

Annual Audit Letter

Durham County Council and Durham County Council Pension Fund

Year ending 31 March 2020





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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 (Pension Fund) for the year ended 31 March 2020. Although our 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 information 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 reports were issued on 30 October 2020 included our opinions that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended;• give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2020, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2020; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none">• the other information in the Statement of Accounts is consistent with the audited financial statements.
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 2020</p>
Reporting to the group auditor - Whole of Government Accounts (WGA)	<p>We are required to report to the group auditor in line with the requirements applicable to the Council's WGA return. As for some other authorities, technical issues with the Government's OSCAR system have prevented us from being able to report to the NAO. See page 18 for further detail.</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>
Audit of the financial statements included in the Pension Fund Annual Report	<p>On 30 October 2020, 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 – County Council

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 relevant financial reporting framework and whether they give a true and fair view of the Council's financial position and of its financial performance.

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 stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Emphasis of Matter - Material uncertainty relating to valuations of property investments

We drew attention to Note 44 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. The outbreak of Covid-19 has had a significant impact on global financial markets. As such the Pension Fund's property investment manager, has included a material valuation uncertainty clause in some of their 31 March 2020 valuation reports due to the possible impact of Covid-19. Therefore, there is less certainty and a higher degree of caution should be attached to valuations of unquoted property assets than would normally be the case. We included an emphasis of matter paragraph in our report. Our opinion was not modified in respect of this matter.

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 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. We 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 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure at the surplus/deficit on provision of services	£28.015m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.840m



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 our 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>Management override of controls 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 performing audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work provided the required assurance.</p>
<p>Revenue recognition 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 2019/20. 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 through a range of substantive procedures including:</p> <ul style="list-style-type: none"> • testing revenue items recorded around year end to ensure they have been recognised in the appropriate year; • testing year end fees and charges receivables; • testing adjustment journals; and • obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger. 	<p>Our work provided the required assurance.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL

Identified significant risk	Our response	Our findings and conclusions
<p>Property, Plant and Equipment (PPE) valuation</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 PPE because of 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 carrying out the following procedures:</p> <ul style="list-style-type: none"> • considering the Council's arrangements for ensuring that PPE values are reasonable; • challenging the reasonableness of the valuations provided by the Council's valuer using other sources of data; • assessing the competence, skills and experience of the valuer and the instructions issued to the valuer; and • performing audit procedures on individual assets to ensure the basis of valuations is appropriate 	<p>Our work provided the required assurance.</p>
<p>Defined benefit liability valuation</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>	<p>We addressed this risk using the following audit procedures:</p> <ul style="list-style-type: none"> • 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 in your financial statements, through the use of an expert commissioned by the National Audit Office. 	<p>Our work provided the required assurance.</p> <p>As detailed on page 3, our Audit Report included an emphasis of matter associated with material uncertainty relating to valuations of Pension Fund property investments.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL

Our response to the key management judgements

Identified management judgement	Our response	Our findings and conclusions
<p>Unquoted equity investment valuations</p> <p>The Council has to make judgements in respect of the fair value measurements of unquoted equity investments it holds, including Newcastle Airport.</p> <p>The underlying accounting requirements changed in 2018/19, which increased the risk in respect of these valuation judgements, therefore they have been assessed as enhanced risk.</p>	<p>We addressed this matter by :</p> <ul style="list-style-type: none"> critically reviewing the basis of valuation for the Council's unquoted equity investments. This included consideration of the impact of COVID-19 on valuations; and assessing whether disclosures are in line with the Code of Audit Practice 	<p>Our work provided the required assurance.</p>
<p>Debtors impairment allowance</p> <p>The Council has disclosed its impairment of debtors allowance as an area of estimation uncertainty.</p>	<p>We addressed this matter by :</p> <ul style="list-style-type: none"> critically reviewing the Council's calculation of its impairment of debtors allowance; and assessing whether disclosures are in line with the Code of Audit Practice. 	<p>Our work 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 deficiencies in internal control as part of our audit.

Description of deficiency	Shared privileged accounts were found to be present on the network (active directory) and Resource Link. The password for the AD shared accounts was shared through an encrypted file to which the IT team have access. For Resource Link, the password was shared verbally. Note that this is relevant to both the Council and the Pension Fund.
Potential effects	Shared accounts mean that actions undertaken using privileges are not attributable to an individual, and therefore cannot be traced.
Recommendation	Disable shared accounts and create individual access for each of the users for whom it is intended to have privileged access for AD and Resource Link.
Management response	The process will be reviewed in the coming year.

Description of deficiency	Shared privileged accounts were found to be present on the SSID live environment. Noted that developers have access to the password for these accounts.
Potential effects	Developers having privileged access to the live environment presents the risk that they could promote code which is later exploited in the live environment.
Recommendation	Ensure that developers do not have the ability to promote code and circumvent the change management controls.
Management response	As SSID is due to be replaced summer 2021 and is due to be decommissioned January 2022, currently it would not seem to be relevant to implement the audit recommendation fully. What has been completed though is that the 'system.audit_logon' table has been amended and associated maintenance script to begin recording the 'OS hostname', 'OS username' and action type as well from the main database audit table. This will allow changes to be identified to an individual user.



2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL

Description of deficiency	<p>Our consideration of related party declarations included consideration of Members' declarations. We noted in some instances that declarations had not been received for the year ended 31 March 2020. We acknowledge that the additional burdens Members have faced during the COVID-19 pandemic and the consequential restrictions implemented may have affected the completion of returns for the year ended 31 March 2020. In some cases the accounts disclosure was based on declaration returns dated 2018.</p> <p>There are compensating controls in the Council constitution which sets out the requirements of Members regarding declarations of interest, including declarations where necessary at Council meetings. In particular the Constitution makes clear that 'Members must ensure they keep the register updated and acknowledge that its contents will be published on the Authority's website and will be open to the public to inspect.' We would consider it best practice for Members to make an annual declaration.</p> <p>We also noted that the declarations published on the Council's website were several years old. We would recommend the Council consider the need to keep declared interests on the website up to date.</p>
Potential effects	Declared interests are not captured or up to date.
Recommendation	The Council should ensure all Members make a declaration at least annually. These declarations should be made available to the public on the Council's website.
Management response	The process for gathering declarations will be reviewed in the coming year.

Description of deficiency	The Council requires all journals over £1m to be authorised by a supervisor prior to being posted in the General ledger. From our sample of journals officers were unable to provide evidence to support the authorisation of two journals posted. This is in part owing to the authorisation being hard copy and not easily accessible in the current restrictions. The authorising manager has confirmed both journals are appropriate and have been authorised.
Potential effects	Inappropriate journals are posted to the ledger.
Recommendation	The Council should consider electronic authorisation of journals.
Management response	The council has a policy of approving all journals over £1m before posting to the ledger, which prior to the need for staff having to work from home, could be done either manually or electronically. The 2 journals processed where approval could not be obtained were processed manually at the time that staff had just started to work from home, due to the coronavirus pandemic. Finance staff have been reminded of the importance of approving all journals over £1m before posting to the ledger, and to do them electronically from now on.



2. AUDIT OF THE FINANCIAL STATEMENTS: DURHAM COUNTY COUNCIL

Prior year internal control recommendations

Description of deficiency	<p>Our testing of IT general controls noted the following matters:</p> <ul style="list-style-type: none">• 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 31st March 2019).• Resource Link (payroll system) password parameters, such as minimum character length, were not in line with the policy requirements. <p>Compensating control are in place and neither matter affected our audit approach.</p> <p>Note that this is relevant to both the Council and the Pension Fund</p>
Potential effects	There is inappropriate access to the Council's financial systems.
Recommendation	The Council should ensure policies are complied with.
Position for 2019/20	Matters remain relevant based on 2019/20 IT work.



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

Opinion on the financial statements – Pension fund

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 relevant financial reporting framework and whether they give a true and fair view of the Pension Fund's financial position and of its financial performance.

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, 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 2020 and of its financial performance for the year then ended.

Emphasis of Matter - Material uncertainty relating to valuations of property investments

We drew attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's level 3 unquoted property investments as at 31 March 2020. As disclosed in Note 5 of the Pension Fund's financial statements, the outbreak of Covid-19 has had a significant impact on global financial markets. As such the Pension Fund's property investment manager, has included a material valuation uncertainty clause in some of their 31 March 2020 valuation reports due to the possible impact of Covid-19. Therefore, there is less certainty and a higher degree of caution should be attached to valuations of unquoted property assets than would normally be the case. We included an emphasis of matter paragraph in our report. Our opinion was not modified in respect of this matter.

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 2020:

Financial statement materiality	Our financial statement materiality is based on 1% of net assets available to pay benefits.	£27.862m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.836m
Specific materiality	Fund account based on 10% of benefits payable.	£12.682m



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 our 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>Management override of controls</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. 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 performing audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work provided the required assurance.</p>
<p>Valuation of unquoted investments for which a market price is not readily available</p> <p>As at 31 March 2020, the fair value of investments which were not quoted on an active market was £193 million, which accounted for 7% of the 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. This results in an increased risk of material misstatement.</p>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> • agreed holdings from fund manager reports to the global custodian's report; • agreed the valuation to supporting documentation including investment manager valuation statements, distribution and capital statements and audited accounts of the underlying funds, where available; • where audited accounts were available, we checked that they were supported by a clear opinion; • we looked at the accounting policies within the accounts of the underlying funds to assess the methodology for asset valuation; • in light of market volatility caused by Covid-19, we compared year end values against updated investment manager valuations carried out post-year end; and • we considered how Fund Managers had evaluated the impact of Covid-19 when calculating the value of investments at year end and post-year end. 	<p>Our work provided the required assurance.</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.

Description of deficiency	As part of the controls in place to identify related party transactions, members of the Audit Committee and Pension Fund Committee are requested to complete annual declarations of interests. There were a total of five instances where these forms were not completed for 2019/20.
Potential effects	Where declarations of interests are not known to those responsible for compiling the accounts, there is a risk that related party transactions could occur and not be identified for disclosure in the financial statements.
Recommendation	Declarations of interests should be completed by all those required at the end of each financial year.
Management response	The process for gathering declarations will be reviewed in the coming year.

As noted on page 7, the internal control recommendation regarding shared privilege accounts also relates to the Pension Fund, and as such it has not been duplicated here.



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

Prior year internal control recommendations

Description of deficiency	At the planning stage it was noted that while management reviews a 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 has been highlighted so that the Committee could respond.
Potential effects	Inadequate oversight of risk management by the Pension Fund Committee.
Recommendation	The Council should ensure the review policy is complied with.
Position for 2019/20	The risk register was reviewed in March 2019 as planned, and then reviewed again at the March 2020 Committee meeting, in line with the requirement for an annual review.

As noted on page 9, the prior year internal control recommendation regarding review of active directory accounts and Resource Link password parameters also relates to the Pension Fund, and as such it has not been duplicated here.



3. VALUE FOR MONEY CONCLUSION

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, 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 31st March 2020.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The Constitution sets out the governance structure of the Council. The Corporate Risk Management Group is responsible for monitoring and highlighting the strategic risks.</p> <p>There is regular performance and financial reporting to the Cabinet using a consistent methodology which allows any over or under delivery to be identified. Finance reports highlight areas of significant pressure, such as in Children’s Services. Financial reporting provides detailed analysis of under and over spends of income and expenditure. Performance reports include staff indicators, such as sickness levels. Cabinet received regular updates on arrangements to address school deficit budgets and the High Needs budgets for 2020/21 and beyond.</p> <p>The Audit Committee met regularly during the year. The Audit Committee monitors the Council’s system of internal control. The Internal Audit plan has been delivered for the year and the Head of Internal Audit Opinion provided ‘moderate’ assurance. Internal Audit report directly to the Audit Committee. The Audit Committee receive regular reports tracking services progress in responding to Internal Audit recommendations. The Audit Committee challenges management to ensure recommendations are implemented and an Annual Governance Statement was approved by the Committee.</p> <p>A Medium Term Financial Plan (MTFP) (9) was in place for the year ended 31 March 2020. Performance against the plan was reported regularly to the Cabinet. MTFP (10) covering the period 2020/21 – 2023/24 was approved by the Council in February 2019. This set a balanced budget for the 2020/21 financial year, including fully identified savings of £8m. In light of the consequences of the COVID-19 pandemic the Council has revisited the assumptions in the MTFP and is monitoring the impact on the Council’s future finances.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>MTFP (10) was approved by full Council in February 2020. The plan set out the pressures faced by the Council in the coming year including demand and funding pressures. The plan included the need for savings over the medium term including £8m in 2020/21 and £32m over the life of the plan. The plan was developed and agreed prior to the COVID-19 pandemic and before the full consequences could be reasonably foreseen. The Council is now revisiting the MTFP in light of the pandemic and the anticipated economic consequences. This includes consideration of the key expenditure and income assumptions which is understandably difficult given the significant levels of ongoing uncertainty. Our VFM conclusion considers the arrangements in place for the 2019/20 financial year and recognises that the consequences of the pandemic impact on arrangements in the 2020/21 financial year.</p> <p>The 2019/20 outturn shows that this was a challenging financial year for some areas of Council. Demand pressures meant there were overspends in several service areas. One example is the High Needs budget. The Council developed a recovery plan and additional funding of £8.8m has been secured for 2020/21 but growing demand means this is likely to continue as a challenging area. Other pressures include maintained schools budgets. Several schools have set deficit budgets for 2020/21. The Corporate Director for Resources continues to work with individual schools and monitor the overall position of schools budgets.</p> <p>The pressures will continue alongside the financial difficulties and challenges created by the response to and recovery from the pandemic.</p> <p>Earmarked reserves decreased by £9.6m although this movement includes the creation of an additional COVID-19 Grant Support Reserve of £17.5m. The General Fund balance decreased by over £1.1m. This means overall useable reserves as at 31 March 2020 are £240.8m. The MTFP is based on the General Fund reserve being maintained within the Council's approved range of 5-7.5% of the Net Budget Requirement.</p> <p>Overall capital expenditure was lower than planned in the year by £7.5m which is 6.3% of total budget. The underspend has been carried into the 2020/21 budget.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified
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Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>The Constitution details the arrangements for contracting with third parties and the Council has written procedures for procuring products and services. Significant partnerships such as the Better Care Fund are managed with the aim of ensuring no one party is 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

Significant audit risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to our 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 Strategy Memorandum, we reported that we had identified one significant audit risk. The work we carried out in relation to this significant risk is outlined below.

Risk	Work undertaken	Conclusion
<p>Sustainable resource deployment</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>	<p>In response to this risk we:</p> <ul style="list-style-type: none"> • reviewed arrangements for developing the MTFP; • considered the delivery of 2019/20 savings against plans; • reviewed the arrangements for future savings, including review of robustness of identified plans for 2020/21 and beyond; and • reviewed the arrangements for the Transformation Programme. 	<p>Our work provided sufficient assurance.</p> <p>Note that the impact of the COVID-19 pandemic means the Council will need to revisit the MTFP, including assumptions and future budget gaps. Our conclusion is based on arrangements in the 2019/20 financial year and recognises that the impact of COVID-19 was in March 2020. When setting the MTFP arrangements were in place to set a financial plan which reflected the circumstances at that time.</p>



4. OTHER REPORTING RESPONSIBILITIES

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

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. At the time of issuing this report we have not submitted this information to the NAO. This was owing to a technical issue the OSCAR system which means the Council are unable to provide audit reports which are consistent in all respects with the data recorded in the OSCAR system. Her Majesty's Treasury (HMT) has indicated that it is working to correct the issue. However until this is done we have been instructed by the NAO that we are to not to sign off our WGA work until we have received an auditor report that we are satisfied is consistent with the Council's financial statements.

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 2020 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 2020, and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.



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 Audit Committee in February 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£193,030	210,430**
Delivery of audit work under the NAO Code of Audit Practice: Durham County Council Pension Fund	£19,957	24,457**
Fees for audit work carried out on 2019 triennial valuation membership data submission to the actuary	£7,125	£7,125
Fees for pension assurance work on behalf of auditors of employers within the Pension Fund	£11,380	£11,380
Certification of Housing Benefit Subsidy Claim	£18,800	£18,800
Other non-Code work		
• Skills Funding Agency	£3,850	£3,850
• Teachers' Pension	£4,900	£4,900

** At the time of preparing this report we are proposing additional fees to meet additional work required for property valuations (associated with COVID-19) and pension (material valuation uncertainty). The additional fee proposed is £17,400 for the County and £4,500 for the Pension Fund. Both fees are subject to Public Sector Auditor Appointments (PSAA) approval.



6. FORWARD LOOK

Financial outlook

The COVID-19 pandemic and the consequences of local and regional lockdowns and restrictions will have a significant impact on the UK economy for years to come. The pandemic has created significant uncertainties and pressures in the Council's medium term financial planning arrangements. Clarity over the impact will only be obtained when the virus has been brought under control and the impact on the economy becomes clearer. The Council is monitoring and updating plans but is anticipating future pressures in the income it receives. In particular, Collection Fund income is likely to be affected by any negative impact to the local and national economy. Public spending is also likely to be tightly controlled as the Government begins to manage the levels of borrowing incurred.

There is also uncertainty stemming from the UK's new trading arrangements with the European Union. While this may not directly impact on the Council's supply chains, the impact on the overall economy may create indirect pressures.

It is critical that the Council continues to monitor and refresh its medium term plan so that potential funding shortfalls can be identified as early as possible and mitigations identified to minimise the impact on services.

Operational challenges

The Covid-19 pandemic has had a significant impact on the services provided by the Council. Services have either been suspended or redesigned in order for them to be delivered in a safe manner for officers and users. The Council's office including County Hall have been largely closed since March 2020 so officers have had to adapt to working from home. It is likely that these measures will continue until the roll out of a vaccine and coronavirus is brought under control.

Aside from Covid-19, other key challenges faced by the Council include:

- successfully generating the savings necessary to deliver the medium term financial plan;
- responding to the demand and funding pressures faced in the Adult and Children services; and
- relocating County Hall and developing the Aykley Head site.

How we will work with the Council

In terms of the technical challenges around the production of the statement of accounts, we will continue to offer accounting workshops to finance officers, and the audit team will continue to share our knowledge of new accounting developments. We will also be on hand to discuss any issues as and when they arise.

Given the impact of COVID-19 on the 2019/20 reporting timetable, there is some uncertainty in respect of the 2020/21 completion dates. We will continue to work with the finance team to ensure timely completion of our audit work.

We will also share relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.



6. FORWARD LOOK

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are, however, significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources but we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is release. In particular we will communicate any increases in work which will impact on the audit fees charged.



6. FORWARD LOOK

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



CONTACT

Mark Kirkham

Partner

0113 387 8850

07747 764 529

mark.kirkham@mazars.co.uk

James Collins

Senior Manager

0191 383 6331

07881 283 527

james.collins@mazars.co.uk

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