



Audit Committee

Date Monday 30 September 2024
Time 9.30 am
Venue Committee Room 1A , County Hall, Durham

Business

Part A

Items which are open to the Public and Press

10. External Audit Progress Update 2023/2024 - Durham County Council - Report of the External Auditor (Pages 3 - 18)

11. External Audit Progress Update 2023/2024 - Durham County Council Pension Fund - Report of the External Auditor (Pages 3 -18)

Helen Bradley
Director of Legal and Democratic Services

County Hall
Durham
20 September 2024

To: **The Members of the Audit Committee**

Councillor A Watson (Chair)
Councillor L Fenwick (Vice-Chair)

Councillors P Heaviside, A Jackson, B Kellett, D Oliver,
R Ormerod and T Smith

Co-opted Members:

Mr F Barnish, Mr C Robinson and Mr I Rudd

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Audit Progress Report

Durham County Council & Pension Fund

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01

Audit progress

Audit progress

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors. It also includes, at Section 2, a summary of recent national reports and publications for your information.

The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO).

Update on the 2023/24 Council Financial Statements Audit

Our audit of the 2023/24 financial statements audit is substantially complete, subject to a few outstanding areas where work remains ongoing. Following receipt of the draft 2023/24 financial statements and from the work carried out on the audit so far, there are no new significant risks to highlight to the Committee for 2023/24 and no new independence issues we are required to report to you, noting that our risk assessment is continuous, right up until when the auditor's opinion is given.

We are working towards completing by October 2024 and aim to produce an Audit Completion Report for the November 2024 Audit Committee.

Section two of this report provides an update on the status of our audit work on the 2023/24 financial statements as at the date of drafting our report in early September. A verbal update will be given at the September Audit Committee to provide a more up to date position of those areas where work is noted as outstanding.

In August 2024, Cameron Waddell retired from Forvis Mazars. Mark Outterside has taken on the role as the new Engagement Lead from Cameron, and Joanne Bracken has replaced Mark as the Council's Audit Manager,. Rebecca Dearden will continue to be the Team Lead for the audit.

Review of the Council's Value for Money Arrangements

Our review of the Council's value for money arrangements is ongoing. However, at this stage of our work, we have not identified any significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources.

Audit progress

Update on the 2023/24 Pension Fund Financial Statements Audit

Our audit of the 2023/24 financial statements audit is ongoing, with a significant part of our work completed. Following receipt of the draft 2023/24 financial statements and from the work carried out on the audit so far, there are no new significant risks to highlight to the Committee for 2023/24 and no new independence issues we are required to report to you, noting that our risk assessment is continuous, right up until when the auditor's opinion is given.

We are working towards completing in October 2024 and aim to produce an Audit Completion Report for the November 2024 Audit Committee.

In section two of this report, we have provided an update on the status of our audit work on the 2023/24 financial statements. We will also provide a verbal update to the Audit Committee to provide a more up to date position of those areas where work is noted as outstanding.

In August 2024, Cameron Waddell retired from Forvis Mazars. Mark Outterside has taken on the role as the new Engagement Lead, with Thomas Backhouse continuing as Audit Manager and Smriti Sood as Team Leader.






In September 2024, the Pension Fund audit team were informed that an Engagement Control Quality Reviewer (EQCR) will join the team. Tim Hudson is an Audit Partner at Forvis Mazars and has worked as an EQCR on the Durham County Council Pension Fund audit in previous years.

Status of the Audit

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2. Status of the audit – Durham County Council

Our work on 2023/24 is currently ongoing, however we note that there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below. Note some areas are still subject to final quality review.

Audit area	Status	Description of the outstanding matters and findings so far
Income and Expenditure, including payroll		Our work is substantially complete in this area, subject to a few minor follow up queries that are outstanding with Council Officers, as well as some testing of overhead balances and the Council's double counting exercise. Subject to review, we have no matters to highlight.
Property, plant and equipment		<p>Our work is substantially complete in this area, with exception to our testing regarding PPE Valuations. We note that the Council engaged an external third party to assist with the valuations of their PPE assets, As well as revaluing the assets which were scheduled to be valued as part of the Council's valuation rolling programme, the Council has also engaged an external valuer to satisfy themselves that there has been no material movements in those assets which have not been revalued in year.</p> <p>As highlighted in our Audit Strategy Memorandum presented to the Audit Committee in May 2024, PPE valuations have been deemed by the audit team to be an area of significant risk as there is high degree of estimation uncertainty associated with the valuation of PPE due to the significant judgements and number of variables involved.</p> <p>Part of our planned response to this risk is to critically assess the Council's arrangements to ensure asset valuations are not materially misstated. To aid our assessment, the audit team has engaged our own internal valuation expert to review the valuations carried out by the Council's external valuer. This review has highlighted a number of audit queries regarding the approach and assumptions adopted by the Council's external valuer, which are under discussion with management. We are currently awaiting responses from the Council with regards to the queries made and understand that a meeting has been scheduled between the Council and their external valuer for Wednesday 25th September.</p>
Pensions		Our work on pensions is underway. We will liaise with the Pension Fund audit team to gain the required assurance.
Other		<p>Completion of various other work including but not limited to:</p> <ul style="list-style-type: none"> - Completion of our review of declarations made by members as part of our work on related party transactions; and - Testing of IT General Controls.
Financial Statements – closing procedures		<p>Review and closure processes, including checking the amended version of the financial statements, obtaining a final journals report and consideration of any post balance sheet events.</p> <p>Review procedures also remain on-going, which will include review of the final revised accounts by our central technical team.</p>



Likely to result in material adjustment or significant change to disclosures within the financial statements.



Potential to result in material adjustment or significant change to disclosures within the financial statements.



Not considered likely to result in material adjustment or change to disclosures within the financial statements.

2. Status of the audit – Durham County Council Pension Fund

Our work on 2023/24 is currently ongoing, however we note that there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below. Note some areas are still subject to final quality review.

Audit area	Status	Description of the outstanding matters and findings so far
Contributions and Benefits		Our work is substantially complete in this area. However, we will require data extracts from Civica UPM to be run so we can gain assurance over the completeness and accuracy of membership figures (disclosed in Note 1 of the Pension Fund accounts) and to perform a reasonableness test of contributions and benefits movements during the period.
Reconciliation of Movement in Investments		Our work is substantially complete in this area. We are currently looking to resolve queries relating to the equalisation payments from the fund manager BCPP.
Management Expenses		Work is ongoing in this area. We are currently looking to resolve some queries regarding service charge costs within the management expenses note, particularly relating to classification of management expenses and transaction costs.
Investment Assets		<p>Please note that this is a significant risk area and unadjusted misstatements are routinely reported for investment assets given the differences in the timing of receipt of information by the Pension Fund.</p> <p>We have completed most of the work in this area. We currently have queries relating to differences in market values for two investments managed by CBRE and the market values communicated by the custodian, Northern Trust.</p> <p>There are also differences in the values for BCPP but these are expected to be within material limits and so are expected to be reported as an unadjusted difference on our final ACR in November 2024.</p>
IAS 19 Assurance		Once we have resolved some of the outstanding queries for management expenses, reconciliation of movements in investments and the investment assets, we will provide pensions assurance to support the pensions testing for the Durham County Council.
Other		<p>Completion of various other work including but not limited to:</p> <ul style="list-style-type: none"> - Miscellaneous queries including bank reconciliation and transfers to and on account of leavers. - Testing of IT General Controls (taken from work performed by the Council audit team).
Financial Statements – closing procedures		<p>Review and closure processes, including checking the amended version of the financial statements and consideration of any post balance sheet events.</p> <p>Review procedures also remain on-going, which will include review of the final revised accounts by our central technical team.</p>



Likely to result in material adjustment or significant change to disclosures within the financial statements.



Potential to result in material adjustment or significant change to disclosures within the financial statements.



Not considered likely to result in material adjustment or change to disclosures within the financial statements.

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National Publications

National Publications

Page 12	Publication/update	Key points
1	Measures to tackle backlog in local audit	Reforms announced to clear the significant backlog in the auditing of local bodies' accounts in England
National Audit Office		
2	Overcoming challenges to managing risks in government, December 2023	The NAO has published a guide Overcoming challenges to managing risks in government aimed at senior leaders and risk practitioners across government.
3	NAO report: Use of artificial intelligence in government, March 2024	The NAO has published a report considering how effectively the government has set itself up to maximise the opportunities and mitigate the risks of Artificial Intelligence (AI) in providing public services.
Department for Levelling Up Homes and Communities (DLUHC)		
4	Capital finance: guidance on minimum revenue provision, April 2024	Statutory guidance on the Minimum Revenue Provision.
CIPFA		
5	Code of Practice on Local Authority Accounting in the UK 2024/25, May 2024	Code of Practice for 2024/25 financial statements.
6	IFRS16 Leases: A Guide for Local Authority Practitioners 2023 Edition, May 2023	Guidance for Local Authorities in implementing IFRS16, lease accounting.
Other		
7	FRC report on the quality of major local audits, December 2023	Annual report from FRC inspections of local audits.

National Publications

NAO Publications

1. Measures to tackle worsening backlog in local audit

In August 2024, following consultation in April, the Government published its proposals to address the significant backlog in local government annual accounts audits. These measures include both legislative changes to the Accounts and Audit Regulations 2015 and the introduction of several statutory deadlines ('backstop dates') aimed at helping to clear the backlog of local government annual accounts audits.

Local government entities are required to publish their audited annual accounts by each backstop date, which are:

- Financial years up-to-and-including 2022/23: 13 December 2024 (changed from proposed 30 September 2024).
- Financial year 2023/24: 28 February 2025 (previously 31 May 2025).
- Financial year 2024/25: 27 February 2026 (previously 31 March 2026).
- Financial year 2025/26: 31 January 2027.
- Financial year 2026/27: 30 November 2027.
- Financial year 2027/28: 30 November 2028.

Where the backstop dates now mean the auditor cannot complete all necessary audit procedures to obtain sufficient appropriate audit evidence to support the audit opinion a modified opinion may be necessary – usually referred to as a disclaimed opinion or a qualified opinion.

Auditors will still be required to discharge their value for money (VFM) responsibilities, which requires VFM work to be completed by the date of the audit opinion.

On 9 September, the Government laid before Parliament the Accounts and Audit (Amendment) Regulations 2024 as required to enact the proposals previously announced. At the same time, the Comptroller and Auditor General (C&AG) of the National Audit Office (NAO) laid before Parliament a draft revised Code of Audit Practice (the Code) On 10 September, the NAO, on behalf of the C&AG, also published Local Audit Reset and Recovery Implementation Guidance notes (LARRIGs) 1-5 to support auditors in meeting the requirements of the Local Audit and Accountability Act 2014 (the Act). The LARRIGs are prepared and published with the endorsement of the Financial Reporting Council (FRC) and are intended to support the reset and recovery of local audit in England.

The initial focus of this guidance is on supporting the reset for incomplete audits up to and including the 2022/23 financial year and the implementation of the backstop dates for the publication of audited accounts. The NAO will issue further guidance to support the recovery phase in due course. Whilst the guidance is primarily aimed at supporting auditors, it makes clear the requirements on local authorities to prepare good quality accounts, clear and comprehensive working papers and supported by knowledgeable finance teams.

As noted in the previous section we are currently auditing the Council's 2023/24 accounts and are working to complete our audit by November 2024, before the backstop date of 28 February 2025.

<https://www.gov.uk/government/news/significant-measures-to-tackle-worsening-backlog-in-local-audit#:~:text=The%20proposed%20backstop%20dates%20are,2024%2F25%3A%2027%20February%202026>

2. NAO Insight: Overcoming challenges to managing risks in government, December 2023

The NAO has published a guide Overcoming challenges to managing risks in government aimed at senior leaders and risk practitioners across government.

The guide outlines 10 approaches to overcome these challenges and each approach is supported by an outline of why this is a priority for government; case studies and quotes; and practical tips.

The guide has been drawn from insights from NAO's reports and insight teams, as well as the thoughts of a range of leaders and practitioners from NAO audited bodies and external organisations across industry and academia.

<https://www.nao.org.uk/insights/overcoming-challenges-to-managing-risks-in-government/>

3. NAO report: Use of artificial intelligence in government

The NAO has published a report considering how effectively the government has set itself up to maximise the opportunities and mitigate the risks of Artificial Intelligence (AI) in providing public services. The primary focus for this report is the role of the Cabinet Office and DSIT in supporting the adoption of AI in the public sector. Specifically, the report looks at:

- the government's strategy and governance for AI use in public services (Part One).
- how government bodies are using AI and how government understands the opportunities (Part Two).
- central government's plans for supporting the testing, piloting and scaling of AI; and progress in addressing barriers to AI adoption (Part Three).

<https://www.nao.org.uk/reports/use-of-artificial-intelligence-in-government/>

National Publications

DLUHC Publications

4. Capital finance: guidance on minimum revenue provision, April 2024

Following its consultation, DLUHC has published its response to the consultation, and a revised, 5th edition of its guidance for local authorities on determining a prudent level of minimum revenue provision when investing in their capital assets. This 5th edition of the guidance applies for accounting periods starting on or after 1 April 2025, with the exception of paragraphs 74 to 77 of the guidance which apply from 7 May 2024. The guidance is issued under section 21(1A) of the Local Government Act 2003. Under that section local authorities are required to “have regard” to this guidance.

<https://www.gov.uk/government/consultations/changes-to-the-capital-framework-minimum-revenue-provision/outcome/government-response-to-the-consultation-on-changes-to-statutory-guidance-and-regulations-minimum-revenue-provision>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition/capital-finance-guidance-on-minimum-revenue-provision-5th-edition>

5. Code of Practice on Local Authority Accounting in the UK 2024/25, May 2024

CIPFA has published its 2024/25 Code of Practice. This 2024/25 edition of the Code has been developed by CIPFA/LASAAC and has effect for financial years commencing on or after 1 April 2024.

The Code specifies the principles and practices of accounting required to prepare financial statements which give a true and fair view of the financial position and transactions of a local authority. The Code applies to local government organisations across the UK including local authorities, police bodies, fire services and other local public service bodies.

This edition of the Code introduces mandatory adoption of IFRS 16 Leases. Other amendments include:

- a suggestion that narrative reporting could reflect on the risk that a Section 114 notice might be issued
- recent changes to the IFRS treatment of sale and leaseback arrangements
- specifying the treatment on initial application of IFRS 16 where service concession arrangements provide for variable payments that depend on an index or rate.

<https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202425-online>

6. IFRS16 Leases: A Guide for Local Authority Practitioners 2023 Edition, May 2023

This publication provides guidance on IFRS 16 Leases for 2022/23, which is applicable to those authorities deciding to voluntarily implement the requirements of Appendix F of the Code (which includes the specifications applicable to those entities implementing IFRS 16 as of 1 April 2022). It will also be of interest to those intending to apply as of 1 April 2023 and those mandatorily implementing as of 1 April 2024.

This guidance on IFRS 16 provides comprehensive coverage of the proposed requirements for lessees. Although there have not been significant changes to the requirements for lessors, the guidance also includes extensive commentary on this area.

<https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-a-guide-for-local-authority-practitioners-2023-edition>

7. FRC report on the quality of major local audits, December 2023

The Financial Reporting Council (FRC) has published its report on the quality of major local audits which summarises the FRC's regulatory approach for financial years up to and including the year ended 31 March 2023 and sets out the findings from the 2022-23 inspections cycle.

There were six health and four local government audits selected for inspection in the 2022-23 cycle. The audits inspected had year-ends in March (or in one case May) 2021 (local government) and March 2022 (health). For local government audits, inspections were selected from those finished in the 2022 calendar year (regardless of the financial year the audit related to) due to the challenges brought on by the backlog.

Therefore, more audits were inspected from the health sector and as a result, the findings in the report are more indicative of audit quality in the health sector. All financial statement audits were assessed as good or limited improvements required. Areas requiring limited improvements included:

Audit procedures regarding completeness and accuracy of expenditure.

On the audit of one NHS Trust, the inspection concluded that audit procedures were not sufficiently tailored to address the impact of backlog maintenance.

In terms of value for money (VfM) inspections, six related to health and three local government bodies. This is less than the number of financial statement audits inspected because the auditor's work on VfM arrangements was not complete on one audit that was inspected. All VfM inspections were assessed as good or limited improvements required. Areas requiring limited improvements included:

Risk assessment procedures not being performed in a timely manner.

Not considering the arrangements in place at the body to manage, monitor and oversee its subsidiaries.

The audit team not updating their initial risk assessment or reporting to consider how the body had achieved its outturn financial position.

[FRC publishes report on the quality of major local audits amid delays in local government](#)

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