

Audit Completion Report

Durham County Council - Year ended 31
March 2021

September 2021



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Audit Committee
Durham County Council
County Hall
DH1 5UQ

21 September 2021

Dear Committee Members

Audit Completion Report – Year ended 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 25 February 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

Signed: 
Mark Kirkham (Sep 21, 2021 13:15 GMT+1)

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01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which were:

- valuation of property, plant and equipment;
- net defined benefit liability valuation;
- management override of controls; and
- revenue recognition.

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements (unadjusted misstatements). Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021.

At the time of preparing this report the significant matters remaining outstanding are outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



Value for money arrangements

We anticipate having no 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. Details of our work provided in section 7 of this report.



Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.



Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have received no objections or questions from local electors.

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02

Section 02:

Status of the audit

2. Status of the audit

Our work is substantially complete and 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.

Audit area	Status	Description of the outstanding matters
Pensions		We are considering the response from the Pension Fund auditor.
IT General Controls		We have some procedures to complete on our IT General Control testing. This includes considering responses to queries that have not been obtained.
Audit closure procedures		We have several audit closure procedures to complete. This includes reviewing the final version of the Statement of Accounts and final Partner reviews.

-  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.



03

Section 03: **Audit approach**

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in February 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £28.015m using a benchmark 2% of Gross Revenue Expenditure (at Surplus/deficit on Provision of Services level). Our final assessment of materiality, based on the final financial statements and qualitative factors, is £28.939m using the same benchmark.

Use of experts

As detailed in our Audit Strategy Memorandum, management makes use of experts in specific areas when preparing the financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account. There are no changes to our or management's use of experts:

Item of account	Management's expert	Our expert
Defined benefit liability	Actuary (Aon Hewitt)	NAO's consulting partner (PWC)
Property, plant and equipment valuation	In-house valuer (with external support commissioned)	We take into account any relevant information which is available from third parties
Financial instrument disclosures	Link Asset Services (formerly Capita)	No expert required

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services.

We have not identified any relevant service organisations.



04

Section 04: **Significant findings**

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 15 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks

Management override of controls	Description of the risk
	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. 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>How we addressed this risk</p> <p>We addressed this risk by carrying out audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates impacting amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger (selected based on our fraud risk characteristics) and other adjustments made in preparation of the financial statements.
	<p>Audit conclusion</p> <p>Our work has provided the required assurance and we have no matters to report.</p>



4. Significant findings

Revenue recognition	Description of the risk
	<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 concluded that there are insufficient grounds for rebuttal for all income streams in 2020/21. We have identified income from fees and charges and other income 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>How we addressed this risk</p> <p>We addressed this risk by performing the following audit procedures:</p> <ul style="list-style-type: none"> identifying revenue (non grant income) items recorded around year end to ensure they had been recognised in the appropriate year; testing year end receivables; and obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger.
	<p>Audit conclusion</p> <p>Our work has provided the required assurance and we have no matters to report.</p>

Valuation of property, plant and equipment (PPE)	Description of the risk
	<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 PPE.</p> <p>Although the Council employs a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE as a result of the significant judgements and the number of variables involved. We have therefore identified the revaluation of PPE to be an area of risk.</p>
	<p>How we addressed this risk</p> <p>We addressed this risk by performing the following audit 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 valued in the year to ensure the basis of valuations is appropriate
	<p>Audit conclusion</p> <p>Our work has provided the required assurance and we have no matters to report.</p>



4. Significant findings

Net defined benefit liability valuation	Description of the risk The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.
How we addressed this risk We addressed this risk by performing the following audit procedures: <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.	
Audit conclusion Subject to the outstanding matters in section 2 our work has provided the required assurance.	



4. Significant findings

Key areas of management judgement

Unquoted equity investment valuations	<p>Description of the management judgement</p> <p>The Council has to make judgements in respect of the fair value measurements of unquoted equity investments it holds, including those in Newcastle Airport and several others.</p>
<p>How our audit addressed this area of management judgement</p> <p>We addressed this judgement by :</p> <ul style="list-style-type: none"> critically reviewing the basis of valuation for the Council's unquoted equity investments; and assessing whether disclosures are in line with the Code of Audit Practice. 	
<p>Audit conclusion</p> <p>Our work has provided the required assurance.</p>	

Debtors impairment allowance	<p>Description of the management judgement</p> <p>The Council has disclosed its impairment of debtors allowance as an area of estimation uncertainty.</p>
<p>How our audit addressed this area of management judgement</p> <p>We addressed this judgement 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>Audit conclusion</p> <p>Our work has provided the required assurance.</p>	



4. Significant findings

Qualitative aspects of the Council's accounting practices

We reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 18 June 2021 and were of a good quality.

Significant matters discussed with management

Depreciation of buildings

As part of our testing of building depreciation we recalculated a sample of depreciation charges made in the 2020/21 financial year. We based our calculation on Gross Book Value brought forward divided by useful asset life assessed by the Council's valuer. For two of the three building assets tested we noted that the Council's calculation was based on Net Book Value. Officers confirmed this was a result of the methodology built into the Council's Fixed Assets System. We estimated the overall impact to be £1.8m additional depreciation for the full financial year. This, therefore, does not indicate a risk of material misstatement in the estimate. It is noted that while depreciation is charged to the cost of services, it is written out under statutory adjustments meaning there is no impact on the Council's General Fund balance.

PPE additions

PPE balances include additions held at historic cost (£16m). These additions have been accumulated in the years between valuations. Given the additions relates to several assets over several years the amounts are deemed to not be material by the Council and therefore they have not been subject to a formal valuation to consider if they have enhanced the asset. We are satisfied that managements judgement does not indicate a risk of material misstatement.

Community assets

Within the historic cost amounts disclosed in note 14 (Property, Plant and Equipment) are two large parks with a combined value of £2.8m. The Council currently recognises these assets as Land and Buildings but it may be more appropriate to recognise these assets as Community Assets. Management intends to review the classification of these assets as part of the valuation review to be undertaken in 2021/22.

Group Accounts

The Code of Practice on Local Authority Accounting, paragraph 9.1.1.6 states:

'Authorities with interests in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered not material.'

The Council has assessed its subsidiaries, associates and joint ventures and considers them to be not material either qualitatively or quantitatively. We have considered management's judgement and are satisfied that the accounts are not materially misstated as a result of this judgement. In the coming years, the Council will need to ensure it reviews this assessment and updates it for any significant changes.

Covid -19 Business support

The Council administered over £170m of financial assistance to local businesses and individuals on behalf of the Government. This support, and the associated income, is not reflected in the Council's financial statements because the Council demonstrated it acted as an agent of the Government. We considered the adopted financial reporting approach and agree that relevant guidance and accounting standards mean it is reasonable.

Significant difficulties during the audit

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

Given the ongoing impact of COVID-19 the whole audit was completed remotely.

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4. Significant findings

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability 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 powers as part of our 2020/21 audit.

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. No such objections have been raised for the year ended 31 March 2021.



05

Section 05:

Internal control recommendations

5. Internal control recommendations

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

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

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

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



5. Internal control recommendations

Other recommendations in internal control – Level 3

Description of deficiency

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 2021.

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.

Potential effects

Declared interests are not captured or up to date. This increases the risk the related party disclosures are inaccurate and potential conflicts of interest are not identified. This could impact the public perception of transparency.

Recommendation

The Council should ensure all Members make a declaration at least annually.

Management response

In March 2021 Democratic Services requested that all Members return related party declaration of interest forms for the 2020/21 financial year. Despite issuing several reminders, 12 out of 126 Member declarations were not received; 8 of these relate to Members who are no longer serving. The Corporate Director of Resources will contact the Group Leaders of the remaining 4 Members to ensure their returns are completed in the coming year.

Other recommendations in internal control – Level 3

Description of deficiency

As part of our testing of property plant and equipment we test the existence of assets to obtain audit evidence about ownership. We selected a sample of infrastructure assets from the Council's fixed asset register. For one item the terminology in the fixed asset register did not make it clear what the asset was (CIF Speed Visor Projects 09/10) and, given the asset was purchased in 2009/10 financial year, the records to identify the asset were not available. As a result management was unable to provide sufficient evidence of what this asset was and therefore that it still existed and was still owned/used by the Council. The net book value of this asset was £0.0008m at 31 March 2021. We have extrapolated the error to assess the impact on the accounts and the result is a non material and trivial potential misstatement of £0.181million. We have raised the matter as a deficiency as the Council should ensure assets reflected in the Balance Sheet still exist and are operational as at 31 March.

Potential effects

The Council recognises in its Balance Sheet assets that no longer exist or it no longer uses.

Recommendation

Management should review the infrastructure asset register and in particular historic assets and confirm they still exist and are still operational.

Management response

The infrastructure asset register will be reviewed in the coming year.



06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £0.868m. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

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

Unadjusted misstatements

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Other long term liabilities - Pensions			629	
Cr: Unusable Reserves: Pensions Reserve				629

When a school converts to academy status the Council is no longer responsible for the employees and, as such, the academy takes on the associated pension liability. For the year ended the 31 March 2020 the Council did not ask the actuary to reflect the transfer of three primary schools meaning the Council's position at the 31 March 2020 included liabilities (and assets) associated with these academies. These schools remain in the Council liability as at 31 March 2021.

The Council and actuary determined that the conversion of these three schools would not be material, and have elected to wait till the next triennial valuation to remove these scheme members. As reported in our 2019/20 Audit Completion Report the Council estimated that the impact of these members remaining in the Council's pension figures means the Pension Liability is potentially overstated by up to £1.767m and pension assets by £1.138m. The net liability was therefore estimated to be overstated by £0.629m which is approximately 0.05% of the total net liability. The Council does not have access to updated data which will allow it to update the estimate. We are, however, satisfied this treatment does not indicate a risk of material misstatement.

For the year ended the 31 March 2021 the Council commissioned the actuary to reflect in the Council's pension liability all the schools which transferred to academy status.

6. Summary of misstatements

Unadjusted misstatements *continued*

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
2	Dr: Cost of Services Cr: Property, Plant and Equipment	1,782			1,782
	Dr: Capital Adjustment Account Cr: MIRS		1,782	1,782	
<p>When recalculating the depreciation charge, we based our calculation on Gross Book Value (GBV) divided by assets useful life. For two of the three building assets being tested this led to a difference in our calculation and management's calculation of the actual depreciation charged. Further investigation confirmed that the Council's calculation was based on Net Book Value (NBV). This was a result of a routine within the Council's Fixed Assets system which is provided by an external body. To estimate the potential impact we extrapolated this difference in approach and estimated the error to be potentially £1.782m. This does not indicate a risk of material misstatement in management's estimate. We note also that while depreciation is charged to the cost of services, it is written out under statutory adjustments meaning there is no impact on the Council's General Fund balance.</p>					
2	Dr: Property, Plant and Equipment			1,175	
	Cr: Revaluation Reserve				1,175
<p>Our testing of a sample of eleven PPE assets revalued during the year on a 'depreciated replacement cost' (DRC) basis identified errors in the areas used within the calculations of two of these assets, resulting in an understatement of asset values of £0.093m, which is trivial. We have considered the potential impact on the accounts by extrapolating the errors across the full population of assets valued during the year on a DRC basis and estimate the actual plus extrapolated errors in total to be £1.175m. We are satisfied that this does not indicate a risk of material misstatement.</p>					

6. Summary of misstatements

Unadjusted misstatements *continued*

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
2	Dr: Unusable Reserves (revaluation reserve and capital adjustment account) Cr: Property, Plant and Equipment (PPE)		874	874
	<p>Our testing of a sample of four PPE assets revalued during the year on an 'existing use value' (EUV) basis identified errors in the rates used within the calculations for two of these assets, resulting in an overstatement of asset values of £0.106m, which is trivial. We have considered the potential impact on the accounts by extrapolating the errors across the full population of assets valued during the year on an EUV basis and estimate the actual plus extrapolated errors in total to be £1.831m. We are satisfied that this does not indicate a risk of material misstatement.</p> <p>We further considered the errors on a refined population of similar assets (reclamation sites and depots) valued using similar assumptions and estimate the actual and extrapolated errors to be reduced to £0.874m.</p> <p>Note that some of the valuation movements may be charged to cost of services in the Comprehensive Income and Expenditure Statement (CIES). This is where there is no historic balance in the revaluation reserve for the asset. Any element of the valuation changes charged to the CIES is written out to the Capital Adjustment Account via the MIRS under statutory adjustments meaning there is no impact on the Council's General Fund balance.</p>			
	Total unadjusted misstatements	1,782	1,782	4,460

Note 1, Accounting policy 21 PPE.: As reported in previous years a de-minimis level for accounting for PPE has not been included in the Accounting Policy disclosures as required by Code (4.1.4.1).

Note 33, Officer Remuneration: The exit packages note is based on approved redundancy and pension strain. Our testing identified individuals who were paid a higher pension strain than estimated. The differences arise because of timing differences between the date the pension strain is estimated and the final calculation. Timing differences occur when the actual leave date differs from the estimated leave date, or because of changes in pensionable pay before the leaving date. Pension strain payments are paid to the Pension Fund and not the individual. The total value of these differences was £0.008m. One individual in our residual population involved higher pension strain than disclosed. We extrapolated this to a non material amount of £0.008m.

Note 14, Property, plant and equipment: the narrative detailing that the Council revalued £252m of its assets in 2020/21 includes £1.4m of community assets. Given community assets are not revalued we believe they should be excluded from the disclosure.

Note 15, Heritage assets: the disclosure does not detail the date of the last valuation of heritage assets.



6. Summary of misstatements

Adjusted misstatements

Disclosure amendments

During our review of the financial statements we identified, and management made, the following amendments.

Note 1, Accounting policies: several amendments were made to update terminology or better describe the Council's policy.

Note 4, Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty: Some minor presentational adjustments were made to the disclosure.

Note 6, Events After the Balance Sheet Date: Note was updated to reflect schools planning to convert to academies in the coming year.

Note 14, Property, Plant and Equipment: The capital commitments disclosures were updated to accurately reflect commitments. Adjustments were also made to the revaluations narrative.

Note 17, Financial Instruments: Some presentational adjustments were made.

Note 18, Nature and Extent of Risks Arising from Financial Instruments: Several presentational adjustments were made.

Note 30, Agency costs: The reference to COVID 19 grants were removed as these do not meet the disclosure requirements of The Code (3.4.4.1(3)).

Note 32, Officers' Remuneration: Adjustments were made to the senior officer remuneration disclosure and the payments to council employees receiving more than an £50,000 remuneration table.

Note 33, External Audit costs: Note was updated to reflect additional audit fees raised associated with 2019/20 audit.

Note 34, Dedicated Schools Grant: Note was amended for several errors.

Note 36, Related Parties: Note was updated for several errors.

Note 37, Capital Expenditure and Capital Financing: The note was amended to show acquisition of assets relating to finance leases.

Note 40, Impairment and Revaluation Losses: Additional narrative added to explain the note shows the net reduction in the value of assets.

Note 44 defined Benefit Pension Schemes: The note was updated to ensure consistency with the actuary's report.

The Statement of Accounts, including the Narrative Report and Annual Governance Statements were also adjusted for minor spelling, grammatical and consistency errors.



07

Section 07:

Value for money arrangements

7. Value for money arrangements

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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks.
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

Our work to date has not identified any risks of significant weaknesses in arrangements.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report in October 2021.

Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Council's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report in October 2021.



Appendices

A: Draft management representation letter

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Appendix A: Draft management representation letter

Durham County Council
County Hall
Durham
DH1 5UZ

X September 2021

Dear Mark

Durham County Council - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of Durham County Council (the Council) for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

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

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

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

I confirm as Corporate Director of Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.



Appendix A: Draft management representation letter

Accounting records

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

Accounting policies

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

Accounting estimates, including those measured at fair value

I confirm that the methods, significant assumptions and the data used in making the accounting estimates are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework..

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

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

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



Appendix A: Draft management representation letter

Fraud and error

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

I have disclosed to you:

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

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

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

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

Impairment review

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

Charges on assets

All the company's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Future commitments

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

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2020/21 in relation to the Council's PFI schemes that you have not been made aware of.



Appendix A: Draft management representation letter

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

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

Covid-19

I confirm that we have carried out an assessment of the potential impact of the Covid-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties, and that the disclosures in the accounts, including the event after the balance sheet note to the financial statements, fairly reflects that assessment.

Going concern

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

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements (see appendix) are immaterial, both individually and in aggregate, to the financial statements as a whole. *The appendix attached to the letter should include unadjusted numerical AND disclosure misstatements.*

Yours faithfully

Corporate Director of Resources:

Date:



Appendix B: Draft audit report

Independent auditor’s report to the members of Durham County Council

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Durham County Council (“the Council”) for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2021 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Corporate Director of Resources’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Corporate Director of Resources with respect to going concern are described in the relevant sections of this report.

Other information

The Corporate Director of Resources is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.



Appendix B: Draft audit report

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Corporate Director of Resources for the financial statements

As explained more fully in the Statement of the Corporate Director of Resources' Responsibilities, the Corporate Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Corporate Director of Resources is also responsible for such internal control as the Corporate Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Corporate Director of Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Corporate Director of Resources is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21) and the Local Audit and Accountability Act 2014 (and associated regulations made under section 32) and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Corporate Director of Resources incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.



Appendix B: Draft audit report

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Corporate Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on the Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of the Council

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

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Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of Durham County Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack; and
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Signature]

Mark Kirkham, Key Audit Partner
For and on behalf of Mazars LLP

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

XX September 2021

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Appendix C: Independence

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

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



Appendix D: Other communications

Other communication	Response
Compliance with Laws and Regulations	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
External confirmations	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
Related parties	<p>We did not identify any significant matters relating to the audit of related parties. In section 5 we have, however, raised an internal control recommendation.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	<p>We have not identified any evidence to cause us to disagree with the Chief Financial Officer that Durham County Council will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>

Appendix D: Other communications

Other communication	Response
<p>Subsequent events</p>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
<p>Matters related to fraud</p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Audit Committee, confirming that</p> <ul style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ul style="list-style-type: none"> i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.



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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.