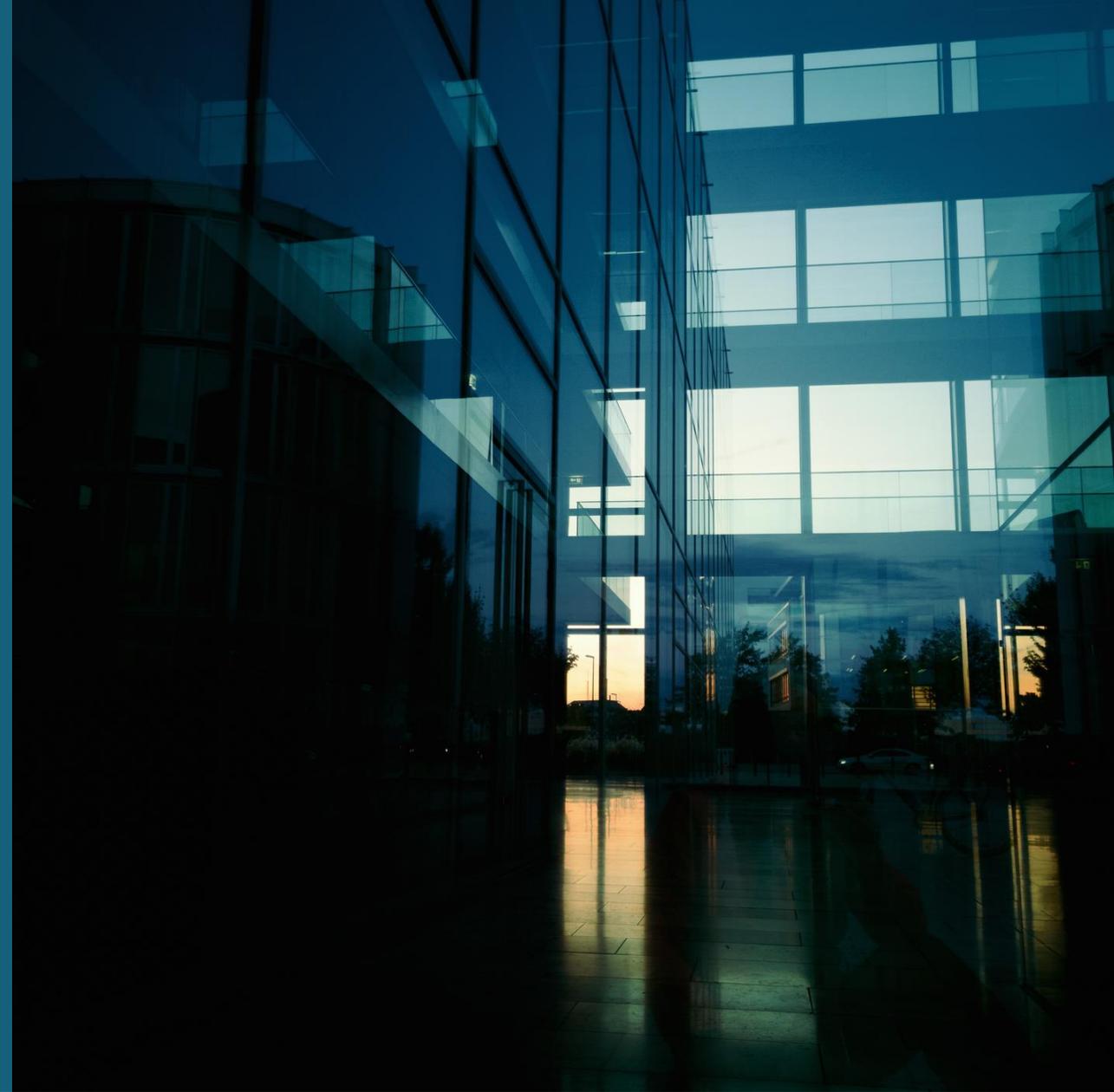


Auditor's Annual Report

Durham County Council – year ended 31
March 2021

November 2021



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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to Members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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Section 01: **Introduction**

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Durham County Council ('the Council') for the year ended 31 March 2021. Although this report is addressed to the Council, it is designed to be read by a wider audience including the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit report on 30 September 2021. Our opinion on the financial statements was unqualified.



Value for money arrangements

In our audit report we explained that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Council's arrangements.



Wider reporting responsibilities

At the time of preparing this report the group audit instructions have not been issued by the NAO. As a result our whole of government accounts work has not yet been concluded. We are unable to issue our audit certificate which will formally close the audit for the 2020/21 financial year until this work is complete.

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 30 September 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

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 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.



2. Audit of the financial statements

Internal control recommendations

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

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.

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.

2. Audit of the financial statements

Internal control recommendations

Description of deficiency

Backup restoration and disaster recovery tests were not performed during the period of audit. While we are not aware of any events requiring backup restoration or disaster recovery, we consider this a risk to the organisation.

Potential effects

A lack of testing of backup restoration and disaster recovery can lead to deficiencies in the effectiveness of the Council's resilience remaining undetected for extended periods.

Recommendation

Backups and disaster recovery should be tested at least annually and the results captured and any deficiencies remediated in a timely manner.

Management response

Undertaking business continuity tests over the past 18 months has been a challenge, due to Covid controls and social distancing restrictions, though I'm mindful that there's never a good time to test. However, we're busy developing a full DR/BC testing plan for next year, as restrictions are lifting. This will give us operational confidence that we can recover from an incident as expected. The plan should be reported and available by mid-December.

Additionally, we've deployed new cyber security systems that will protect our backups, improving both our ability to recover from a cyber attack and also reducing the time to recover. Some data has already been moved to the new system, and the remaining data will be moved into this 'cyber vault' over the next few months. This was the result of an MHCLG cyber audit that was undertaken last year, and was funded by central government.

03

Section 03:

**Commentary on value for money
arrangements**

3. VFM arrangements – Overall summary

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 so we can understand the arrangements that the Council

has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in 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 there are further risks of significant weaknesses. We have identified no risks of significant weakness.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. We have identified no actual significant weaknesses in arrangements requiring reporting or recommendations for improvement.

The table below summarises the outcomes of our work against each reporting criteria. On the following page we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	11	No	No
Governance	13	No	No
Improving economy, efficiency and effectiveness	15	No	No

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3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

How the Council identifies significant financial pressures that are relevant to its short and medium-term plans

The Council has an established process for developing its Medium Term Financial Plan (MTFP). The Council's arrangements have delivered significant levels of savings in recent years. We considered the timetable for the MTFP and confirmed that it allows for early engagement with stakeholders. We confirmed the MTFP is revisited on a regular basis and adjusted to reflect any changes impacting on the Council's financial position such as changes in economic outlook and changes in central government funding. The current MTFP (11) factors in the impact of COVID-19, although it acknowledges the uncertainty generated by the pandemic.

We confirmed that there is regular budget monitoring including quarterly reports to the Council's Cabinet. The outturn report for 20/21 was presented to the July Cabinet meeting and the overall reported position was not significantly different to that reported during the financial year and records departmental overspends of over £43 million compared with the budget. This position is associated with additional costs and lost income which are mainly the result of the COVID-19 pandemic. The report notes the Council received £44m additional grant income from central government to support the Council in meeting the pressures created by the pandemic. Other pressures included reduction in income collected in the Collection Fund but despite these factors the report notes that

'After taking into account the impact of the second and third national lockdowns, updated estimates of cost, lost income and additional government funding subsequently received, it is forecast that the council 2020/21 budget will be underspent by £9.2 million, representing 2.11% of the net expenditure budget of £437 million'.

This is evidence of the effectiveness of financial management arrangements despite the pressures created by the pandemic.

How the Council plans to bridge funding gaps and identifies achievable savings

The MTFP arrangements include the identification of savings. The latest MTFP (11) details the savings required over the life of the MTFP. Savings of £42.7 million are needed to balance the budget over the 2021/22 to 2024/25 period. The Council has a good track record of identifying and delivering savings. As reported in the MTFP, in the 10 years since 2011, the Council has delivered £244 million of savings. In 2020/21 (MTFP 10) the Council delivered savings totalling £7.4 million which is 92% of the £8 million target for the year.

The MTFP recognises the increasing difficulty of identifying savings and managing the impact on front line services. The total savings required per the MTFP (11) for 2021/22 to balance the budget amount to £12.8 million. We tested a small sample of the savings plans and obtained information from management on the process for identifying the saving, the scrutiny and approval of the savings and the monitoring of the saving. We identified no evidence of a weakness in arrangements.

How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

Over the last year the Council has built on the new County Durham partnership Vision 2035 document and developed a refreshed three year Council Plan which was agreed by Cabinet in October 2020. This sets out the Council's contribution to delivering the vision of More and Better Jobs, Long and Independent Lives and Connected Communities, along with a fourth ambition of an Excellent Council.

We confirmed that the MTFP was developed on reasonable assumptions including forecast funding streams, identification of budget pressures, deduction of savings targets required and ability to draw from the Budget Support Reserve if required. The MTFP recognises the ongoing pressure the Council faces and the potential impact on service delivery. In-year monitoring reports detail the pressures faced by the Council, whether savings are being achieved, and if resources need to be redirected to areas in need.

Our review of MTFP (11) did not identify a reliance on 'one off' measures to balance the budget. The assumptions in the MTFP and recent outturn against budget confirms the Council has a track record of prudent assumptions in the MTFP.

The MTFP has been updated to reflect current pressures. MTFP (11) includes a £5 million forecast budget pressure in children's services and officers have confirmed that arrangements are in place to attempt to address the pressures faced in the medium term.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

How the Council ensures that its financial plan is consistent with other plans

The latest MTFP report considers implications, including workforce, equality, legal, human rights, and risks. A summary of this is detailed in Appendix 1 of the MTFP (11).

In line with the Prudential Code and the Council's Capital Strategy, revenue implications of capital investment decisions are fully considered and form part of the MTFP planning and budget setting process to ensure such investments are fully funded. A detailed Capital plan is included in the MTFP. The Capital Member Officer Working Group (MOWG) remains in place and consider current and future capital programmes.

The Corporate Overview and Scrutiny Management Board considers the MTFP at various stages throughout the year and allows for Member scrutiny and challenge. MTFP (11) was considered by the Board at its February 2021 meeting.

We note the extensive consultation that takes place before the final approval of the MTFP by the Council and the timetable for future MTFPs aims to deliver the needs of MTFP (12) onwards. This covers the period 22/23-26/27. The delivery of the MTFP (11) timetable is evidenced by the approval of the plan ahead of the start of the 2021/22 financial year.

Savings plans are risk assessed to advise Members of the potential impact with initial proposals being risk assessed for impact on communities and service delivery. Each saving proposal includes an equality impact assessment. We have considered this in current and prior year savings process with no significant changes in the process noted.

The annual MTFP process includes reviewing the Council's earmarked reserves. We confirmed a review was completed in 2020/21 to ensure funding set aside remains in line with strategic and statutory priorities of the Council. This is evidenced in the outturn reports presented to Cabinet during the financial year.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How the Council identifies and manages risks to financial resilience

The MTFP outlines uncertainties, challenges, and risks facing the Council over the life of the Plan. MTFP(11)

details risks associated with future funding and the ongoing economic uncertainty created by COVID-19. We confirmed that areas of pressure faced in the 2020/21 financial year are reflected in the MTFP (11). These include the demand pressures faced in some services provided by the Council, such as looked after children. Despite these uncertainties the MTFP (11) still includes £10 million of additional short-term investments across a number of key front line service areas, such as highways, clean and green initiatives, and town and villages investment.

The Council has an established risk management framework and the Audit Committee receives regular risk management updates.

The Council has a Property Investment Strategy in place which governs the Council's property investment decisions. We confirmed that management reported to Cabinet on the Council's commercial activities in February 2021.

There was regular reporting of the Council's 2020/21 financial position to Cabinet through out the year. The outturn report presented to the July 2021 Cabinet meeting was consistent with the financial position reported during the year and did not indicate a weakness in the Council's budget monitoring and reporting arrangements.

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3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

How the Council monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has an active internal audit team the Internal Audit Plan and Head of Internal Audit Report is reviewed by the Council's Audit Committee. As detailed in the plan the Council uses a risk-based approach to determine the priorities of the internal audit activity, consistent with the Council's goals. The plan is discussed with service leads ahead of being finalised.

We confirmed that the Audit Committee received regular updates on the Audit Plan. Internal Audit reviews highlight weaknesses and recommends actions when required to strengthen processes or procedures. These are regularly reported to Audit Committee which holds management to accounts where weaknesses are identified. The Audit Committee monitors management actions in response to recommendations and this is reported on a regular basis. The Audit Committee challenges management if recommendations are not implemented within the agreed timeframe.

The Head of Internal Audit Opinion was presented to the Audit Committee meeting in June 2021. This provides moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2020/21. The report notes that 'The moderate opinion provides assurance that there is a sound system of control in place however there are some weaknesses and evidence of ineffective controls'. We have met with the Head of Internal Audit to discuss the Audit Plan and matters arising. We have identified no evidence of a weakness in arrangements.

A Counter Fraud Plan is in place and we confirmed there is also regular reporting to the Audit Committee on counter fraud activities, including fraud investigations. The Protecting the Public Purse report was presented to the June Audit Committee which detailed the work of the Council's Frau Team. We observed that the Council has a counter fraud response and strategy which includes fraud governance and arrangements to prevent, detect and pursue fraud.

As part of our audit procedures we considered the Councils Annual Governance Statement. This included consideration of the Statement and our cumulative audit knowledge. We identified no matters indicating a significant weakness in arrangements.

How the Council approaches and carries out its annual budget setting process

The Council's MTFP arrangement includes the identification and evaluation of risks to the Council's finances. We have reviewed the budget setting arrangements through observation and discussions with officers. No matters have been identified indicating a significant weakness in arrangements. Overall the Council is aware of the financial pressure it faces. We confirmed that scenario plans are in place to identify the potential financial impact of risks occurring.

How the Council ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

We have reviewed Council minutes and confirmed there was regular reporting of the financial position during 2020/21 financial year. This included detail of movements in the budget and forecast outturn between quarters. The reports detailed the in-year pressures as well as planned mitigations. The outturn position was not significantly different to that reported to Members during the year and did not indicate a weakness in arrangements. As well as being reported to Senior Management Team and Cabinet, reports are also presented to service scrutiny committees.

The Council has a good records of delivering against its budgeted and this is evidence of effective arrangements for budgetary control.

The financial statements timetable is approved by the Audit Committee and was delivered in 2020/21. Our audit of the financial statement did not identify any matters to indicate a significant weakness in the accuracy of the financial information reported or the process for preparing the accounts. It is our experience that management takes action to address audit matters in a timely and appropriate manner.

3. VFM arrangements – Governance

How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

We have reviewed Council minutes in the year and have not identified any evidence of a weakness in arrangements. The reports we reviewed support informed decision-making and were clear in the decision or recommendation Members were asked to make.

The Council publishes on its website a notice of key decisions. This includes officer decisions under the Officer Scheme of Delegations.

Overview and Scrutiny meetings provide an opportunity to challenge decisions. The Corporate Overview and Scrutiny Management Board is in place to oversee and coordinate the work and our work identified no matters that indicate a significant weakness in arrangements.

Area Action Partnerships are in place and involve partners, local people and organisations in the Council's work, to allow various public, voluntary and community organisations as well as individuals to have a say in how local services are provided to their area.

The Council implemented measures to ensure that services could continue despite the restrictions arising during the COVID-19 pandemic. The arrangements included live streaming to allow the public to observe Council meetings.

How the Council monitors and ensures appropriate standards are maintained

The Council's Constitution is reviewed at least annually and sets out how the Council operates, how decisions are made and the rules and procedures which are followed to ensure that these are efficient and transparent to local people. Supporting the Constitution are codes of conduct for Members and officers. Registers of gifts and hospitality and registers of interest are maintained for Members and officers and are available on the Council website. The Statement of Accounts records material related party transactions as well of senior officer pay and Member allowances. We considered these disclosures and compared them with the interests declared. While we identified areas of improvement we are satisfied they do not indicate a significant weakness in arrangements.

Performance in complying with the CIPFA Financial Management Code was reported to the Audit Committee in June 2021. The report did not identify any matters to indicate a significant weakness in arrangements and the conclusions reached were consistent with our understanding of the Council's arrangements. The report identified areas of improvement but we are satisfied these were not indications of a significant weakness in arrangements.

We confirmed that contract procedure rules are in place and require procurement decisions to comply with appropriate standards. Contract registers are available on the Council website.

The Standards Committee is responsible for promoting and maintaining high standards of conduct by Members. It is responsible for advising and arranging relevant training relating to the requirements of the Code of Conduct. We considered the Committee's Annual Report for 2020/2021 and identified no evidence of a weakness in arrangements.

There is regular reporting of treasury management activity that details the Council's investments, cash and borrowing positions. The Treasury Management Strategy was approved ahead of the 2020/21 financial year and sets out the Council's measures against which treasury management can be assessed. The measures include those designed to mitigate risk to the Council's finances and we identified no evidence to indicate a weakness in arrangements.

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3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

How financial and performance information has been used to assess performance to identify areas for improvement

The Council has performance management framework, reporting against a series of indicators quarterly to Corporate Management Team, Cabinet and Scrutiny. Corporate performance against key performance indicators is presented to Cabinet on a quarterly basis. Our work on those reports identified no evidence of a significant weakness in arrangements. We also considered the Council's Transformation Programme and how data is used to inform and identify areas for potential improvement. And we note the Council is developing an online (near) real-time performance dashboard using business intelligence and reporting services tools to provide more immediate views and visualisations of performance as part of a business intelligence programme.

The Council's financial performance is reported on a regular basis to Cabinet with details of the financial position along with rationale for any changes and factors to be taken into account. Reports include HR implications and equality impact assessments.

How the Council evaluates the services it provides to assess performance and identify areas for improvement

The Cabinet has monitored performance during the year. Performance is measured against the County Durham Vision 2035 and the new Council Plan and the format of reports has been realigned to the ambitions detailed in the new Council vision. The quarterly reporting arrangement tracks performance against previous month, year and in some cases national or regional comparisons. Risk ratings are used to identify any under or /over performance on the of 132 key target/ tracker indicators. Cabinet reporting is supported by quarterly Corporate Management Team performance discussions, and Service Grouping and Service Performance Clinics/ meetings. Arrangements were also designed to incorporate the Councils COVID-19 response strategy.

The Council is developing the Durham Insight which is a shared intelligence, research and knowledge base for the County. This includes rapid data reporting designed to drive improvements in the Councils COVID-19 response and includes a public COVID-19 dashboard and insight page on Durham Insight, and data reports for the Local Resilience Forum and service continuity.

Assessment by service regulators was limited in the 2020/21 year as a results of the COVID-19 pandemic but the Council has arrangements for responding to the most recent Ofsted inspection of Children's Services. Ofsted completed a short inspection visit in July 2021 which focused on Children in Care. The Ofsted focused visit letter (available on the Ofsted website) identifies no matters indicating a significant weakness in

arrangements. Officers have confirmed action plans are being developed to address the actions highlighted by Ofsted.

How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The County Durham Partnership monitors performance towards implementing County Durham Vision 2035 through individual performance reporting to each thematic partnership: Health and Wellbeing Board, Safer Durham Partnership, Economic Partnership, Environment & Climate Change. The fourteen Area Action Partnerships are designed to engage with communities and identify and address local priorities and use locality budgets to drive improvements.

The Council uses various channels of communication and feedback mechanisms, including social media (Twitter, Facebook, Instagram and YouTube) to reach out to and meet the needs of its communities. During the pandemic, meetings have been streamed live and recordings of meetings are available on the Council website. The impact of the pandemic has seen an increase in the use of Council on-line services, including the 'do it online' option.

04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors 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 the law; and
- issue an advisory notice.

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 preparing this report we have not yet received instructions from the NAO on what procedures are required. As such this work is outstanding. Until this work is concluded we cannot issue our audit certificate.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in February 2021. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows:.

Area of work	2019/20 fees	2020/21 fees
Planned fee in respect of our work under the Code of Audit Practice	£193,030	£193,030
Additional fees in respect of new VFM approach	£0	£27,300
Additional fees in respect of additional work on PPE valuation and pension liability valuation.	£17,400	£17,400
Total fees	£210,430	£237,730

Additional fees are subject to Public Sector Auditor Appointments (PSAA) approval.

Fees for other work

In 2020/21 the Council has engaged Mazars LLP for the following non-audit services:

- Housing Benefit Assurance - £15,000 plus VAT (£18,800 in 2019/20)
- Teachers Pension Assurance - £4,950 plus VAT (£4,900 in 2019/20)

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*where permitted under applicable country laws.