<b>£7.5m</b>	✓
Enhanced Money Market Funds	<b>£12m</b>	<b>£8.8m</b>	<b>£12m</b>	✓

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: Debt Limits

	<b>2022/23 Maximum £000</b>	<b>31.3.23 Actual £000</b>	<b>2022/23 Operational Boundary £000</b>	<b>2022/23 Authorised Limit £000</b>	<b>Complied</b>
<b>Borrowing</b>	<b>£143,489</b>	<b>£135,442</b>	<b>£164,300</b>	<b>£180,700</b>	<b>✓</b>

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was below the operational boundary for the whole of 2022/23.

### **Treasury Management Indicators**

The Authority measures and manages its exposures to treasury management risks using the following indicators.

**Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates were:

<b>Interest rate risk indicator</b>	<b>31.3.23 Actual</b>	<b>2022/23 Limit</b>	<b>Complied</b>
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£118,000	£300,000	✓
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£118,000	£300,000	✓

**Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	<b>31.3.23 Actual</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Complied</b>
Under 12 months	11%	25%	0%	✓
12 months and within 24 months	2%	25%	0%	✓
24 months and within 5 years	6%	30%	0%	✓
5 years and within 10 years	12%	40%	0%	✓
10 years and within 25 years	49%	70%	20%	✓
25 years and above	20%	75%	15%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

**Principal Sums Invested for Periods Longer than 364 days:** These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Actual principal invested > 364 days	£0	£0	£0
Limit on principal invested > 364 days	£10m	£10m	£10m
Complied	✓	✓	✓

### Other

**IFRS 16:** The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1<sup>st</sup> April 2022. Following a consultation CIFPA/LASAAC announced an optional two year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1<sup>st</sup> April 2022, 1<sup>st</sup> April 2023 or 1<sup>st</sup> April 2024. The Authority intends to adopt the new standard on 1st April 2024.

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## **Revised Minimum Revenue Provision Statement 2023/24**

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

For capital expenditure incurred before 1<sup>st</sup> April 2008, MRP will be determined by charging the remaining expenditure over 40 years as the principal repayment on an annuity with an annual interest rate of 2%.

For unsupported capital expenditure incurred after 31<sup>st</sup> March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate of 2%, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

For capital expenditure where MRP is to be met by a contribution from Enterprise Zone business rates, MRP will be determined by charging the expenditure over the remaining period of allowable business rates retention for the Enterprise Zone.

For assets acquired by leases MRP will be determined as being equal to the element of the charge that goes to write down the balance sheet liability.

For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25 or later.

The statutory requirement to make MRP contributions does not apply to the Housing Revenue Account, however the Council may, if it chooses, make a Voluntary Revenue Provision (VRP). Historically the Council has chosen to make a VRP contribution of 1.5% of the outstanding Housing Revenue Account Capital Financing Requirement in respect of housing assets.

However, as a result of ongoing pressures on the HRA such as unprecedented and unpredicted inflationary pressures around energy, fuel, contracts, building materials, interest rates (including the cost of borrowing), and pay budgets, and in order to allow greater flexibility to ensure that the HRA balance is maintained at an appropriate level to avoid the risk of a negative balance in the event of an exceptional cost arising, no VRP contribution in respect of housing assets will be made for the 2023/24 and 2024/25 financial years.



# Audit Progress Report

Chesterfield Borough Council

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Standards and Audit Committee 13 September 2023



1. 2021/22 and 2022/23 Audits - Updates
2. Appendices

# 01

Section 01:

**2021/22 and 2022/23 Audits - Updates**

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# Audit progress – 2021/22 Audit

This report provides the Standards and Audit Committee's 13 September 2023 meeting with:

- an update on the status of the 2021/22 Audit and its completion;
- An update on the 2022/23 Audit Strategy.

## [Audit Opinion on the 2021/22 Financial Statements](#)

We presented our Audit Completion Report to the Standards and Audit Committee in November 2022. In our report we identified the status of the audit, the key findings to date and the remaining work. We committed to keeping the Committee informed on progress and the outcome of the work and have provided the Committee with update reports. There were two issues which held up the completion of the audit:

- **Valuations of Council Dwellings, Land, Buildings and Investment Properties** - in our November 2022 report to the Committee we highlighted the difficulties encountered in obtaining sufficient evidence to complete the testing of these valuations. This work was completed in March 2023, with no material misstatements identified. We have agreed a number of actions with management to address the issues encountered and are working with officers to avoid similar difficulties as part of the 2022/23 audit.
- **2022 Triennial Pension Fund Valuation** - The 2022 Triennial Pension Fund valuations, which were reported in March 2023, showed material movements in the estimated 31/3/2022 net liability valuation, largely due to updated membership details. The Regulators and audit suppliers confirmed in May 2023 the way forward to address this. As part of this:
  - Councils have been required to obtain updated IAS19 valuation reports and amend the draft financial statements for the new figures. This additional work was completed in August 2023 and the adjustments required to the draft financial statements agreed with Management.
  - Pension Fund auditors have needed to complete testing on the reliability and accuracy of the updated pension fund membership data used as part of the 2022 Triennial valuation. The results from this work, confirming the updated pension fund membership data can be relied upon, was completed in August 2023.

We gave an unqualified audit opinion on the updated Financial Statements on 16 August 2023. We also issued a letter which provided an update to our November 2022 Audit Completion Report and summarised the amendments made to the Financial Statements. A copy of this letter is included for information at Appendix 1 to this report.

# Audit progress – 2021/22 Audit

## [Auditor's Annual Report 2021/22, including the Value for Money Commentary](#)

We reported our interim findings in relation to the Council's Value for Money arrangements for 2021/22 in our November 2022 report to the Committee and have continued to keep our risk assessment up to date.

We issued our Auditor's Annual Report 2021/22 on 31 August 2023. Our Value for Money Commentary did not highlight any significant weaknesses in the Council's Value for Money arrangements. We drew attention to the medium term challenges across the sector in relation to the financial sustainability theme, and commented on the actions the Council is taking in the current year to restore financial balance. This is a topic we have continued to keep under review and will comment on in future reports.

## [Audit Certificate 2021/22](#)

We are required 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. We did not receive any questions or objections in respect of the Council's financial statements and there are no ongoing matters in relation to this specific responsibility.

The National Audit Office has not yet finalised their requirements of auditors in relation to the Council's 2021/22 Whole of Government Accounts. We do not foresee any significant concerns in relation to this but we are unable to issue our audit certificate until this is formally confirmed. We will update the Committee when this has been concluded.

# Audit Progress – 2022/23 Audit

## 2022/23 Audit Planning

At the April 2023 meeting of the Committee we shared a summary of the key elements of our Audit Strategy for 2022/23, including:

- Our audit responsibilities and planned communications with the Committee
- The key members of the audit team and their responsibilities
- The planned audit approach and the timing of the key stages of the audit
- The significant audit risks identified and our planned response
- The expected materiality thresholds to be applied in carrying out our audit work and evaluating any errors or misstatements identified
- The approach to completing our assessment of the Council's VFM arrangements and the outcome from the initial risk assessment.

The full Audit Strategy Memorandum is attached at Appendix 2. There are no significant changes to the April 2023 summary of our approach, scope of the audit, the areas of focus and audit risks and no additional concerns that we need to highlight to the Committee.

## **Accounts Audit Progress**

The delay in the completion of the 2021/22 audit has significantly impacted the timing of the 2022/23 audit and we are working with management to recover any slippage and complete the current year audit within a revised timeline. Although it is unlikely that the main audit work will start now before December 2023 we are in the meantime prioritising early testing on the areas of significant audit risk. This includes:

- Property Valuations – we have had early engagement with the valuers regarding the information needed and the actions required to avoid the delays experienced for 2021/22. We have selected the sample for testing and obtained the requested valuation reports, and will be clearing any queries over the coming weeks.
- Net Pension Asset Valuation – we have agreed with the Pension Fund auditor the information required from their testing and are liaising with management regarding the specific accounting requirements for the 2022/23 valuation, which shows the Council to be in a net Asset (rather than Liability) position.
- Loans and Investments 3<sup>rd</sup> Party Confirmations – these have all been received with no errors identified.

We will keep the Committee updated on progress.

# Audit Progress – 2022/23 Audit (continued)

## Value for Money Arrangements

We have updated our risk assessment and no significant weaknesses in the Council's arrangements for 2022/23 have been identified. Financial sustainability is an area of concern across the sector and we will continue to monitor the Council's financial position and the actions being taken to restore current and medium term balance. We will keep our risk assessment up to date and report any additional matters through our Audit Completion Report and Auditor's Annual Report.

# 02

## Section 02: **Appendices**



# Appendix 1 - Audit Completion Report 2021/22 Follow Up Letter



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16 August 2023

Dear Committee Member

## Chesterfield Borough Council Audit Completion Report 2021/22 – update

Following on from the Committee's 23 November 2022 meeting I am writing to update, in the table below, the Committee members of those matters that were reported within the Chesterfield Borough Council Audit Completion Report dated 15 November 2022.

Matter included in our Audit Completion Report	Update/Conclusion reached
Land, Buildings and Investment Property valuations	We were awaiting residual evidence and explanations from management to support valuation inputs and judgements by the Council's internal valuation expert on our samples selected for testing. This work is now complete. The financial statements have been amended to correct errors identified and management has agreed improvements to the valuation process for the 2022/23 accounts. We have summarised these matters and the changes made to the draft financial statements at Appendix 1.
Income, expenditure, debtors and creditors testing	We were clearing the small number of remaining queries relating to our transaction testing. We have completed this testing and Appendix 1 includes a further audit observation regarding the Council's accounting practices.
Whole of Government Accounts (WGA)	This will be completed in the near future and ahead of the Audit Certificate being issued for 2021/22.
Audit Quality Control and Completion Procedures	This process is complete and other than the matters reported below regarding the 2022 Triennial Pension Fund valuation, and in the Appendix to this letter there are no specific matters that we are required to report. The Audit Opinion was issued on 16 August 2023.

## 2022 Triennial Pension Fund Valuation

A further national issue which emerged after our report to the November 2022 Committee meeting has delayed the issue of 2021/22 audit opinions. The 2022 Triennial Pension Fund valuations, which were reported in March 2023, showed material movements in the estimated 31/3/2022 net liability valuation, largely due to updated membership details. The Regulators and audit suppliers confirmed in May 2023 the way forward to address this. As part of this:

- Councils have been required to obtain updated IAS19 valuation reports and amend the draft financial statements for the new figures; and
- Pension Fund auditors have needed to complete testing on the reliability and accuracy of the updated pension fund membership data used as part of the 2022 Triennial valuation.

The additional work was completed in August 2023 and the adjustments required to the draft financial statements agreed with Management. These adjustments are summarised at Appendix 1.

## Annual Auditor's Letter and Value for Money Commentary

We provided the Committee, in our Audit Completion Report, with a summary of our responsibilities in relation to Value for Money. We informed the Committee that we had not identified any risks of or significant weaknesses in the Council's arrangements for securing Value for Money in its use of resources. This is still the case at the date of this letter and there are no additional matters in respect of the Council's arrangements for securing value for money that we need to bring to your attention at this stage. Our full Value for Money commentary will be included in our Auditor's Annual Report 2021/22.

## Audit Certificate

I can confirm that we have not yet issued the 2021/22 Audit Certificate for the reasons set out in our Audit Completion Report (ie the need to complete the WGA requirements and the timing of the Annual Auditor's Report). We expect to issue the certificate once these matters are concluded.

We will update the Committee at its next meeting but if you wish to discuss these or any other matters in the meantime then please do not hesitate to contact me.

Yours sincerely



**Mark Dalton**

Key Audit Partner

For and on behalf of Mazars LLP

## Appendix 1 – additional matters

We reported the findings from our audit of the financial statements to the Standards and Audit Committee in our November 2022 Audit Completion Report. The Committee agreed that any further matters could be delegated to the S.151 Officer, with any subsequent changes reported back to the Committee. We have summarised below the further matters that need to be brought to the Committee's attention.

### Unadjusted Audit Differences – PPE valuations

We reported in our November 2022 Audit Completion Report we were awaiting residual evidence and explanations from management to support valuation inputs and judgements by the Council's internal valuation expert on our samples selected for testing. We identified errors in the sample of original Land and Buildings' valuations provided, with the relevant build cost and income data used in the valuations needing to be updated. We have identified a non-material audit difference which management do not propose to adjust on the grounds of materiality. We have summarised this audit difference in the table below. The Letter of Representation provided to us confirmed the Committee's agreement with management to not adjust for these differences and the other non-material differences reported in our November 2022 Audit Completion Report.

Details	Assets £000s	Liabilities £000s	Reserves £000s	Comprehensive I&E Statement £000s	Comments
Cr PPE	(1,048)				We identified errors in the build costs and income data used in the sample of valuations tested. The audit difference is an extrapolated value and does not indicate that the financial statements are materially misstated.
Dr Unusable Reserves (Revaluation Reserve)			1,048		

### Adjusted Audit Differences - 2022 Triennial Pension Fund Valuation

The draft accounts have been adjusted to take account of the material changes arising from the 2022 Triennial Pension Fund valuation reported in March 2023. This information was not available when the draft accounts were published.

Details	Assets £000s	Liabilities £000s	Reserves £000s	Comprehensive I&E Statement £000s	Comments
Dr Pension net liability		5,193			These are a summary of the changes made to the primary financial statements following the receipt of the updated IAS19 valuation report which takes account of the changes in the Actuary's estimates following the 2022 Triennial valuation of the Pension Fund.
Cr Unusable Reserves (Pension Reserve)	5,193				
Dr Other Comprehensive Income and Expenditure – Actuarial (gains)/losses on Pension Liabilities				5,193	

## Other matters

We have the following further matter to report to the Committee for completeness:

Bad Debt Provision/Expected Credit Loss Model - Our review of the Council's debt impairment calculations have confirmed that the Council has continued to apply its Bad Debt Provision approach rather than follow the Expected Credit Loss model as required under IFRS 9 and the CIPFA Code. Management has reviewed IFRS 9/CIPFA Code requirements against its estimate for debt impairment and is satisfied that its approach takes account of the debtor circumstances, is viewed by them as pragmatic and prudent and that the accounts are unlikely to be misstated.

# Appendix 2 – Audit Strategy Memorandum 2022/23

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# DRAFT Audit Strategy Memorandum

Chesterfield Borough Council

Year ending 31 March 2023

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- 08 Materiality and misstatements

Appendix A – Key communication points

Appendix B – Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

This document is to be regarded as confidential to Chesterfield Borough Council. It has been prepared for the sole use of The Standards and Audit Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

4 September 2023

Dear Committee Members

## Audit Strategy Memorandum – Year ending 31 March 2023

We are pleased to present our Audit Strategy Memorandum for Chesterfield Borough Council for the year ending 31 March 2023. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Chesterfield Borough Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

The completion of the 2021/22 audit has been delayed due to the difficulties in completing the property valuation testing and national issues regarding the accounting requirements for Pensions. These matters were resolved in August 2023. This delay has significantly impacted the timing of the 2022/23 audit and we are working with management to recover any slippage and complete the current year audit within the revised timeline.

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me at [james.collins@mazars.co.uk](mailto:james.collins@mazars.co.uk)

Yours faithfully

James Collins

Mazars LLP [www.mazars.co.uk](http://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 30 Old Bailey, London, EC4M 7AU. We are 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](http://www.auditregister.org.uk) under reference number C001139861. VAT number: 839 8356 73



# 01

Section 01:

## **Engagement and responsibilities summary**

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# 1. Engagement and responsibilities summary

## Overview of engagement

We are appointed to perform the external audit of Chesterfield Borough Council (the Council) for the year to 31 March 2023. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

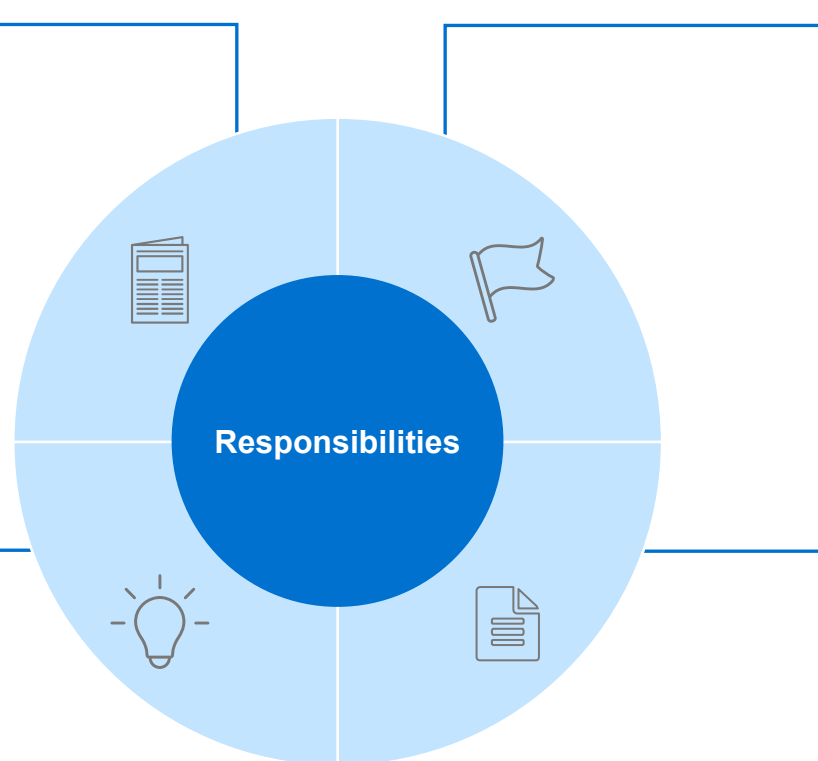
### Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or The Standards and Audit Committee, as those charged with governance, of their responsibilities.

The Chief Finance Officer is responsible for the assessment of whether it is appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements.

### Value for money

We are also responsible for forming a commentary on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



### Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and Internal Audit, as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

### Wider reporting and electors' rights

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

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 consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendices

# 02

Section 02:

## Your audit engagement team

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## 2. Your audit engagement team

Your external audit service will continue to be led by the following.

Who	Role	Email
James Collins Director and Key Audit Partner	Engagement Lead	James.collins@mazars.co.uk
Michael Norman Senior Manager	Engagement Manager	Michael.Norman@mazars.co.uk



# 03

Section 03:

## **Audit scope, approach and timeline**

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# 3. Audit scope, approach and timeline

## Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

## Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to the risks identified.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

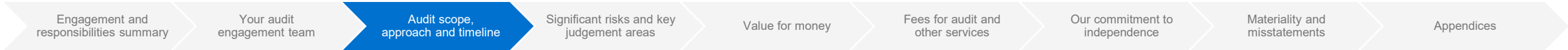
The completion of the 2021/22 audit has been delayed due to the difficulties in completing the property valuation testing and national issues regarding the accounting requirements for Pensions. These matters were resolved in August 2023. This delay has significantly impacted the timing of the 2022/23 audit and we are working with management to recover any slippage and complete the current year audit within the revised timeline.

The diagram on the next page outlines the procedures we perform at the different stages of the audit. The specific dates are subject though as always to:

- the timely provision of information by the Council and any third parties (for example the Pension Fund auditor);
- no significant national accounting issue emerging which require additional significant audit work; and
- us being able to fully complete the audit procedures to the required quality standards.

## Requirements of revised ISA 315

The International Audit and Assurance Standards Board (IAASB) approved major changes to ISA 315 in September 2019. The changes are effective for audits of financial statements for periods beginning on or after 15 December 2022. The revisions intend to drive better quality and more consistent risk assessments, as well as the exercising of professional scepticism. We summarise the implications of the revised standard in Appendix B.



# 3. Audit scope, approach and timeline

## Audit Timeline

Owing to delays in the 2021/22 audit completion the start of the main 2022/23 audit has been delayed and consequently is starting later in 2023 and early 2024

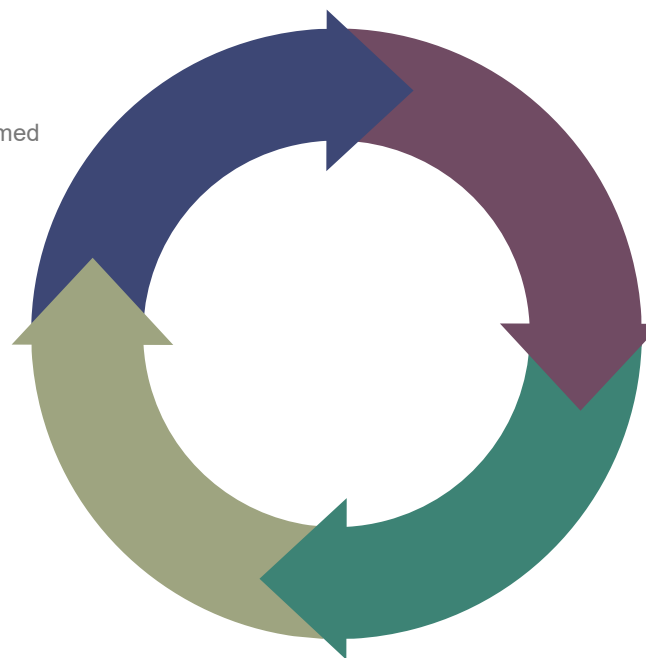
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### Planning and Risk Assessment – March 2023

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality

### Completion – February 2024

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Standards and Audit Committee
- Reviewing subsequent events
- Signing the independent auditor's report

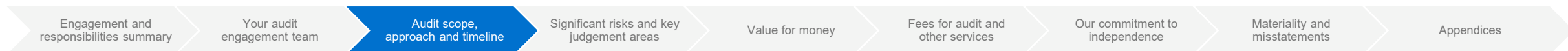


### Interim – March/April 2023

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary
- Carrying out our VFM risk assessment

### Fieldwork – December 2023/January 2024

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high risk areas including detailed testing of transactions, account balances and disclosures
- Reviewing responses from third parties
- Communicating progress and issues
- Clearance meeting
- Updating our VFM risk assessment



# 3. Audit scope, approach and timeline

## Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures, and we will take the Head of Internal Audit's Annual Report findings into account in forming our Value for Money Conclusion.

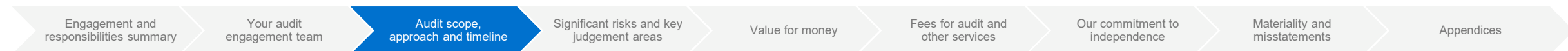
## Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined benefit liability	Hymans Robertson <i>Actuary for Derbyshire Pension Fund</i>	PWC <i>Consulting actuary appointed by NAO</i>
Property, plant and equipment, Investment Properties and Assets held for sale valuation	The Council's internal valuer	We may seek to engage our Internal Valuer to support our audit testing if necessary.
Property, plant and equipment valuation (Council Dwellings only)	Barlow Property Consultancy <i>External valuation specialist</i>	
Business Rate Appeals valuation	Inform CPI Limited <i>Analyse Local Valuation System</i>	Not applicable
Financial instrument disclosures	Arlingclose <i>Treasury management advisors</i>	Not applicable

## Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. We have not identified any service organisations which are relevant to the Council.





# 04

Section 04:

**Significant risks and other key  
judgement areas**

Page 89

# 4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

## Significant risk

Significant risks are those risks assessed as being close to the upper end of the spectrum of inherent risk, based on the combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. Fraud risks are always assessed as significant risks as required by auditing standards, including management override of controls and revenue recognition.

## Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

## Standard risk

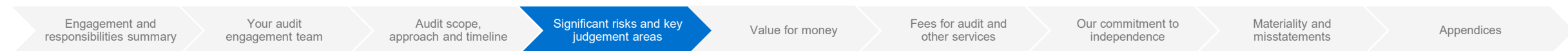
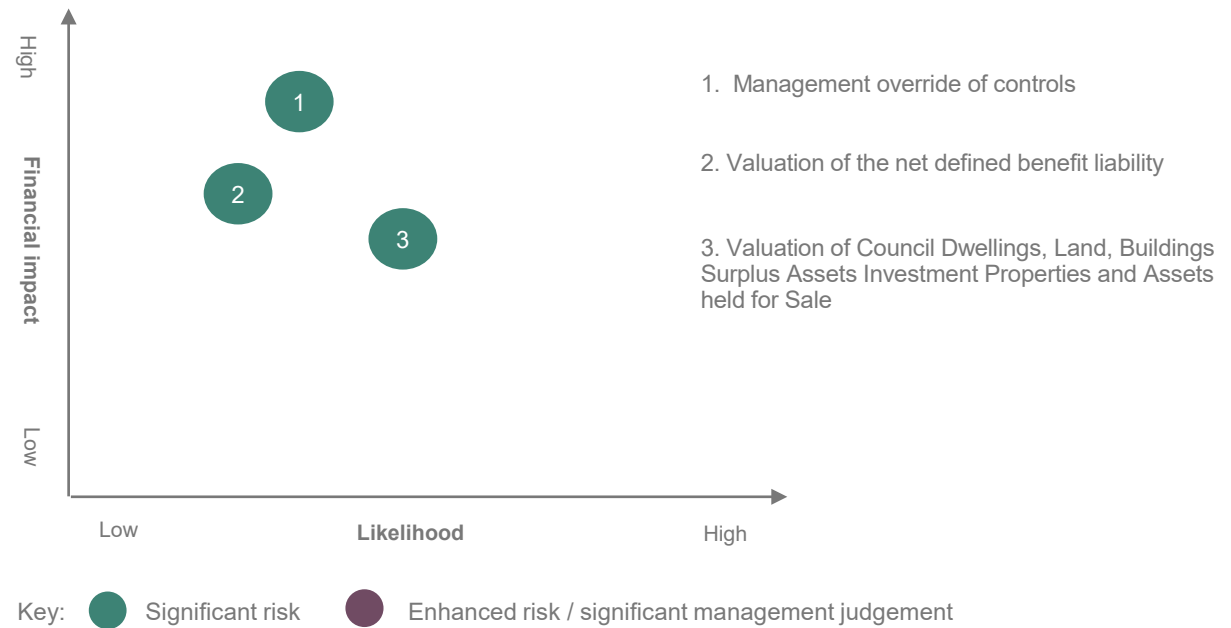
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

## Areas of audit focus

Where we identify a material item of account or aspect of financial reporting that represents a challenge to the Council, we will highlight to the Standards and Audit Committee as one where we will focus our audit attention.

## Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council. We have summarised our audit response to these risks on the next page.



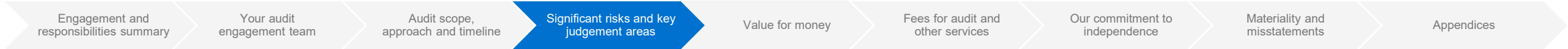
# 4. Significant risks and other key judgement areas

## Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Standards and Audit Committee.

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
Page 91	<p><b>Management override of controls</b>            This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>

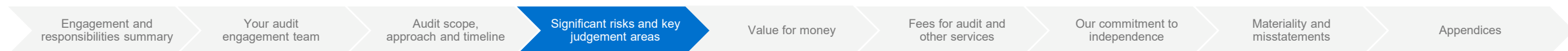


# 4. Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p><b>Valuation of the net defined benefit asset</b></p> <p>The net defined benefit liability relating to the Local Government Pension Scheme represents a significant balance on the Council's balance sheet.</p> <p>The Derbyshire Pension Fund, as the local scheme administrator, uses an actuary to provide an annual valuation of these assets and 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>The 2022 Triennial Valuation of the Fund, and changes in the Actuaries' assumptions in 2022/23 have seen significant movements in the Pension liability valuation, with many employers IAS19 reports showing a net Asset position. The accounting requirements in these circumstances are complicated and require careful judgement.</p> <p>Relevant Account Balances (taken from the 2022/23 final financial statements) are:</p> <ul style="list-style-type: none"> <li>- Present value of the defined obligation - £(245.3)m</li> <li>- Fair value of plan assets - £255.6m</li> <li>- Net defined benefit Asset - £10.3m</li> </ul>	○	●	●	<p>We plan to address the risk by:</p> <ul style="list-style-type: none"> <li>• critically assessing the competency, objectivity and independence of the Actuary engaged by the Derbyshire County Pension Fund;</li> <li>• liaising with the auditors of the Derbyshire County Pension Fund to gain assurance over the design and implementation of controls in place at the Derbyshire 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;</li> <li>• reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Fund Actuary (as applicable), and the key assumptions included within the valuations. This will include comparing them to expected ranges, utilising information by the consulting actuary engaged by the National Audit Office;</li> <li>• agreeing the data in the IAS 19 valuation report provided by the Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements; and</li> <li>• Reviewing and challenging the Council's assessment, under the requirements of IFRIC14, of its Pension surplus and confirming that the accounting treatment is appropriate and reasonable.</li> </ul>

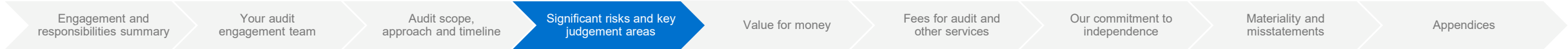
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# 4. Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
2  Page 93	<p><b>Valuation of Council Dwellings, Land and Buildings, Surplus Assets and Investment Properties</b></p> <p>Property related 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.</p> <p>Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p> <p>This risk covers (figures have been taken from the 2022/23 draft financial statements):</p> <ul style="list-style-type: none"> <li>• Council Dwellings - £418.6m</li> <li>• Land &amp; Buildings - £80.7m</li> <li>• Surplus Assets - £0.3m</li> <li>• Investment Properties - £37.5m</li> </ul>	○	●	●	<p>We plan to address this risk by:</p> <ul style="list-style-type: none"> <li>• critically assessing the Council's valuers' scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;</li> <li>• 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;</li> <li>• assessing whether valuation movements are in line with market expectations by considering valuation trends; and</li> <li>• critically assessing the approach that the Council adopts to ensure that assets that are not subject to revaluation in 2022/23 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers.</li> </ul>



# 05

## Section 05: **Value for money**

# 6. Value for Money

## The framework for Value for Money work

We are required to form a view 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 view, and sets out the overall criterion and sub-criteria that we are required to consider.

2022/23 will be the third audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

### Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

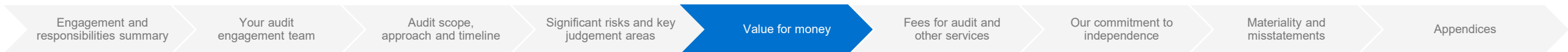
1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services

### Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

No significant weaknesses in arrangements were reported, and no recommendations made, as part of previous years' Auditor's Annual Reports. We have completed our 2022/23 planning and initial risk assessment work and at this stage have not identified any risks of, or actual, significant weaknesses. We will keep our risk assessment up to date as the audit progresses and will report our full commentary and any recommendations in our current year's Auditor's Annual Report.

<b>Planning and risk assessment</b>	<p>Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:</p> <ul style="list-style-type: none"> <li>• NAO guidance and supporting information</li> <li>• Information from internal and external sources including regulators</li> <li>• Knowledge from previous audits and other audit work undertaken in the year</li> <li>• Interviews and discussions with staff and members</li> </ul>
<b>Additional risk based procedures and evaluation</b>	<p>Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.</p>
<b>Reporting</b>	<p>We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.</p> <p>Our commentary will also highlight:</p> <ul style="list-style-type: none"> <li>• Significant weaknesses identified and our recommendations for improvement</li> <li>• Emerging issues or other matters that do not represent significant weaknesses but still require attention from Council.</li> </ul>



# 06

Section 06:

**Fees for audit and other services**



# 7. Fees for audit and other services

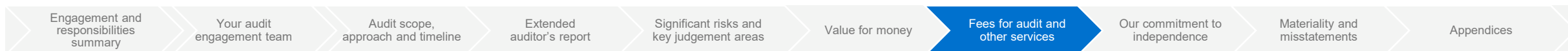
## Fees for work as the Council's appointed auditor

Details of the 2021/22 expected and planned 2022/23 fees are set out below.

The 2021/22 audit has not been finalised yet, with the completion delayed due to the difficulties in testing property valuations and the need to carry out further audit work in relation to the Pensions financial reporting requirements. The final fee, including any identified fee variations for work outside of the set scale audit fee, is subject to agreement with management and approval by PSAA.

PSAA has notified clients of increases in the published 2022/23 scale audit fees to reflect changes in the work required since the scale fees were originally set. We have also identified likely fee variations required for the year. These are subject to agreement with management and approval by PSAA once the audit has been finalised.

Area of work	Estimated 2021/22 Fee	Estimated 2022/23 Fee
Scale Audit fee	£40,383	£50,848
Fee variations:		
Additional work in response to regulatory recommendations, including audit work on defined benefit liability schemes and the valuation of Council Dwellings, land and buildings and Investment Properties	£7,952	n/a – included in updated scale fee
Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; ISA570 (Revised) Going Concern, ISA (UK) 315 (Revised 2019) Revised auditing standard on Identifying and assessing the risks of material misstatement	£2,000	TBC
Additional work arising from changes in the Code of Audit Practice and VFM Reporting	£9,000	£9,000
Other additional testing to address matters encountered in the year (Property Valuations and 2022 Triennial Pensions Valuation)	£11,000	n/a
<b>Total</b>	<b>£69,853</b>	<b>TBC</b>



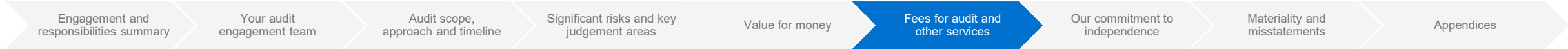
# 6. Fees for audit and other services

## Fees for non-PSAA work

In addition to the fees outlined on the previous page in relation to our appointment by PSAA, we expect to be separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Area of work	2022/23 Indicative Fee*
Assurance services – Housing Benefits	£8,500
Assurance Services – Pooling of Housing Capital Receipts	£4,500

\* Subject to agreement with the Council if we are engaged to complete this work.



# 07

Section 07:

## **Our commitment to independence**

Page 99

# 7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

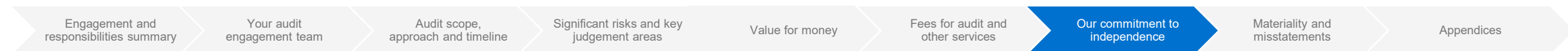
- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- approval by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with James Collins in the first instance.

Prior to the provision of any non-audit services James Collins will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report. This will include any non-audit assurance work covered by separate engagements which are entered into.

Page 100



# 08

Section 08:

## **Materiality and misstatements**

Page 101

# 9. Materiality and misstatements

## Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	2,531
Performance materiality	2,025
Specific materiality – Officers’ Remuneration (note 35 of the Statement of Accounts)	5
Trivial threshold for errors to be reported to the Standards and Audit Committee	76

### Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

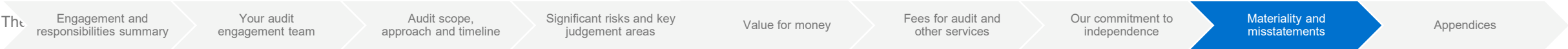
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of the Comprehensive Income and Expenditure Statement (CIES) total gross expenditure. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Standards and Audit Committee.

We consider that the total gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



# 9. Materiality and misstatements

## Materiality (continued)

We expect to set a materiality threshold at 2% of gross revenue expenditure, as explained on the previous page.

In setting materiality, we considered, among other matters:

- The nature of the Council's business, being provision of public services to the local community
- Nature of the Council's ownership, being a public body, led by elected members and paid officers, which includes the statutory roles - Head of Paid Services, Chief Financial Officer (s151), and Monitoring Officer;
- Council's access to financing, with the Council having access to the Public Works Loan Board (PWLB) for borrowing which are non-complex arrangements.

Based on the 2022/23 draft financial statements we anticipate the overall materiality for the year ended 31 March 2023 to be in the region of £2.5m.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

## Performance 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 fourth year of audit, we have cumulative audit knowledge about the Council's financial statements, and there were no significant matters arising last year. We have therefore set our performance materiality at 80% of our overall materiality being around £2.0m.

## Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Standards and Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £76,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with James Collins.

## Reporting to the Standards and Audit Committee

The following three types of audit differences will be presented to the Standards and Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendices



# Appendices

A: Key communication points

B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)



# Appendix A: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

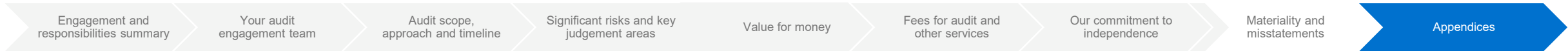
## Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;

- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

## Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

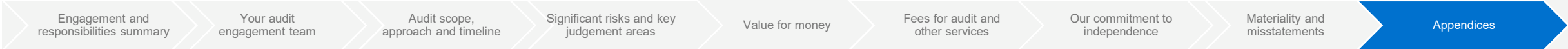


# Appendix A: Key communication points

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

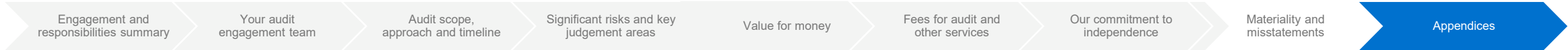
Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> <li>• uncorrected misstatements and their effect on our audit opinion;</li> <li>• the effect of uncorrected misstatements related to prior periods;</li> <li>• a request that any uncorrected misstatement is corrected; and</li> <li>• in writing, corrected misstatements that are significant.</li> </ul>	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> <li>• enquiries of the Standards and Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>• any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>• a discussion of any other matters related to fraud.</li> </ul>	Audit Completion Report and discussion at the Standards and Audit Committee, Audit planning and clearance meetings

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# Appendix A: Key communication points

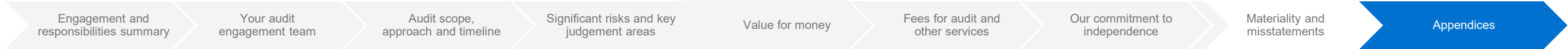
Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• non-disclosure by management;</li> <li>• inappropriate authorisation and approval of transactions;</li> <li>• disagreement over disclosures;</li> <li>• non-compliance with laws and regulations; and</li> <li>• difficulty in identifying the party that ultimately controls the entity.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• significant difficulties, if any, encountered during the audit;</li> <li>• significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• written representations that we are seeking;</li> <li>• expected modifications to the audit report; and</li> <li>• other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Standards and Audit Committee in the context of fulfilling their responsibilities.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant deficiencies in internal controls identified during the audit.</p>	<p>Audit Completion Report</p>
<p>Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.</p>	<p>Audit Completion Report</p>



# Appendix A: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Standards and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Standards and Audit Committee may be aware of.	Audit Completion Report and The Standards and Audit Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>• whether the events or conditions constitute a material uncertainty;</li> <li>• whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>• the adequacy of related disclosures in the financial statements.</li> </ul>	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

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# Appendix B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

## Background

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor's risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The new standard is effective for periods commencing on or after 15 December 2021 and therefore applies in full for the Council's 2022/23 audit.

The most significant changes relevant to the Council's audit are outlined below.

### Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the audited entity, its environment and the applicable financial reporting framework in order to identify and assess risk based on new inherent risk factors which include:

- Subjectivity
- Complexity
- Uncertainty and change
- Susceptibility to misstatement due to management bias or fraud.

Using these inherent risk factors, we assess inherent risk on a spectrum, at which the higher end of which lies significant risks, to drive an audit that is more focused on identified risks. Auditors are now also required to obtain sufficient, appropriate evidence from these risk identification and assessment procedures which means documentation and evidence requirements are also enhanced.

### Greater emphasis on understanding IT

In response to constantly evolving business environments, the standard places an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible

risks within an entity's information systems. As a result, we are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs).

### Increased focus on controls

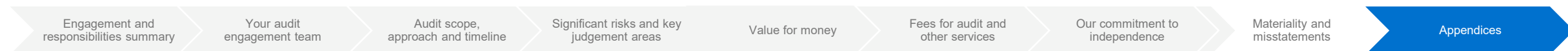
Building on the need for auditors to gain a greater understanding of the IT environment, the standard also widens the scope of controls that are deemed relevant to the audit. We are now required to broaden our understanding of controls implemented by management, including ITGCs, as well as assess the design and implementation of those controls.

### Implications for the audit

Our risk assessment procedures will be more granular than those carried out under the previous standard by your previous auditor, and we will be seeking sufficient information from the Council to ensure that we can document our detailed understanding of the Council and the environment that it operates in.

In documenting our risk assessment, we will need to input additional time to assess inherent risks of the spectrum that the auditing standard requires.

In terms of IT, we will need to ensure we have a good understanding of the Council's IT environment. We will keep this under review as part of our planning and interim audits. We do not plan to test IT general controls as we have designed our approach to gain assurance from substantive testing, which in our view remains the most efficient approach to take.



# James Collins, Director – Public Services

## Mazars

Bank Chambers

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Newcastle, NE1 1DF

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\*where permitted under applicable country laws.

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