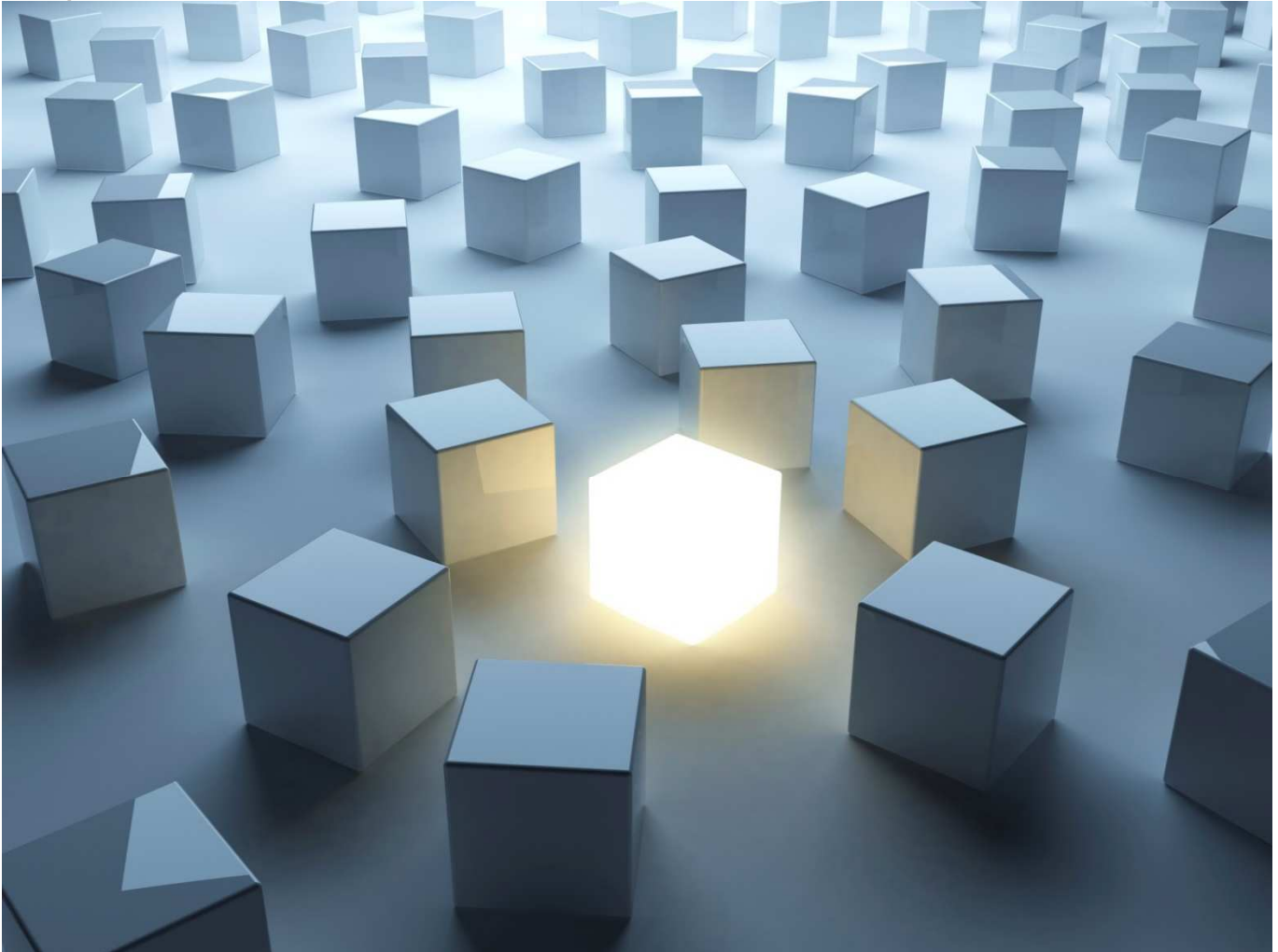


Audit Completion Report

Durham County Council – year ended 31 March 2016

30 September 2016



Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Members of the Audit Committee
Durham County Council
County Hall
Durham
DH1 5UE
30 September 2016

Dear Members

Audit Completion Report – Year ended 31 March 2016

We are delighted to present our Audit Completion Report for the year ended 31 March 2016. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and areas of management judgement was outlined in our Audit Strategy Memorandum which we presented on 17 May 2016. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and areas of management judgement remain appropriate.

We would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6343 or cameron.waddell@mazars.co.uk.

Yours faithfully

Cameron Waddell
Mazars LLP

Contents

01 Executive summary	3
02 Significant findings.....	5
03 Internal control recommendations	9
04 Summary of misstatements	11
05 Value for money	16
Appendix A – Draft management representation letter.....	22
Appendix B – Draft audit report	25
Appendix C - Materiality	28
Appendix D – Independence	29

Our reports are prepared in the context of the Statement of responsibilities of auditors and audited bodies issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2016 to the Audit Committee of Durham County Council (the Council) and forms the basis for discussion at the Audit Committee meeting on 30 September 2016.

Our communication with you is important to:

- share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- provide you with constructive observations arising from the audit process;
- ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Durham County Council; and
- receive feedback from yourselves as to the performance of the engagement team.

Our work on the Council's accounts is designed to provide reasonable assurance that they are free from material misstatement. In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'. We consider materiality when planning and performing our work and in assessing audit results.

At the planning stage, we made a judgement about the size of misstatements which we would consider to be material and which gave 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. We determined overall materiality to be £24,929,000 (being 2% of gross revenue expenditure), with a clearly trivial threshold of £748,000 below which identified errors will not usually be reported. We also set lower materiality values for accounting entries we consider to be more sensitive, for example, senior officer's remuneration.

We updated our materiality calculation when we received the draft accounts and set the overall level at £24,936,000 (being 2% of gross revenue expenditure) with a clearly trivial threshold of £748,000. Following an adjustment to gross revenue expenditure (see section 5) our materiality was amended to £24,627,000 and clearly trivial threshold £739,000. Appendix C provides more information on our approach.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 2 of this report includes our conclusions on the significant risks and areas of management judgement that we set out in our Audit Strategy Memorandum.

We also set out details of internal control recommendations in section 3 and a summary of misstatements discovered as part of the audit in section 4.

Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2016. At the time of preparing this report, the following significant matters remain outstanding:

Area outstanding	Work to be completed
Pension disclosures	We will complete our procedures when we receive a letter of assurance from the pension fund auditor.
Post balance sheet events	Review of events after the balance sheet date
Closure procedures	Completion of our procedures (including value for money)

We will provide an update to you in relation to the significant matters outstanding above through issuance of a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate:

- issuing an unqualified opinion, without modification, on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 21 October 2016.

Our proposed audit report is set out in Appendix B.

02 Significant findings

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

- Our audit conclusions regarding the significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum.
- Our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. In this section we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year.
- Any further significant matters discussed with management.
- Any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. 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.

How we addressed this risk

We addressed this risk by completing the following audit procedures:

- reviewing accounting estimates affecting amounts included in the financial statements;
- reviewing and considering any significant transactions outside the normal course of business; and
- applying a risk based approach to journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Our audit has provided the assurance we sought and not highlighted any issues in this area to report.

Revenue recognition

Description of the risk

There is a risk of fraud in financial reporting relating to income recognition due to the potential to inappropriately record revenue in the wrong period. ISA 240 allows the presumption of fraud relating to revenue recognition to be rebutted in exceptional circumstances, but given the Council's range of revenue sources we have concluded that there are insufficient grounds for rebuttal in 2015/16.

How we addressed this risk

We considered the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we completed a number of substantive procedures including:

- testing revenue items recorded in the General Ledger in March, April and May 2016 to ensure they have been recognised in the correct accounting period;
- testing adjustment journals;

- testing debtors; and
- agreeing major grant income to third party documentation.

Audit conclusion

Our audit has provided the assurance we sought and not highlighted any issues in this area to report.

Pension liability

Description of the risk

The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

How we addressed this risk

We completed the following audit procedures:

- evaluating the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and
- considering the reasonableness of the Actuary's assumptions that underpin the relevant entries made by the Council in its financial statements, through the use of an expert commissioned by the National Audit Office.

At the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of the Durham County Council Pension Fund over IAS 19 (pensions) related entries in the financial statements.

Audit conclusion

Subject to a satisfactory response from the Pension Fund auditor, our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Accounting for LSVT

Description of the risk

In April 2015 the Council transferred its housing stock to County Durham Housing Group. The accounting treatment for the transfer of the housing stock is material and potentially complex. In particular the accounting treatment for the disposal of the assets and write off of HRA debt.

How we addressed this risk

We completed the following audit procedures:

- evaluating the design of the entity's related controls and determined whether they had been implemented; and
- reviewing the accounting entries for the disposal of the assets and write off of HRA debt.

Audit conclusion

Our audit has provided the assurance we sought and not highlighted any issues in this area to report.

Key areas of management judgement

Valuation of property, plant and equipment (PPE)

Description of the area of management judgement

The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE.

The value of the Council's PPE is material to the accounts and involve management judgements over the valuations and useful lives of assets.

How we addressed this area of management judgement

We addressed this management judgement with the following procedures:

- considering the Council's arrangements for ensuring that PPE values are reasonable;
- engaging our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Council's Valuer;
- assessing the competence, skills and experience of the Valuer; and
- reviewing a sample of individual assets to ensure that the basis and level of valuation was appropriate.

Audit conclusion

Our audit has provided the assurance we sought and not highlighted any issues in this area to report.

Accounting policies and disclosures

We have reviewed Durham County Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting 2015/16.

Significant matters discussed with management

Consett Academy: Note 5, Material Items of Income and Expense, detail the accounting treatment of Consett Academy. The Council recognised a loss on disposal of £28.836 million in 2015/16. At the start of the year the asset was held as an Asset Under Construction (AUC). During the year, and prior to its disposal, the asset became operational and was transferred to Land and Buildings. This movement is reflected in Note 12, Property, Plant and Equipment. The CIPFA Code of Practice on Local Authority Accounts (the Code) requires operational land and buildings to be measured at current value. In the case of assets where there is no active market current value is measured using depreciated replacement cost (DRC). This is different to the measurement of AUC which are carried at cost. The Code states DRC is:

“a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation (para 4.1.2.7).”

Given the asset had just been constructed management made a judgement that the cost of the asset was a fair approximation of its current value and therefore no revaluation of the asset was completed before its disposal. We challenged management's assumption. As a consequence the Council's Valuer valued the assets at the date of its transfer using the DRC method. This valuation valued the asset at £25.685 million. The overall difference was £3.151 million which is not material. Based on this we are satisfied there is no indication of a material misstatement in management's judgement.

Had the asset been revalued at its transfer to land and buildings the council would have charged the downward revaluation to net cost of services (£3.151m) with other operating expenditure reducing by the same amount. The requirements of local authority capital accounting means both amounts would then have been reversed from the surplus or deficit on the Comprehensive Income and Expenditure Statement through the Movement in Reserves Statement (via note 7) with the reverse entry being made to the Capital Adjustment Account (CAA). Therefore the overall impact on the General Fund would be nil. We are satisfied that management's treatment of this disposal does not lead to a material misstatement.

Business rates provision for appeals: The Collection Fund includes a provision for appeals of £18.247 million. This is an increase from the £7.685 million provided in 2014/15. In line with NNDR allocations £8.941 million (49%) is reflected as a provision in the Council's Balance Sheet as at 31 March 2016. In 2015/16 management have relied on Analyse Local, a national company providing services to local authorities, to calculate the provision. The company compare the number of appeals lodged with national statistics detailing the success of past appeals on different

property types. Management reviewed the provision prior to it being applied to the Collection Fund. We challenged the estimation by comparing the Durham provision to the provisions made by other local authorities. We identified no evidence to suggest that Durham's provision is materially misstated.

The work of experts

During the audit we identified an additional management expert which we had not previously reported in our Audit Strategy Memorandum. The details of this expert are documented in the following table:

Item(s) of account	Management's expert	Our expert
NNDR appeals provision (material for the Collection Fund)	Analyse Local	None required. The audit team completed procedures to challenge the estimate.

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.

Electors' rights to inspect the accounts

The Accounts and Audit (England) Regulations 2015 ('the regulations'), introduced new requirements in respect of publishing the financial statements and the period within which local electors may raise questions on the financial statements or make an objection to an item of account. For 2015/16 the Authority set this period as 1 July 2016 to 11 August 2016. We received no questions or objections within this period.

03 Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters we report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

We reported findings and recommendations to the Audit Committee on 29 July 2016. The recommendation related to our review of the IT control environment. We also raised a number of recommendations in our 2014/15 Audit Completion Report relating to our IT control environment work. We were satisfied that the current arrangements have sufficiently addressed the 2014/15 recommendations.

Since our report in July 2016 we have identified an additional matter. Our findings and recommendation is set out below. We have assigned a priority ranking to the recommendation. This reflects the importance that we consider the recommendation poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, our priority rankings fall into the following categories:

Priority ranking	Description	Number of issues
1 (High)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	1
2 (Medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	0
3 (Low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

Significant deficiencies in internal control – (Level 1)

Payroll Documentation

Description of deficiency

We completed substantive testing of employee costs. Part of this testing included review of HR folders primarily to confirm the employee pay grade.

HR was unable to locate the employee folder for one of the employees in our sample (we tested 23 employees in total). We obtained the necessary assurance by completing an alternative audit procedure.

Potential effects

Employee information, which is likely to be sensitive information, could be lost.

Recommendation

There should be procedures to ensure employee folders are held in a secure location. When a folder is removed there should be a record of where the folder is.

Management response

There is a clear procedure for the removal and logging of removed files. It appears that we have been unable to locate this file following relocation of HR in March 2016.

All personal files are now filed electronically for newly appointed employees and we are in the process of moving all of the personal files relating to existing employees onto the electronic document storage facility.

04 Summary of misstatements

The misstatements identified for adjustment during the course of the audit that are above the trivial level, are set out below. The first table outlines the identified misstatements which management has assessed as not being material, either individually or in aggregate to the financial statements, and does not currently plan to adjust.

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

Unadjusted misstatements 2015/16

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Comprehensive Income and Expenditure Statement: Other Housing Services: Gross expenditure	5,305			
	Cr: Comprehensive Income and Expenditure Statement: Other Housing Services: Gross income		5,305		
<p>Our expenditure cut off testing identified that a rent allowance payment for the period 07/03/2016 to 03/04/2016 had been coded to the financial year 2016/17. We queried why this had not been coded to 2015/16. Historically similar payments have been coded to the following year, with the Council ensuring that there was always 12 payments in any financial year. When we requested information to confirm this was the same in 2015/16 it was identified that the equivalent payment in April 2015 had been coded to the financial year 2014/15. This means rent allowance expenditure in 2015/16 is understated by the 2015 payment, which in total was £5.305 million.</p> <p>We noted that the subsidy income associated with the payment was also received in 2014/15. To be consistent this amount should also have been charged to 2015/16.</p> <p>The overall net impact of this error on cost of services would be nil given the expenditure would have been met with corresponding subsidy income.</p>					
2	Dr: Land and buildings: Accumulated depreciation			97	
	Cr: Land and buildings: Gross cost or valuation				1,068
	Dr: Comprehensive Income and Expenditure Statement: Other operating expenditure: Gains/losses on the disposal of non-current assets	971			
	Dr: Capital Adjustment Account			971	
	Cr: Movement in Reserves Statement: Adjustments between accounting basis and funding basis under regulations (note 7)				971
	Dr: Revaluation Reserve			844	
	Cr: Capital Adjustment Account				844

The year-end reconciliation of the Fixed Asset Register and General Ledger identified an error in the accounting treatment of a Chester-le-Street Church of England school. As a voluntarily controlled school it should not be recognised in the Balance Sheet as a Council asset. The school has not been removed and as such remains in the Council's land and building balance (note 12) as at the 31 March 2016.

The net book value of the asset held is £0.971 million. This amount should have been written out of land and buildings and charged to Other Comprehensive Expenditure as a loss on disposal. This transaction would have no impact on the General Fund as local authority capital accounting means the loss would have been written out of the General Fund, via the Movement on Reserves Statement, with the reverse charge being made to the Capital Adjustment Account.

The asset also had a balance on the Revaluation Reserve for previous gains which would be reversed and charged to the Capital Adjustment Account.

3	Dr: Surplus Assets (note 12)			657	
	Dr: Assets under Construction (note 12)			1,958	
	Dr: Heritage Assets (note 13)			199	
	Dr: Investment Properties (note 14)			9	
	Dr: CIES: Revenue Expenditure Funded from Capital Under Statute (REFCUS)	219			
	Cr: Land and buildings (note 12)				1,830
	Cr: Community Assets (note 12)				1,212
<p>A number of misclassifications were identified in the 2015/16 reconciliation between the Fixed Asset Register and the General Ledger. These are misclassifications between asset headings. The charge to the Comprehensive Income and Expenditure Statement would be reversed out through the Movement in Reserves Statement and therefore there would be no impact on the General Fund balance.</p> <p>Officers confirmed these reclassifications will be corrected in 2016/17.</p>					

4 Note 1, Accounting policy 21 PPE

A de minimus level for PPE accounting is not disclosed in accounting policies as required by the Code (para 4.1.4.1)

Unadjusted misstatements 2014/15

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Land and buildings (note 12)			473	
	Dr: Investment Property (note 14)			116	

	Dr: Community Assets (note 12)			7	
	Cr: Surplus Assets (note 12)				83
	Cr: Assets under Construction (note 12)				483
	Cr: CIES: REFCUS		30		
	A number of misclassifications were identified in the 2014/15 reconciliation between the Fixed Asset Register and the General Ledger. Officers confirmed these reclassifications had not been corrected in 2015/16 and therefore remain as an error.				
2	Dr: Land and buildings			1,739	
	Cr: Revaluation Reserve				1,739
	The 2014/15 reconciliation of the fixed asset register to General Ledger identified £1.739 million of omitted revaluation gains not reflected in the accounts. This related to gypsy and traveller sites. This has meant the asset as at 31 March 2016 remains understated by £1.739 million.				

Adjusted misstatements 2015/16

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Comprehensive Income and Expenditure Statement: Gross Expenditure, Adult Social Care	15,431			
	Cr: Comprehensive Income and Expenditure Statement: Gross Income, Adult Social Care		15,431		
	Review of the accounting treatment for the Better Care Fund (BCF) identified the Council had recognised all income and expenditure associated with the BCF. This totalled £43.735 million. Discussion shows this includes elements of Clinical Commissioning Group expenditure where the Council is considered to be an agent (rather than principal). As such £15.431 million recognised as income and expenditure should not be recognised in the Councils net cost of services. This has no impact on the net cost of services position.				
		Cash Flow Statement			
		Dr £'000	Cr £'000		
2	Dr: Investing activities (Note 28)		207,034		

Cr: Adjustments to net surplus or deficit on the provisions of services for non-cash movements (note 25)		207,034
Both figures include £207 million in relation to capital grant income for housing stock transfer. This was not a cash receipt, hence should be excluded. This adjustment also affects notes 25 and 28 which have also been amended as a result.		

Disclosure amendments

Note 12, Property, Plant and Equipment, note 14 Investment Property and note 20, Assets Held for Sale: additional disclosures added regarding fair value to meet the requirements of IFRS 13 (Fair Value Measurement).

Note 12, Property, Plant and Equipment: The revaluations and impairments recognised in the revaluation reserve and surplus/deficit on the provision of services has been amended owing to incorrect signage.

Note 15, Financial Instruments: The following amendments have been made to the financial instruments disclosed in note 15:

Financial Instrument	Figure per draft accounts £000	Final figure £000	Adjustment £000	Note
Debtors: Loans and Receivables (Current)	£44,604	£41,494	£3,110	A
Creditors: Financial liabilities at amortised cost	£98,616	£82,982	£15,634	B
Short Term Creditors (Carrying amount and fair value)	£107,449	£82,982	£24,467	C
Short Term Creditors (Carrying amount and fair value) – 31 March 2015	£114,269	£94,343	£19,926	D
Short term debtors (carrying amount and fair value)	£44,605	£41,494	£3,111	C

Note A: error was due to payments in advance, which are not financial instruments, incorrectly being included in the debtor balance.

Note B: error was due to non-financial instruments such as payments in advance, being included in the creditor balance.

Note C: The short term creditor and short term debtors figures disclosed in the fair value tables were amended to be consistent with those figures shown in the first table in note 15.

Note D: The prior year comparatives have been amended in the fair value table so they are consistent with the figure shown with the figures shown in the first table in note 15.

The narrative of note 15 was amended to make it clearer to the reader of the accounts that the fair value of the PWLB loans shown in the table was based on the new borrowing rate. There were also a small number of trivial adjustments made to the note.

Note 24, Unusable Reserves (Capital Adjustment Account): Narrative relating to disposal proceeds from the sale of the housing stock was omitted in the draft accounts.

Notes 25-29, Cash Flow Statement: There were a number of amendments to the figures and presentation of the Cash Flow Statement disclosure notes (the largest of these is detailed above).

Note 30, Amounts Reported for Resource Allocation Decisions: Note was amended to disclose as a separate line depreciation and impairment charged to the Comprehensive Income and Expenditure Statement.

Note 35, External Audit Costs: note updated to include disclosure of non-audit services provided during the year.

Note 37, Grant Income: The following adjustments were made to the grant and contribution income credited to services disclosure in note 37:

Grant and Contribution	Figure per draft accounts £000	Final figure £000	Adjustment	Note
Clinical Commissioning Groups – Better Care Fund	£39,193	£23,762	£15,431	A
Pupil Premium	£911	£20,961	£20,050	B
Early Years Single Funding Formula	£773	£0	£773	C

Note A: This relates to the incorrect treatment of the Better Care Fund income and expenditure detailed above.

Note B: Amounts incorrectly classified in the General Ledger meant they were omitted when the note was prepared.

Note C: This amount was double counted as it was already included in the Dedicated Schools Grant figure of £282.206 million.

Bar the treatment of the Better Care Fund income the other items are classification errors and have no impact on net cost of services.

Note 38, Related Parties: There were a number of minor adjustments to the related party disclosures, this included disclosures regarding Beamish and Durham Tees Valley Airport Limited.

Note 50. Pooled Budget – Better Care Fund: the expenditure table was updated to reflect the split between revenue and capital.

Note 51, Prior Period Adjustments: Note has been updated to reflect the changes to comparatives on the face of the Comprehensive Income and Expenditure Statement.

Collection Fund: Share of NNDR deficit, £3.845 million, was incorrectly shown as being allocated to Durham Police and Crime Commissioner. This has been amended and correctly allocated to Central Government. Tables for arrears percentages for both Council Tax and NNDR have been updated. Some other trivial amendments were made to the Collection fund disclosure notes.

Housing Revenue Account: There were a small number changes made to the HRA disclosures.

Annual Governance Statement: There was a small number of amendments to the AGS following our review.

There were also a small number of other non-material disclosure misstatements which have been corrected by management. These mainly were minor errors, omissions, clarifications and typographical errors. All were corrected by management.

05 Value for money

We are required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources by considering one overall criterion which is made up of three sub-criteria.

The overall criterion set out by the National Audit Office (NAO) is:

'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

The three sub-criteria are:

Sub-criteria	Guidance
Informed decision-making	<ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of sound governance.• Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.• Reliable and timely financial reporting that supports the delivery of strategic priorities.• Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none">• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.• Managing and utilising assets effectively to support the delivery of strategic priorities.• Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none">• Working with third parties effectively to deliver strategic priorities.• Commissioning services effectively to support the delivery of strategic priorities.• Procuring supplies and services effectively to support the delivery of strategic priorities.

In our Audit Strategy Memorandum we identified no significant risks relevant to the value for money conclusion. We have continued to revisit our value for money risk assessment and have identified no significant risk.

In our Audit Strategy Memorandum we did identify areas where we believed additional work was necessary to fully understand the Council's arrangements. This additional work was completed by focusing on the following areas:

Sub-criteria	Additional work	Results of additional work
Sustainable resource deployment	<p>The Medium Term Financial Plan (MTFP), including review of:</p> <ul style="list-style-type: none"> • how the Council has developed its MTFP and updated for LG Spending review; • the delivery of 2015/16 savings against plans; • the arrangements for 2016/17 savings, including review of the robustness of identified plans; and • the arrangements for identifying savings in 2017/18 to 2019/20. 	<p>We discussed arrangements for developing the MTFP with officers. No significant changes to arrangements from previous years were identified and the MTFP had been updated where required. We reviewed a sample of 2015/16 savings plans. For each we confirmed that savings had either been delivered in full or where they had not, mitigating actions had been identified at an early stage. Arrangements meant there was regular monitoring and reporting of savings throughout the financial year.</p> <p>We reviewed a sample of 2016/17 and 2017/18 savings. In all cases we identified that plans were based on robust assumptions, had been sufficiently scrutinised and would be monitored. Our work identified no issues that suggest a weakness in arrangements.</p> <p>We considered the arrangements for 2017/18 and beyond through discussions with officers and review of documentation. The Big Board programme means future plans will follow a similar timetable to those already successfully delivered. Arrangements mean 2017/18 plans are in place with 2018/19 ones being initiated. We also considered the Transformational Programme which will review how the Council delivers services. This will work alongside the current arrangements. Our work identified no issues that suggest a weakness in arrangements.</p>
Working with partners and other third parties	<p>Better Care Fund (BCF), including review of:</p> <ul style="list-style-type: none"> • BCF performance; • BCF partnership arrangements; and • 2016/17 BCF plan. 	<p>We considered the arrangements for the Better Care Fund (BCF) through discussions with officers and review of documentation. It was reported to the Health and Well Being Board on the 26th July 2016 that all 2015/16 BCF schemes incurred expenditure in line with budgets, resulting in the budget of £43.735 million being achieved. Performance of the BCF is monitored against 6 Key Performance Indicators. As at quarter 4 two indicators (out of 6) had a red rating:</p> <ul style="list-style-type: none"> • Permanent admission of older people (aged 65yrs+) to residential / nursing homes per 100,000 population • Number of non-elective admissions to hospitals <p>Despite not meeting its targets there were signs of improvement in performance compared to previous years.</p> <p>Partnership arrangements are managed through the Health and Wellbeing Board.</p> <p>The 2016/17 BCF plan was submitted to NHS England on the 3 May 2016. At the time of this report the Council was still awaiting formal approval of the plan. The 2016/17 plan focuses on stability. Partners to the BCF agreed to roll forward all of the existing schemes and projects from the 2015/16 plan. The</p>

		<p>2016/17 plan is monitored and reported to the Health and Wellbeing Board.</p> <p>Our work identified no issues that suggested a weakness in arrangements.</p>
--	--	--

Commentary on arrangements

The table below summarises our findings in respect of the three sub-criteria applicable to the Council specified by the NAO.

Informed decision making

Proper arrangements	Arrangements at Durham County Council	Audit Assurance obtained?
Acting in the public interest, through demonstrating and applying the principles and values of sound governance	<p>The Council has an established Constitution which is subject to regular review. This clearly details the governance structure of the Council.</p> <p>The Council has an active Audit Committee.</p>	Yes
Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.	<p>The Council produced regular finance reports which were presented throughout the financial year to the Cabinet. This is supported by monthly budget monitoring by management. The council's financial position, including delivery of the Medium Term Financial Plan savings, have been clearly reported throughout the year. This reporting has allowed the Council to continually report, and deliver, a surplus in 2015/16.</p> <p>Performance reports have also been produced in a timely manner and there are robust arrangements in place for collecting and reporting performance. Performance measures are linked to the Altogether priority themes and are intended to measure service delivery against the background of increasing demand on services and falling resources. Performance indicators are reviewed by officers and members to ensure those used are still relevant. Our review of performance reports, whilst identifying some areas of challenge, identified no specific risk to the value for money conclusion.</p>	Yes
Reliable and timely financial reporting that supports the delivery of strategic priorities.	As above the Council continues to produce regular finance reports which are presented throughout the financial year to the Cabinet. Reports are easy to read and clearly set out the financial position of the Council. The year-end position is not significantly different to that forecast during the year.	Yes
Managing risks effectively and maintaining a sound system of internal control.	<p>The Council has a Corporate Risk Management Group which has senior officer and member representation. Risks are identified and linked to the Council Altogether Corporate Themes. Actions to help mitigate each risk are identified and reported. The Council has an active Audit Committee which receives regular strategic risk management updates.</p> <p>The Council has a comprehensive Internal Audit plan and Internal Audit provide reports at each Audit Committee meeting.</p>	Yes

Sustainable resource deployment

Proper arrangements	Arrangements at Durham County Council	Audit Assurance obtained?
Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	<p>Robust budgetary control arrangements mean the council delivered a surplus in 2015/16 financial year, with all services reporting cash limit underspends at the year end. This included delivery of £16.3million savings. The final outturn for was presented to Cabinet on the 13 July 2016 with quarterly forecast outturn reports being presented to Cabinet throughout the year.</p> <p>The Council has a Medium Term Financial Plan (MTFP) which is regularly reviewed and updated. Regular updates on the MTFP have also been presented to Cabinet members. Additionally, where required, service reviews have been considered by the relevant Scrutiny Committees. MTFP (6) forecasts savings of £104.3 million between 2016/17 -2019/20. The council has already delivered £153.2million of savings between 2011/12 and 2015/16 which will mean by the end of 2019/20 the council will have achieved savings of £257.5 million.</p> <p>Robust planning arrangements mean the Council identifies savings in advance of any financial year. The latest plan, MTFP (7), covering the 2017/18-2019/20, was presented to Cabinet in July 2016. The delivery of MTFP savings continues to be the number one risk in the Councils Strategic Risk Register. The Council's Big Board arrangements mean savings plans have been identified for 2017/18. Plans for 2018/19 are currently being initiated at service level and will be presented to members in early 2017. The Councils Transformational Programme will sit alongside the current arrangements. At the time of our review the scope of the programme was still being devised. The first Transformation Board met in September 2016 to determine its terms of reference. The Board has representatives from Corporate Management Team and Cabinet, this means the programme has prominence within the Council.</p>	Yes
Managing and utilising assets effectively to support the delivery of strategic priorities.	<p>Through prudent financial management, at 31 March 2016, the Council reserves were:</p> <ul style="list-style-type: none"> • General Fund balance - £29.1 million • Earmarked Reserves - £241.6 million <p>This will help the Council to manage the impact of expected future reductions in funding. The Council has planned to utilise reserves in a structured way to support future MTFP's. This includes use of the Business Support Reserve to support delivery of the MTFP in 2016/17 and 2017/18. Budget setting arrangements mean the Council regularly review earmarked reserves. Where reserves, previously earmarked for specific schemes, are no longer relevant the reserve is released and used to support pressures. The Budget Support Reserve at the 31 March 2016 had a balance of £30.0 million.</p> <p>The Council has a capital plan in place.</p>	Yes

Proper arrangements	Arrangements at Durham County Council	Audit Assurance obtained?
Planning, organising and developing the workforce effectively to deliver strategic priorities.	<p>There has been significant levels of employees leaving the council in recent years. In 2016/17 the Council is forecasting a further reduction of 400 posts including the deletion of 60 anticipated vacant posts. The council continues to survey staff and monitors staff sickness levels for any indication of changes in overall morale. The Council also monitors service performance which may drop as a result of inappropriate staffing levels. Performance is monitored against the Council's Altogether priorities. Service Groupings review workforce reduction. Recommendations made in the recent Ofsted report, regarding staffing levels, are being addressed through the Improvement Action Plan which is monitored by the Quality Improvement Board.</p> <p>Equality Impact Assessments (EIA) are seen as an essential part of the development of savings. EIA ensure the lawfulness and fairness of savings are considered. Assessments look at the impact to service users and staff of any potential savings. EIA's are available to members to inform their decisions on savings proposals.</p>	Yes

Working with partners and other third parties

Proper arrangements	Arrangements at Durham County Council	Audit Assurance obtained?
Working with third parties effectively to deliver strategic priorities.	<p>The Council has a track record of working with partners. Area Action Partnerships are in place and allow the Council to work with local residents and organisations. Through the County Durham Partnership the Council works with other organisations and partnerships to promote and develop County Durham. The Council has a good record of consultation with the public.</p> <p>The Better Care Fund (BCF) was considered as part of our additional work (see table above). The Health and Wellbeing Board has oversight and receives quarterly updates on performance and financial information. The BCF is managed through a joint board to ensure balanced working between the parties. A Joint Finance Group, including appropriate Finance representation from the three partner organisations, meets on a regular basis to review financial information to support the reporting process.</p> <p>The Council is a member of the North East Combined Authority. At the time of our report proposals for further devolution in the region was uncertain given a decision on 6 September 2016. Arrangements in place should ensure the MTFP is updated for any significant changes which may impact on the Council through any future decision. The Strategic Risk Management has also identified devolution as an emerging risk and one being monitored by the council.</p>	Yes
Commissioning services effectively to support the delivery of strategic priorities.	The Council Constitution details the arrangements for contracting with third parties.	Yes

Proper arrangements	Arrangements at Durham County Council	Audit Assurance obtained?
Procuring supplies and services effectively to support the delivery of strategic priorities.	We have identified no matters to suggest services procured are not delivering the Councils strategic priorities.	Yes

Having gathered evidence of the Council's arrangements for each of the sub-criterion we conducted a 'reality check', building upon our existing knowledge of the Council and considering the robustness of our assessment by referring to:

- reports by statutory inspectorates or other regulators;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

Evidence	Auditor assessment
Reports by statutory inspectorates or other regulators	<p>In 2015/16 the Council received an overall 'requires improvement' rating from Ofsted. This followed an inspection of Children's Services and the Local safeguarding Children's Board. This rating was a fall from the previous 'good' score the Council had received at its last inspection. Whilst the Ofsted report identified several areas of good performance it also made 14 recommendations for improvement.</p> <p>We reviewed the arrangements put in place by the Council following the inspection, including its Improvement Action Plan. The plan covers each of the identified recommendations and identifies actions that the service will take, assigns a lead officer to each action, a start and end date, key milestones and the expected outcome. The Plan is being monitored by the Quality Improvement Board (QIB) which was established before the inspection. The QIB has senior officer and member representation. Our review identified that arrangements have been put in place by the Council to manage the result of the Ofsted Inspection.</p> <p>We reviewed the value for money profiles (based on data from Public Sector Audit Appointments). Based on this review, there were no indicators which would suggest weaknesses in the Council's arrangements, or any information contrary to our knowledge of the Council.</p>
Achievement of performance and other targets	We reviewed the latest performance reports and identified no matters suggesting a weakness in the Council's arrangements or any information contrary to our knowledge of the Council.
Performance against budgets and other financial targets	The Council has a history of achieving budget targets.

Overall conclusion

Having completed our assessment, and having carried out a 'reality check', we can conclude that our initial risk assessment remains appropriate and we can be confident in our conclusion that the Council has adequate arrangements in place for each criterion.

Overall the Council continues to respond well to the financial and other pressures it has faced, at a time of unprecedented reductions in public sector spending, and continues to have a strong record of delivering savings and keeping within budget.

We intend to issue an unqualified Value for Money conclusion as set out in Appendix B.

Appendix A – Draft management representation letter

Durham County Council - audit for year ended 31 March 2016

This representation letter is provided in connection with your audit of the statement of accounts for Durham County Council ('the Council') for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

My responsibility to provide and disclose relevant information

I have provided you with:

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

I confirm as interim Director of Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

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

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

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

Fraud and error

I acknowledge my responsibility as interim Director of Resources / s151 Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

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

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2015/16 in relation to the Council's PFI schemes that you have not been made aware of.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

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

Yours sincerely

Interim Director of Resources / s151 officer

Date.....

Appendix B – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DURHAM COUNTY COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Durham County Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Durham County Council in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Durham County Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the interim Corporate Director Resources and auditor

As explained more fully in the Statement of the interim Corporate Director of Resource's Responsibilities, the interim Corporate Director of Resource is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the interim Corporate Director of Resource; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Durham County Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 24, schedule 7 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24, schedule 7 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Opinion on the Pension Fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Durham County Council in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Durham County Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the interim Corporate Director of Resources and auditor

As explained more fully in the Statement of the interim Corporate Director of Resource's Responsibilities, the interim Corporate Director of Resources is responsible for the preparation of the Council's Statement of Accounts, which includes the Pension Fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the interim Corporate Director of Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for my report.

Opinion on Pension Fund financial statements

In our opinion the Pension Fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and the amount and disposition of the fund's assets and liabilities as at 31 March 2016 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Respective responsibilities of the Authority and the auditor

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

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office, requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required to conclude whether the Authority has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office, we are satisfied that, in all significant respects, Durham County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of

Certificate

We certify that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Cameron Waddell

For and on behalf of Mazars LLP

The Rivergreen Centre

Aykley Heads

Durham

DH1 5TS

30 September 2016

Appendix C - 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 assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assumed 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 considered materiality whilst planning and performing our audit.

Whilst planning, we made judgements about the size of misstatements which we considered to be material and which provided 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.

In 2015/16 we set materiality at the planning stage at £24,929,000 (2% of gross revenue expenditure) with a clearly trivial threshold of £748,000 below which identified errors will not usually be reported. We set lower materiality levels for the accounting entries we consider to be more sensitive, for example, senior officer's remuneration, as we considered these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage did not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, would be considered as immaterial.

We revised materiality for the financial statements as our audit progressed. Our closing assessment of materiality in 2015/16, based upon the final version of the financial statements, was £24,627,000 with a clearly trivial threshold of £739,000 below which identified errors were not reported.

We discussed with management any significant misstatements or anomalies that we identified during the course of the audit and we reported in our Audit Completion Report all unadjusted misstatements we identified other than those which were clearly trivial, and obtained written representation that explained why these remain unadjusted.

Appendix D – Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

The following matters do not impact on our independence but we wish to bring them to your attention to ensure Members are fully aware of the services that we provide to the Council or to its related parties:

Support provided by Mazars	Perceived threats and safeguards
Potential assurance services in relation to the Teachers' Pensions, Skills Funding Agency returns for 2015/16.	<p>We have considered threats and safeguards for all grants work as follows:</p> <ul style="list-style-type: none">• Self Review: The review does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars.• Self Interest: The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis.• Management: The work does not involve Mazars making any decisions on behalf of management.• Advocacy: The work does not involve Mazars advocating the Council to third parties.• Familiarity: Work is not deemed to give rise to a familiarity threat given these pieces of assurance work used to fall under the Audit Commission's certification regime and were the responsibility of the Council's appointed auditor.• Intimidation: The nature of the work does not give rise to any intimidation threat from management to Mazars.