

# Annual Audit Letter

Durham County Council and Durham County  
Council Pension Fund

Year ending 31 March 2019





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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Durham County Council (“the Council”) and Durham County Council Pension Fund (“the Pension Fund”) for the year ended 31 March 2019. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

| Area of responsibility   | Summary  |
|--|--|
| Audit of the financial statements  | <p>Our auditor’s report issued on 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Council and Pension Fund’s financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.</li></ul> |
| Other information published alongside the audited financial statements       | <p>Our auditor’s report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none"><li>• The other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>  |
| Value for money conclusion   | <p>Our auditor’s report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>   |
| Reporting to the group auditor   | <p>In line with group audit instructions issued by the NAO, on 22 August 2019 we reported to the group auditor in line with the requirements applicable to the Council’s WGA return.</p>   |
| Statutory reporting  | <p>Our auditor’s report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p> <p>The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have received no questions or objections.</p>   |
| Audit of the financial statements included in the Pension Fund Annual Report | <p>On 31 July 2019, we issued our opinion that the Pension Fund financial statements within the Pension Fund Annual Report are consistent with the full Annual Statement of Accounts of Durham County Council.</p>   |

## 2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL

Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Council on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider materiality throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) because of the nature of certain items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

|                                 |   |          |
|---------------------------------|---|----------|
| Financial statement materiality | Our financial statement materiality is based on 2% of gross revenue expenditure at the surplus or deficit on provision of services level. | £26.786m |
| Trivial threshold               | Our trivial threshold is based on 3% of financial statement materiality.  | £0.804m  |

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## 2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within the audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

| Identified significant risk   | Our response   | Our findings and conclusions                         |
|---|--|--|
| <p><b>Management override of controls</b></p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>   | <p>We addressed this risk by carrying out audit work in the following areas:</p> <ul style="list-style-type: none"> <li>• accounting estimates impacting on amounts included in the financial statements;</li> <li>• consideration of any significant transactions outside the normal course of business;</li> <li>• consideration of the selection and application of accounting policies; and</li> <li>• journals recorded in the general ledger and other adjustments made in preparation of the financial statements</li> </ul>  | <p>Our work has provided the required assurance.</p> |
| <p><b>Revenue Recognition</b></p> <p>In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council's range of revenue sources, we have concluded that there are insufficient grounds for rebuttal for all income streams in 2018/19. We have identified income from fees and charges as the key areas for audit testing.</p> <p>This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p> | <p>We addressed this risk by performing the following audit work:</p> <ul style="list-style-type: none"> <li>• testing no grant revenue items recorded around year end to ensure they had been recognised in the appropriate financial year;</li> <li>• testing year end receivables;</li> <li>• testing adjustment journals, including material revenue journals; and</li> <li>• obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger.</li> </ul>   | <p>Our work has provided the required assurance.</p> |
| <p><b>Property, plant and equipment valuation</b></p> <p>The financial statements contain material entries on the balance Sheet as well as material disclosure notes in relation to the Council's holding of property.</p> <p>Although the Council employs an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of property, plant and equipment (PPE) due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk.</p>   | <p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> <li>• We critically assessed the Council's arrangements for ensuring that PPE valuations are reasonable;</li> <li>• We critically assessed the reasonableness of the valuations provided by the Council's valuer using other sources of data;</li> <li>• We considered the competence, skills and experience of the valuer and the instructions issued to the valuer; and</li> <li>• Performed further audit procedures on individual assets to ensure the basis of valuations was appropriate.</li> </ul> | <p>Our work has provided the required assurance.</p> |

## 2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL

| Identified significant risk   | Our response  | Our findings and conclusions   |
|---|---|--|
| <p><b>Defined benefit liability valuation</b></p> <p>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.</p> | <ul style="list-style-type: none"> <li>We critically evaluated the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and</li> <li>We challenged the reasonableness of the actuary's assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office.</li> </ul> | <p>Following the changes to the accounts in respect of the McCloud and GMP judgements we have obtained the assurance required.</p> |

### Our response to the key management judgements

| Identified management judgement  | Our response   | Our findings and conclusions  |
|--|--|---|
| <p><b>Unquoted equity investment valuations</b></p> <p>The Council has to make judgements in respect of the fair value measurements of unquoted equity investment it holds, including those in Newcastle Airport and several others.</p> <p>The underlying accounting requirements are subject to change in 2018/19, which increases the risk in respect of these valuation judgements, therefore they have been assessed as enhanced risks.</p> | <ul style="list-style-type: none"> <li>We critically assessed the basis of valuation for the Council's unquoted equity investments. This included the valuation of Newcastle Airport and Durham County Cricket Club; and</li> <li>We assessed whether disclosures are in line with the Code of Practice on Local Authority Accounting (the Code).</li> </ul> | <p>Our review identified several matters which resulted in amendments to the classification of some equity investments. These amendments are reflected in note 17, financial instruments. Subject to the amendments to the financial statements, we have obtained the assurance sought.</p> |
| <p><b>Debtors impairment allowance</b></p> <p>The Council has disclosed its impairment of debtors allowance as an area of estimation uncertainty.</p> <p>The underlying accounting requirements are subject to change in 2018/19, which increases the risk in respect of the assumptions and uncertainties relevant to this area, therefore they have been assessed as enhanced risks.</p>   | <ul style="list-style-type: none"> <li>We critically reviewed the Council's calculation of its impairment of debtors allowance; and</li> <li>We assessed whether disclosures were in line with the Code of Audit Practice, including any exemptions relevant to non-contractual debt.</li> </ul>   | <p>Our work has provided the required assurance.</p>  |

## 2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL

### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiency in internal control as part of our audit.

|                                  |  |
|----------------------------------|--|
| <b>Description of deficiency</b> | <p>Our testing of IT general controls noted the following matters:</p> <ul style="list-style-type: none"> <li>• There was no specific periodic review of active directory accounts. We were informed by ICT management that a recent review of old active directory accounts (i.e. older than 12 months) has been undertaken but this was undertaken outside of the audit period (i.e. post 31 March 2019).</li> <li>• Resource Link (payroll system) password parameters, such as minimum character length, were not in line with the policy requirements.</li> </ul> <p>Compensating controls are in place and neither matter affected our audit approach.</p>   |
| <b>Potential effects</b>         | This is inappropriate access to the Council's financial systems.   |
| <b>Recommendation</b>            | The Council should ensure policies are complied with.  |
| <b>Management response</b>       | <p>ICT are notified of all leavers via an electronic alert from the HR system and immediately deactivate the user account, however on rare occasions, when the user is an agency worker, ICT are not always informed when the user leaves. HR are to remind managers to report agency workers as leavers through the HR system and with immediate effect will run weekly reports out of the Agency Worker system in order that ICT are notified automatically to deactivate these users.</p> <p>Resourcelink can only be accessed once the user is logged into the council's network and Pulse Secure is required to access systems outside of the council network, using dual authentication and a random token number. Signing in to the Resourcelink system also requires knowledge of the user's personal employee number and the answer to a secondary personalised security question. Going forward ICT are working towards single sign on to access the council's network and are to increase the security of devices when users work outside of the council's network using 'mobile device management' software.</p> <p>ICT are also reviewing the current password policy</p> |

### Follow up of previous internal control points

The only internal control point raised in the prior year was in relation to IT leaver access deficiency wherein three leavers (from 25 tested) still had access to Council IT systems after their leaving date.

We carried out similar testing for our 2018/19 audit and there were no unexplained cases where employees still had access to IT systems after their leaving date.

## 2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL PENSION FUND

Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Pension Fund and whether they give a true and fair view of the Pension Fund's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Pension Fund's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Pension Fund on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the Pension Fund's financial position as at 31 March 2019 and of its financial performance for the year then ended.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider materiality throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) because of the nature of certain items or because they attract public interest. We also set a threshold for reporting identified misstatements to the We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

|                                 |  |          |
|---------------------------------|--|----------|
| Financial statement materiality | Our financial statement materiality is based on 1% of net assets available to pay benefits | £28.020m |
| Trivial threshold               | Our trivial threshold is based on 3% of financial statement materiality.                   | £0.900m  |
| Specific materiality            | Fund account based on 10% of contributions receivable                                      | £12.650m |

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## 2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL PENSION FUND

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within the audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

| Identified significant risk  | Our response   | Our findings and conclusions  |
|--|--|---|
| <p><b>Management override of controls</b></p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>  | <p>We addressed this risk by carrying out audit work in the following areas:</p> <ul style="list-style-type: none"> <li>• accounting estimates impacting on amounts included in the financial statements;</li> <li>• consideration of any significant transactions outside the normal course of business;</li> <li>• journals recorded in the general ledger and other adjustments made in preparation of the financial statements</li> </ul>  | <p>Our work has provided the assurance we sought and did not highlight any material issues.</p> |
| <p><b>Valuation of unquoted investments for which a market price is not readily available</b></p> <p>As at 31 March 2019, the fair value of property unit trusts that were not quoted on an active market was £172million, which accounted for 6% of the Pension Fund's net investment assets. As prices for these investments are not quoted in active markets, the values used in the accounts are estimated by fund managers, mostly based on Net Asset Value statements, updated for cash movements where appropriate, which is considered to be an appropriate methodology for these investments. This results in an increased risk of material misstatement.</p> | <p>In addition to our standard programme of work in this area, we have:</p> <ul style="list-style-type: none"> <li>• Agreed holdings from fund manager reports to the global custodian's report,</li> <li>• Agreed the valuation to supporting documentation including investment manager valuation statements, distribution and capital statements and audited accounts, where available;</li> <li>• Where audited accounts were available, we checked that they were supported by a clear opinion; and</li> <li>• Agreed the price to independent evidence, for those valuations not supported by valuation statements.</li> </ul> | <p>Our work has provided the assurance we sought and did not highlight any material issues.</p> |

## 2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL PENSION FUND

### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

|                                  |  |
|----------------------------------|--|
| <b>Description of deficiency</b> | At the planning stage we noted that while management reviews the risk register on a regular basis, the PF Committee Members had not reviewed the risk register since December 2016 and did not have plans to do so until March 2019. The Pension Fund Committee terms of reference, however, state that the Committee will review and monitor the Pension Fund Risk Register annually. This is not considered to be an opinion risk but was highlighted so that the Committee could respond. |
| <b>Potential effects</b>         | Inadequate oversight of risk management by the Pension Fund Committee.   |
| <b>Recommendation</b>            | The Council should ensure policies are complied with.  |
| <b>Management response</b>       | The risk register was presented to the March Pension Fund Committee and will be considered by the Pension Fund at least annually going forward.  |

### 3. VALUE FOR MONEY CONCLUSION: DURHAM COUNTY COUNCIL

Value for money conclusion

Unqualified

#### Our audit approach

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

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor's report, issued to the Council on 31 July 2019, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31<sup>st</sup> March 2019

| Sub-criteria             | Commentary   | Arrangements in place? |
|--------------------------|--|------------------------|
| Informed decision making | <p>A Council Constitution is in place which is reviewed, as a minimum, annually. This sets out the governance structure of the Council which has remained unchanged in 2018/19.</p> <p>The Audit Committee met regularly during the year. The Audit Committee monitors the Council's system of internal control and, where it deems necessary, challenges officers where weaknesses are identified. The Internal Audit plan has been delivered for the year and Internal Audit report directly to the Audit Committee. Internal Audit recommendations are closely monitored to ensure they are implemented and this is in a timely manner. An Annual Governance Statement has been prepared and approved by the Audit Committee.</p> <p>A Corporate Risk Management Group is in place highlighting the strategic risks facing the Council. Performance and financial reporting is embedded in the Council and there has been regular reporting to the Cabinet using a consistent methodology which allows any over or under delivery to be identified. The year end financial position reported to Cabinet in July 2019 was not significantly different to the position forecast during the year. Financial reporting provides detailed analysis of under and over spends of income and expenditure., for example, the 2018/19 reports have highlighted at an early stage the pressures in Children and Young People's Services. Performance reports include staff indicators, such as sickness levels.</p> <p>A Medium Term Financial Plan (MTFP) (8) was in place for the year ended 31 March 2019. Performance against the plan was reported regularly to the Cabinet. MTFP (9) covering the period 2019/20 – 2022/23 was approved by the Council in February 2019. This set a balanced budget for the 2019/20 financial year, including fully identified savings of £10m. Cabinet have received regular updates on the Council's arrangements to address school deficit budgets for 2019/20.</p> | Yes                    |



### 3. VALUE FOR MONEY CONCLUSION: DURHAM COUNTY COUNCIL

| Sub-criteria                    | Commentary   | Arrangements in place? |
|---------------------------------|--|------------------------|
| Sustainable Resource Deployment | <p>MTFP (9) was approved by full Council in February 2019. The plan sets out the pressures faced by the Council in the coming year including demand and funding pressures. The Net Budget Requirement for 2019/20 is £400.031. This requires savings of £15.8m of which £5.5m will be covered by use of the Budget Support Reserve (Balance at 31 March 2019 is £30m) and £10m by savings. The savings have been fully identified and are detailed in appendix 3 of the MTFP. Over the life of the MTFP (9) the Council estimates savings of £39.5m will be necessary to ensure a balanced budget (£23.24m for the period 20/21-22/23). The Council has a good record of delivering savings since 2011/12. It recognises that delivery of savings in coming years will be more challenging. The Budget Support Reserve is intended to support the budget in later years and is forecast to have a balance of £24.2m at 31 March 2020.</p> <p>The 2018/19 outturn shows that overall the Council delivered a surplus against the set budget. The outturn report reflects the pressures faced by the Council in particular children’s social services and high needs DSG. Additional Fund support has been reflected in the 2019/20 budget. The MTFP recognises that this is not sustainable and the council is working locally and nationally to mitigate the pressures and secure additional central government funding. Other pressures include maintained schools budgets. Several schools have set deficit budgets for 2019/20. Others have set budgets which include the use of reserves to balance the 19/20 budget. Consequently school reserves are forecast to decrease by £10.231m to £7.459m at 31 March 2020. Where appropriate the Corporate Director for Resources is working with individual schools and monitoring the overall position of schools budgets. The position has been reported to Cabinet.</p> <p>Earmarked reserves increased by £1.98m and the General Fund increased by £0.6m. The means overall useable reserves as at 31 March 2019 are £251.53m. Although as noted above some individual reserves, such as Dedicated Schools Grant Reserve, have been used more than planned. The MTFP (9) is based on the General Fund reserve being maintained within the Council’s approved range of 5-7.5% of Net Budget Requirement.</p> <p>Overall capital expenditure was lower than planned in the year by £12.561m which is 12% of total budget. The underspend has been carried into the 2019/20 budget. MTFP (9) includes a financed capital programme. Future investments such as the Milburngate development have been approved by the Cabinet.</p> <p>As detailed in the Annual Governance Statement an EU Exit Working Task &amp; Finish Group has been established. This is chaired by the Director of Transformation and Partnerships with representatives from all service groupings, reporting to Corporate Management Team. The group, Chaired by the Director of Transformation and Partnerships, monitored the emerging impact to identify and minimise the risks on council services and service users</p> | Yes                    |



### 3. VALUE FOR MONEY CONCLUSION: DURHAM COUNTY COUNCIL

| Sub-criteria                                  | Commentary  | Arrangements in place? |
|---|---|------------------------|
| Working with partners and other third parties | <p>The Council's Constitution details the arrangements for contracting with third parties. The Council has written procedures for procuring products and services, which are within its constitution.</p> <p>Significant partnerships such as the Better Care Fund are balanced with no one party able to disproportionately direct the culture and outcomes of the partnership. The Health and Well-being Board is responsible for the Durham Better Care Fund plan. Financial and health outcome performance of the plan is monitored.</p> <p>Where appropriate partnerships are monitored through Council performance reporting arrangements. Area Action Partnerships are intended to give local residents a voice in how services are provided locally. Consultation with partners feeds into the Council's MTFP development.</p> <p>The County Durham Partnership is in place bringing together key partners in the County. This is leading the development of the County Durham Vision for where the Council aims to be by 2035.</p> | Yes                    |



### 3. VALUE FOR MONEY CONCLUSION: DURHAM COUNTY COUNCIL

#### Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our value for money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Completion Report, we reported that we had identified one significant audit risk. The work we carried out in relation to the risk is outlined below.

| Risk   | Work undertaken   | Conclusion   |
|--|---|--|
| <p><b>Sustainable resource deployment</b></p> <p>The Council has a good track record of delivering to budget. Reduced funding means the Council continues to require significant levels of savings in the coming years. The medium term financial plan (MTFP) is in place to meet these pressures. To ensure our conclusion is correct we need to update our understanding of the Council's MTFP arrangements and how it monitors the planned delivery of savings.</p> | <ul style="list-style-type: none"> <li>We reviewed the Council's arrangements for developing the MTFP (9).</li> <li>We considered the delivery of 2018/19 savings against plans, including testing the outcome of a small sample of schemes.</li> <li>We reviewed the arrangements for future savings, including reviewing the robustness of identified plans for 2019/20 and beyond. This includes testing a sample of 2019/20 schemes.</li> <li>We reviewed the arrangements for the Transformation Programme.</li> </ul> | <p>Our work provided sufficient assurance. We have no matters to report.</p> |



## 4. OTHER REPORTING RESPONSIBILITIES

|   |                             |
|---|-----------------------------|
| <b>Exercise of statutory reporting powers</b>                                       | <b>No matters to report</b> |
| <b>Completion of group audit reporting requirements</b>                             | <b>Consistent</b>           |
| <b>Other information published alongside the audited financial statements</b>       | <b>Consistent</b>           |
| <b>Pension Fund financial statements included in the Pension Fund Annual Report</b> | <b>Consistent</b>           |

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

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

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data. We submitted this information to the NAO on 22 August 2019.

### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

### Pension Fund financial statements included in the Pension Fund Annual Report

We examined the Pension Fund financial statements for the year ended 31 March 2019 included within the Durham County Council Pension Fund annual report. In our opinion, the Pension Fund financial statements within the Pension Fund's annual report are consistent with Pension Fund financial statements within the statement of accounts of Durham County Council for the year ended 31 March 2019, and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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## 5. OUR FEES

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

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the audit panel in January 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

| Area of work   | 2018/19 proposed fee | 2018/19 final fee |
|--|----------------------|-------------------|
| Delivery of audit work under the NAO Code of Audit Practice:<br>Durham County Council              | £193,030             | £193,030          |
| Delivery of audit work under the NAO Code of Audit Practice:<br>Durham County Council Pension Fund | £19,957              | £19,957           |
| Certification of Housing Benefit Subsidy Claim   | £16,500              | £16,500           |
| Other non-Code work:   |                      |                   |
| - Skills Funding Agency  | £3,500               | £3,500            |
| - Teachers' Pension**  | TBC                  | TBC               |

We confirm that these fees are in line with the scale fee set by Public Sector Audit Appointments Ltd.

\* Our work on the Housing Benefit subsidy claim is not yet completed and consequently the final fee quoted above is still on an estimated basis.

\*\* At the time of preparing this report, the Council has not formally engaged us to complete the Teachers' Pension assurance.

## 6. FORWARD LOOK

### Financial outlook

The Council continues to make good progress in delivering planned savings, and to the end of 2018/19 has delivered £224m. Further savings are required to balance the budget in future periods. The MTFP (9) shows that savings of £39.5m will be required across the period from 2019/20 to 2022/23 with £16.3m of savings already identified across the period. This leaves additional saving of £23.2m that will need to be identified and approved in order to balance the budget.

Whilst the financial climate remains challenging, the Council remains well placed to manage the risks presenting.

### Operational challenges

The Council recognises that continuing to deliver a high standard of services is likely to remain challenging during the continued period of austerity and is actively managing performance to minimise the impact of the difficult decisions needed to deliver services within the available funding levels..

Key challenges faced by the Council in the future include:

- continued delivery of savings identified in the 2019/20 budget round and identification of savings covered in the 2020/21 – 2022/23 period;
- Ongoing management of the demand and funding pressures faced in the Adult and Children services;
- the timing of the Comprehensive Spending Review and the Fair Funding Review which are both currently unknown;
- relocation of County Hall; and
- development and launch of the new performance ambitions and vision to better reflect the needs and opportunities of County Durham.

Performance management arrangements are in place, and outcomes are reported to and monitored by Members at Cabinet meetings.

In terms of technical challenges that officers face around the production of the statement of accounts, a key focus for 2019/20 will be the adoption of IFRS 16 which is a new standard which established a new model for lessees and removes existing classifications of operating and finance leases. The impact on the statement of accounts of this new standard could be material, and so should be monitored by the Council.

### How we will work with the Council

Our 2019/20 audit will focus on the risks that the challenges above present to the Council's financial statements and the Council's ability to maintain proper arrangements for securing value for money.

We will continue to support the Council through our audit work and through our attendance at Audit Committee where we will inform the Committee about our progress on the audit, report our key findings and share our insight on any changes we are aware about in the sector. We will continue to offer accounting workshops to finance officers, and the audit team will continue to work with officers to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

1. Executive summary

2. Audit of the financial statements

3. Value for money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

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