



Auditor's Annual Report

Bolsover District Council – year ended 31 March 2024

February 2025

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Forvis Mazars LLP – Bank Chambers, 26 Mosley Street, Newcastle upon Tyne, NE1 1DF Tel: 0191 383 6300 – Fax: 0191 383 6350 – www.forvismazars.com/uk
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Introduction

Introduction

Purpose of the Auditor’s Annual Report

Our Auditor’s Annual Report (AAR) summarises the work we have undertaken as the auditor for Bolsover District Council (‘the Council’) for the year ended 31 March 2024. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice (‘the Code’) issued by the National Audit Office (‘the NAO’). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit report on 21 February 2025. Our audit report included a disclaimer of opinion. This means our audit report did not express an opinion on the financial statements and no assurance was provided. It was necessary to issue a disclaimer of opinion as amendments to the Account and Audit Regulations introduced a statutory deadline for publication of the Council’s financial statements. We were unable to complete the audit procedures necessary to obtain sufficient appropriate audit evidence on which to base our opinion before the date the Council published its financial statements.



Value for Money arrangements

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



Wider reporting responsibilities

We are unable to complete our work on the Council’s Whole of Government Accounts return until we have been provided with group instructions by the NAO and clearance on whether we will be required to undertake additional procedures as a sampled component.

Audit of the financial statements

Audit of the financial statements

Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. Amendments to the Accounts and Audit Regulations introduced a deadline for publication of local authorities' audited 2023-24 financial statements. Prior to issuing our audit report, the ISAs require us to determine whether we have obtained sufficient appropriate audit evidence based on the audit procedures completed at that date. We concluded we had not obtained sufficient appropriate audit evidence to enable us to express an opinion on whether the financial statements present a true and fair view and have been prepared, in all material respects, in line with the Code of Practice on Local Authority Accounting. Consequently, as required by the ISAs, we modified our audit report and issued a disclaimer of opinion. This means, in our audit report issued on 21 February 2025, we have not expressed an opinion on the Council's financial statements.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council in July 2024. Whilst the Council's Financial statements were of a good quality, the Group financial statements included material errors and the Council was unable to provide sufficient, appropriate evidence to support the figures in the Group financial statements were free from material misstatement. Further detail is provided in Appendix A of this report

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties, and we have had the full co-operation of management.

Other reporting responsibilities

Reporting responsibility	Outcome
Narrative Report	We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Council
Annual Governance Statement	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.
Wider responsibilities	<p>Our powers and responsibilities under the 2014 Act are broad and include the ability to:</p> <ul style="list-style-type: none">• issue a report in the public interest;• make statutory recommendations that must be considered and responded to publicly;• apply to the court for a declaration that an item of account is contrary to law; and• issue an advisory notice under schedule 8 of the 2014 Act. <p>We have not exercised any of these powers as part of our 2023/24 audit.</p>

Our work on Value for Money
arrangements

VFM arrangements

Overall Summary



VFM arrangements – Overall summary

Approach to Value for Money arrangements work

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



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



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



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

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

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

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

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

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

Phase 2 - Additional risk-based procedures and evaluation

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

We outline the risks that we have identified and the work we have done to address those risks on page 21

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

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




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

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

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

VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11-14	No	No	Yes – see commentary on page 12
 Governance	15-17	Yes – see risk on page 16	Yes – see recommendation on page 21	No
 Improving economy, efficiency and effectiveness	18-19	No	No	No

VFM arrangements

Financial Sustainability

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



VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability

Position brought forward from 2022/23

There are no indications of a significant weakness in the Council's arrangements for financial sustainability brought forward from 2022/23. The Council's underlying arrangements in relation to financial sustainability are not significantly different in 2023/24.

Overall responsibilities for financial governance

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

The Council's financial planning and monitoring arrangements

Through our review of Council and committee reports, meetings with management and relevant work performed on the financial statements, we are satisfied that the Council's arrangements for budget monitoring remain appropriate, including reporting to Members. On the 30th January 2023 the council presented the Medium Term Financial Plan (MTFP) which showed a balanced budget for 2023/24. In its MTFP the council projected deficits where this would be funded by contributions from reserves, below we have figures from the revised budget for 203/24

Year	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Total Spending Requirement	16.684	18.189	18.270	14.094	14.274
Total Funding	16.666	18.189	18.270	14.094	14.274
Funding Gap (Surplus)	0.018	0	0	0	0

2023/24 Budget Setting and the Medium-Term Financial Plan

In developing the financial projections, the Council made several assumptions. The major assumptions including, staffing budgets as an estimate for a pay award. Investment income as a result of treasury management decisions has been increased slightly in all years of the MTFP as interest rates are expected to rise. Inflation specific budgets such as energy costs and fuel were amended to reflect anticipated price

changes. With respect to planning fees, a base level for income had been included for all future years of £0.400m. Fees and charges service specific increases were as agreed by Members.

In 2022/23 the Council acquired an interest in a subsidiary Dragonfly Development Limited (DDL) as an investment to improve the Council's financial sustainability in the future whilst improving the provision of sustainable housing in the Bolsover district. A full business case was approved by Council in February 2022. Through review of the 2022/23 MTFP we noted the budget did not include any income and expenditure related to DDL. As a result, a recommendation was made in 2022/23 for inclusion of income and expenditure of DDL in MTFP. In 2023/24 the Council has still not included income and expenditure of DDL in MTFP on the grounds that the accounts were not yet finalised for DDL. Our review of outturn has not indicated a detrimental impact on the Council's position as a result of DDL. However we again recommend that DDL is clearly factored into the MTFP:

Other recommendation

We recommend that the Council explicitly includes the MTFP income and expenditure that relates to Dragonfly Development Limited.

We have confirmed that a bimonthly delivery update on Dragonfly is reported to Local Growth Scrutiny Committee. Additionally, the Executive Committee in year started receiving quarterly target performance report of Dragonfly starting Q2 24-25. We understand from discussion with officer the budget/MTFP will include DDL in future years. Based on work completed for the year ended 31 March 2024 we have not identified any matters to indicate any significant weakness in arrangements. We will review the arrangements for DDL further in our work for the year ended 31 March 2025. This will include the financial planning and governance arrangements associated with DDL.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria – continued

2023/24 Statement of Financial Position and Outturn Report

The Council reported its financial outturn position in the 2023/24 Statement of Accounts. The General Fund balance has decreased to £2.001m in line with the MTFP. This was mainly caused by a £0.361m underspend on salaries through vacancy savings and £0.323m additional investment income from favourable business rates.

Directorates	Budget £m	Outturn £m	Variance £m
Community Services Directorate	8.411	7.895	(0.516)
Corporate Resources Directorate	1.594	1.467	(0.126)
Dragonfly Services	2.583	2.407	(0.176)

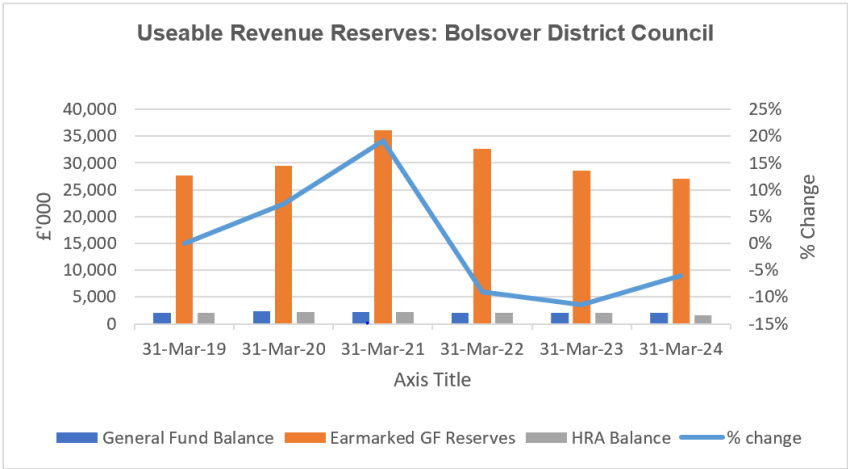
We carried out a high-level analysis of the financial statements subject to our audit, including the Movement in Reserves Statement and our work has not highlighted any risks of a significant weakness in arrangements or indicators of a risk to the Council's financial sustainability.

The Council's usable reserves increased by £0.466m from £49.226m to £49.692 in 2023/24, with:

- General Fund & Earmarked Reserves of £30.571m, down from £32.291m in the prior year
- HRA Reserve of £3.186m, down from £3.473m in 2022/23
- Capital Reserves of £15.935m, up from £13.462m in 2022/23

The purpose of the Council's general fund reserve is to meet costs arising from any unplanned or emergency events. It also acts as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to 'smooth' expenditure on a one-off basis across years. Whereas earmarked reserves, are set aside for specific purposes.

Through a review of the financial statements, we have considered the Council's revenue reserves over time as shown in the charts below. Overall, we are satisfied that the Council's overall reserves position does not give rise to risk of significant weakness in arrangements to secure financial sustainability.

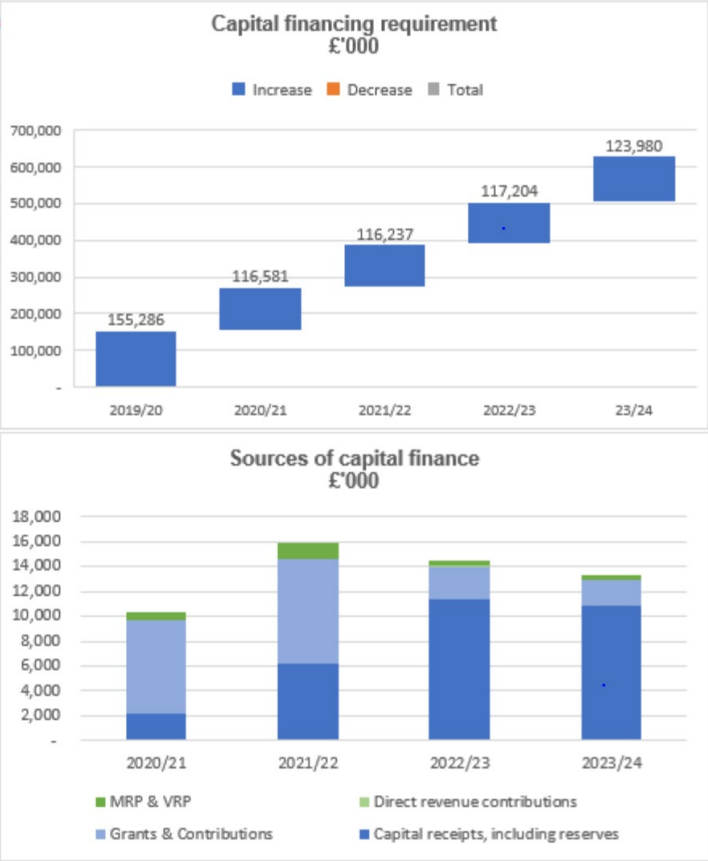


VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria – continued

The Council’s capital expenditure and financing

The Council’s arrangements for setting and monitoring capital expenditure are consistent with the previous year and we have identified no evidence of a significant weakness in arrangements. We considered the Council’s capital financing requirement (CFR) as set out in Note 34 of the financial statements, which has reduced from £155.286m in 2019/20 to £123.980m in 2023/24. We also considered the sources of capital finance in the capital programme, which shows over the past four years capital spend has been mainly financed through grants and contributions.



In 2023/24, the Council spent £19m on capital additions and £0.5m of REFCUS (Revenue Expenditure Funded from Capital Under Statute). Our detailed testing of capital additions did not identify any issues and we have identified no evidence to indicate a weakness in arrangements impacting financial sustainability.

As part of paying down the capital financing requirement, the Council charged £0.364m to the general fund as a “Minimum Revenue Provision”. The duty to make Minimum Revenue Provision (MRP) is an important component of the Prudential Framework to ensure capital expenditure and borrowing can be repaid. The importance and impact of the MRP is often poorly understood outside of finance teams and can lead to significant issues affecting the financial sustainability of a local authority. We reviewed the Council’s Policy for 2023/24 and its supporting calculations as part of our work on the financial statements audit and have benchmarked the Council’s charge against our database of other district Councils:

Minimum Revenue Provision as a % of the Capital Financing Requirement	2022/23	2023/24
District councils: average	3.4 %	3.4 %
District councils: bottom quartile	1.2 %	0.9 %
Bolsover District Council	7.1 %	4.1 %

The Council’s Capital Financing Requirement (CFR) has shown a gradual decrease over the past couple of years with an increase of £6.7m in the current year. The Council MRP including Voluntary Revenue Provision (VRP) has been consistent at approximately £0.700m in the past. In 2022/23 there was a reduction where the MRP was £0.400m with a further reduction to £0.364m in 2023/24. Despite the reduction, the Council’s MRP charge is above the average charge amongst other district Councils.

It is important the Council consider the impact of its arrangement with Dragonfly Development Limited on future CFR and in particular the capitalisation regulations. We will consider this as part of our work in future years. We are satisfied the Council’s capital expenditure and capital financing does not give rise to a risk of significant weakness in arrangements for the year ended 31 March 2024.

Overall, we have not identified any evidence to indicate a significant weakness in the Council’s arrangements relating to financial sustainability criteria for the year ended 31 March 2024

VFM arrangements

Governance

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



VFM arrangements – Governance

Risks of significant weaknesses in arrangements in relation to Governance

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

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>Group accounting</p> <p>1 In 2023/24 the Council produced group accounts for the first time. During our audit of the group we identified errors and uncertainties in the draft group accounts. There were also delays in the Council obtaining required information necessary for the production of group accounts.</p>	<p>Work undertaken</p> <p>We have considered the findings of our audit procedures and determine if the matters identified are indicative of a significant weakness in arrangements.</p> <p>Results of our work</p> <p>See page 21</p>

Overall commentary on Governance

Position brought forward from 2022/23

There are no indications of a significant weakness in the Council's arrangements brought forward from the prior year and the Council's arrangements are not significantly changed since the prior year other than the need to produce group accounts in 2023/24 for the first time.

The Authority's governance structure

We confirmed the Council has approved and adopted a code of corporate governance which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) - the 'Delivering Good Governance in Local Government Framework' 2016 edition. The Council is responsible for putting in place proper arrangements for the governance of its affairs and for facilitating the effective exercise of its function. This governance arrangement is detailed in the Councils Constitution and the summary is included in the Annual Governance Statement. The Council's governance prioritises, as identified in the Framework and Constitution, are:

- Customers,
- Economy,
- Environment; and
- Housing

We have attended the Council's Audit Committee meetings; we have reviewed minutes from the different committees and considered against our understanding of the Council as part of our audit. Our review of Council and Committee papers confirms that a template covering report is used for all reports, ensuring the purpose, strategic context, governance issues, and recommendations are clear. Minutes are published and

reviewed by Committees to evidence the matters discussed, challenge and decisions made. Based on our work, we are satisfied there is no evidence of a weakness in the Council's governance arrangements

Risk management and internal control

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. The Council has embedded risk management by the establishment of a Risk Management Group which is led by Members and attended by senior officers, Internal Audit and health and safety officers. The Group regularly reviews all risk registers, offering challenge to the assessment process. The Group leads on the development and review of all risk related policies, plans and strategies across the Council. These are supported by a Risk Management Strategy which identifies and mitigates the Strategic and Operational risks. We confirmed the Risk Management framework includes a quarterly reporting process to Audit Committee.

The Risk Management approach, both in the identification of risks and the action taken to address the risks, is flexible and has the ability to respond to change. National policies, service delivery arrangements, national and local circumstances, together with Council priorities have, and will continue, to change and evolve over time. The Council's Risk Management focus and arrangements are designed to adjust to ensure that current threats and opportunities are effectively addressed and not stifled by inappropriate risk management arrangements.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

We have reviewed the risk registers and noted that these are reviewed regularly, with each strategic risk identified being assigned a 'risk owner' supplemented, there to be ownership and accountability. The 'risk owners' would then review their allocated strategic risks at quarterly intervals. Additionally, the strategic risks are also communicated to the Audit for additional scrutiny.

The Council has an annual Internal Audit plan which is agreed with management at the start of the financial year and is reviewed by the Audit Committee prior to final approval.

The audit plan is based on an assessment of risks the Council faces and is designed to ensure there is assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The planned work can be supplemented, if necessary, by ad hoc reviews in respect of suspected irregularities and other work commissioned by Officers and Members of the Council where relevant to respond to emerging risks and issues. We have reviewed the Internal Audit plans for 2023/24 and confirmed they are consistent with the risk-based approach.

Internal Audit progress reports are presented to each Audit Committee meeting including follow up reporting on recommendations from previous Internal Audit reports. From our attendance at meetings, we are satisfied this allows the Committee to effectively hold management to account. At the end of each financial year the Head of Internal Audit Consortium provides an opinion based on the work completed during the year. For 2023/24 the Head of Internal Audit report concluded that a reasonable level of assurance could be provided on the overall adequacy and effectiveness of the Council's framework for governance, risk management and control.

Throughout the year we have attended Audit Committee meetings. Through attendance at these meetings we have confirmed that the Committee receive regular updates on both internal audit progress and risk management in the form of risk registers. We have seen active member engagement from the Committee who challenge the papers and reports which they receive from officers, internal audit and external audit.

The Council published unaudited 2023/24 financial statements in July 2024, including the group financial statements. This is the first year of preparing consolidated group accounts, incorporating the financial results of both the Council and its wholly-owned subsidiary companies (collectively referred to as "Dragonfly companies"). However, the draft group accounts contained material errors due to inconsistencies in the

reporting periods for the year ended 31 March 2024 year and prior year balances (year ended 31 March 2023). Further, there were delays in obtaining the draft financial statements of Dragonfly Companies (Dragonfly Development Ltd and Dragonfly Management (Bolsover) Ltd) from their consultants and external auditors to enable the production of final group financial statements. These delays meant the Council was not able to finalise the production of updated group financial statements for 2023/24 financial year until January 2025, a delay of 6 months over the expected timetable. As a result of the delay, we were unable to complete all of our audit procedures before the backstop date of 28th February 2025.

Governance structure for Dragonfly Development Limited

Dragonfly companies Governance arrangements are set up under the Shareholder Agreement. This included the Shareholder Board. In 2023-24 this Board included the Deputy Leader and two other Councillors. Also, the Council had members on the Dragonfly Boards. These Councillors were the Leader of the Council and other members of the Executive. We understand this changed in 2024-25 and now include 2 executive members and 2 scrutiny members. Shareholder Agreement sets out the Governance arrangements of the company.

The Shareholder Board reports to the Growth and Scrutiny Committee. A resolution was passed confirming that any decision taken by the company, including but not limited to strategic decisions, management of the business future direction and development of the company, officers, shareholders of the company, major capital investments, and significant changes to service delivery, requires prior approval from the Council. This decision-making process ensures alignment with the Council's overall strategic objectives, financial plans, and public service priorities.

Both, Dragonfly Development Ltd & Dragonfly Management (Bolsover) Ltd, have their own risk registers and risk assessments which have been to their Boards, the Shareholder Board and the Council's Corporate Risk Management Group. Governance arrangements are in place to ensure oversight of the component.

Where there are tensions between the Council and component management objectives, the governance arrangements have ensured the Council have decision making power to prevent any decisions the Council did not approve of.

We have identified and reported a significant weakness in arrangements on page 21 of this report. No other matters have been identified to indicate a further significant weakness in the Council's arrangements relating to governance criteria for the year ended 31 March 2024

VFM arrangements

Improving Economy, Efficiency and Effectiveness

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



VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness

Position brought forward from 2022/23

There are no indications of a significant weakness in the Council's arrangements brought forward from the prior year and the Council's arrangements are not significantly changed since the prior year.

Council Plan and Performance Monitoring

The Council has in place 2024-2028 Ambition which encompasses its vision to maximise influence and opportunities within the East Midlands combined County Authority to drive the continued delivery of excellence services, maximise local aspirations and drive economic prosperity for Bolsover District. To achieve this, the Council has four aims designed to deliver this vision through priorities that cover the Council Ambition 2020-2024 and these related to Customers, Economy, Environment and Housing.

The Council has identified the key performance indicators, and target levels of performance, in relation to these priorities. The performance targets are informed by national standards, local benchmarking and experience and subject to initial challenge and confirmation. The Council has in place a performance management framework which includes identified responsibilities of managers and processes for regular performance reporting and corrective action if required. Portfolio holders meet regularly with Assistant Directors and Directors to discuss, amongst other things, the performance of services against targets. Our review of minutes confirmed there was quarterly reporting to the Audit and Corporate Overview Scrutiny Committee and the Executive. These quarterly reports take the form of a dashboard and identify whether the performance is achieved or on/off track. The quarterly reports include an appropriate commentary to explain any significant factors which are affecting performance and actions being taken to correct performance. Based on review of minutes there is evidence of appropriate scrutiny of these reports. We also note that there are no issues noted by the Head of internal Audit that would suggest performance issues.

On an annual basis, the Council's overall performance is summarised in the Narrative Report as part of the

Statement of Accounts. This outlines the Council's progress against its ambitions, highlighting key successes and risk areas. The Narrative Report also includes an agreed plan for subsequent years, including any areas for improvement. This provides the public with an overall assessment of the Council activities for the financial year.

A sample of targets as reported in the Q4 report for 2023/24 have been reviewed and confirmed that this was in line with what has been reported in the narrative report which forms part of the annual financial statements. The quarterly reports demonstrate that performance has been managed throughout the 2023/24 year and any significant variances have been justified. Based on our work we are satisfied there is evidence to demonstrate arrangements are in place for performance monitoring and management at the Council.

Based on review we are satisfied the Council continues to have arrangements for standing financial instructions, purchase order controls and our work on the financial statements has not identified any significant internal control deficiencies regarding purchasing controls.

As noted in the previous section the Council use Dragonfly Development Ltd & Dragonfly Management (Bolsover) Ltd to provide some services to the Council. We confirmed a Dragonfly monthly scrutiny report is presented to Local Growth Scrutiny committee on a monthly basis. This is intended to allow for scrutiny of Dragonfly performance. We are not aware of any significant matters in the performance outcome of Dragonfly in 2023/24 which are indicative of a significant weakness in arrangements. Following a full year of operation we understand from discussions with management they intend to complete a review of the Dragonfly arrangements to ensure governance is operating as intended, related party and conflicts of interests are properly managed and understand if further improvement are required.

Overall, we have not identified a significant weakness in the Council's arrangements relating to Improving Economy, Efficiency and Effectiveness criteria for the year ended 31 March 2024

VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



VFM arrangements - Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement

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

Identified significant weakness in arrangements		Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
1	<p>Accounting and Governance Arrangements of Dragonfly companies</p> <p>The Council published its draft statement of accounts for the 2023/24 financial year in July 2024, including group accounts. This is the first year that the Council has been required to prepare group accounts, incorporating the financial results of both the Council and its wholly-owned subsidiary companies (collectively referred to as "Dragonfly companies"). However, the draft group accounts contained material errors due to inconsistencies in the reporting periods for the year ended 31 March 2024 year and prior year balances (year ended 31 March 2023). Further, there were delays in obtaining the financial statements of Dragonfly Companies (Dragonfly Development Ltd and Dragonfly Management (Bolsover) Ltd) from their consultants and external auditors to enable the production of final group accounts. These delays meant the Council was not able to finalise the production of updated group accounts for the 2023/24 financial year until January 2025, a delay of 6 months over the expected timetable. As a result of the delay we were unable to complete our audit procedures before the backstop date of 28th February 2025, leading to the Council’s statement of accounts being disclaimed.</p> <p>Without proper arrangements to support the production of its draft statement of accounts (which incorporate full range of activities of the Council’s group) and the audit of those accounts, the Council risks a continuation of failure to meet the requirement to publish an audited statement of accounts.</p> <p>These matters, in our view, are evidence of a significant weakness in the Council’s governance arrangements, in particular how the body ensures its statutory financial reporting requirements for the financial year ended 31 March 2024.</p>		●		<p>The Council should ensure that proper arrangements are established to ensure the timely production of the group statement of accounts, aligning with statutory reporting deadlines. This timetable should be clearly articulated to all stakeholders within the Group.</p>	<p>The officers within Dragonfly were informed of timetable deadline in advance and met them. Dragonfly auditors also agreed in advance the deadlines, but did not adhere to them and caused the delays. For 2024/25, Dragonfly have appointed a new auditor.</p>

Other reporting responsibilities

Other reporting responsibilities

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We have not been able to complete this work yet, as we are waiting to receive final group instructions from the NAO.

Appendices

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

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

Significant risks and audit findings

As part of our audit , we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks. Whilst we planned our audit to address the risks of material misstatement we identified at the planning stage, we did not complete our audit prior to the backstop date. Consequently, we are unable to provide any assurance over individual areas of the financial statements or the financial statements as a whole, nor do we provide assurance over any of the risks we identified at the planning stage of the audit.

Risk	How we addressed the risk	Audit Conclusion
<p>Management override of controls</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We planned to address this risk through performing audit work over:</p> <ul style="list-style-type: none">• accounting estimates impacting amounts included in the financial statements;• consideration of identified significant transactions outside the normal course of business; and• journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements	<p>As a result of the backstop arrangements, we have not completed our work with respect of journals.</p>

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

Significant risks and audit findings

Risk	How we addressed the risk	Audit Conclusion
<p>Valuation of the LGPS defined benefit pension</p> <p>The Council is an employer in the Local Government Pension Scheme, administered on a local level by the Derbyshire Pension Fund.</p> <p>The defined benefit assets and liabilities are significant items in the Council's balance sheet and the Council engages an actuary to perform an annual valuation in accordance with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have identified a significant risk in this area.</p> <p>As part of our testing, procedures will be performed on the net defined liability held by Dragonfly Development Limited</p>	<p>We planned to address this risk through performing audit work over:</p> <ul style="list-style-type: none"> • Critically assessing the competency, objectivity and independence of the Derbyshire Pension Fund's Actuary; • Liaising with the auditors of the Derbyshire Pension Fund to gain assurance over the design and implementation of the controls in place at the Pension Fund. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; • Reviewing the appropriateness of the pension asset and liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information by PwC and consulting actuary engaged by the National Audit Office; and • Agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries disclosures in the Council's financial statements. In the event of a pension surplus arising in 23/24, its accounting treatment will require specific consideration under IFRIC 14. 	<p>As a result of the backstop arrangements we have not fully concluded our work.</p>

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

Significant risks and audit findings

Risk	How we addressed the risk	Audit Conclusion
<p>Valuation of land, buildings, and investment properties</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of land, buildings and investment properties.</p> <p>Although the Council uses a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations.</p> <p>We have therefore identified the valuation of land, buildings and investment properties to be an area of significant risk.</p>	<p>We planned to address this risk through performing audit work over:</p> <ul style="list-style-type: none">• Critically assessing the competency, objectivity and independence of the Derbyshire Pension Fund's Actuary;• Critically assessing the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;• Considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;• Assessing whether valuation movements are in line with market expectations by using third party information to provide information on regional valuation trends;• Critically assessing the approach that the Council adopts to ensure that assets not subject to revaluation in 2023/24 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers	<p>Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues.</p>

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

Enhanced risks and audit findings

Risk	How we addressed the risk	Audit Conclusion
<p>Group Consolidation</p> <p>The Council is consolidating Dragonfly Group (Dragonfly Development Limited and Dragonfly Management) and producing group accounts for the first time in the 2023/24 financial statements. The Council will be required to consolidate their subsidiaries balances on a line-by-line basis and remove intra-group transactions. Being the first year, there is a risk the Council will not identify all consolidation adjustments or the adjustments may be incorrect.</p> <p>We also understand that employees transferred to the Group and consequently there is a risk that costs, assets and liabilities associated with the Dragonfly Group have not been correctly removed from the Council accounts.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none">• Review and assess the controls and processes that the Council has in place to prepare group accounts;• Perform substantive procedures on the consolidation adjustments; and• Perform recalculations on the consolidation schedules to ensure mathematical accuracy <p>We also planned to test any assets, liabilities and costs transferred to the subsidiaries on the 1 April 2023 to ensure they had been correctly accounted and removed from the Council's financial statements.</p>	<p>The Group financial statements included material errors and the Council was unable to provide sufficient appropriate evidence to support the figures in the Group financial statements were free from material misstatement.</p> <p>As a result of the backstop arrangements, we have not completed our work in this area.</p>

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

Summary of uncorrected misstatements

Details of adjustment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Dr: Revaluation Reserve			52	
Cr: Property, Plant and Equipment				52
Adjustments due to overstatement in revaluation of property.				
DR: Income	73			
CR: Accrued Income				73
Income recognised in 2023/24 relating to 2024/25 [Extrapolated error]				
Aggregate effect of unadjusted misstatements	73	0	52	125

Our observations on internal control

Significant deficiencies in internal control

In our view, the deficiencies in internal control set out in this section result in a potential for financial loss, damage to reputation, or a loss of information. This may have implications for the achievement of business strategic objectives. Our recommendations should be considered for immediate action.

Description of deficiency

During our testing of Journals, we identified 55 journals posted by the Section 151 Officer. The Council confirmed this was due to Dragonfly incorporation and lack of capacity in the finance team.

Potential effects

If the Section 151 Officer is involved in the accounts preparation there is a risk the internal control checks are not effective as the S151 Officer could be reviewing their own work. This increases the risk material errors are missed in the accounts process.

Recommendation

The Council should ensure the finance team has the necessary capacity to meet its responsibilities

Management response

A new principal accountant post has recently been established and appointed to. We expect the officer to be in post by mid-May. In the meantime, a temporary interim accountant has been with the Council since November to increase capacity. This post will be extended through April and May to ensure there is extra capacity in the finance team throughout the 2024/25 final accounts preparation process. Finally, the Section 151 officer will no longer post any journals.

Our observations on internal control

Other deficiencies in internal control

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

PPE revaluations

In our testing of the underlying data used to calculate the value of assets, there was a delay in the Council being able to find and provide data to validate the floor areas used to support the valuations.

Potential effects

Without this information being saved in the Council working papers there is a risk that internal review of the valuations is not effective and may miss material errors.

Recommendation

The Council should maintain in its working papers, underlying data. This will ensure the review process is effective.

Management response

The Council's valuer has now obtained plans and measurements for the properties identified where this was missing. As part of the 2024/25 year end work, working papers for all assets will be reviewed.

Our observations on internal control

Other deficiencies in internal control

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

The Council did not prepare a reconciliation between the payroll system and the employee expenses in the general ledger and financial statements.

Potential effects

There is a risk that payroll expenditure could be incomplete, or that items could be misclassified in the financial statements between employee expenses and other expenditure

Recommendation

The Council should prepare a year-end reconciliation between the employee expenses value in the financial statements, and the payroll system.

Management response

This reconciliation was omitted in error for 2023/24 following the retirement of a long-standing member of the finance team. This reconciliation will be performed throughout the year for 2024/25, and a year end reconciliation will be provided at audit.

Follow up on previous year recommendations

Description of deficiency

The Council holds its investment in subsidiary at fair value through profit and loss in its single entity accounts. Through review of this area during the audit we noted that despite the Council's accounting policy the Council has not performed fair valuation of its investment in Dragonfly Development Ltd as at 31 March 2023. The investment has been disclosed at cost (£364k). Based on our review and nature of the investment, we note that the value disclosed is not materially different to what would be considered the fair value of the subsidiary.

Potential effects

Non-compliance with the Council's accounting policy could lead to a material misstatement in the accounts.

Recommendation

The Council should ensure that the subsidiary is fairly valued at each reporting date. This assessment should be clearly documented, and the assumptions used should be readily available for audit.

2023/24 update

Our work in 2023/24 has not identified any matters to report

Contact

Forvis Mazars

James Collins

Director

Tel: 0191 383 6331

james.collins@mazars.com

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