

Auditor's Annual Report

Durham County Council – year ended 31
March 2023

November 2023



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01

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 2023. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 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 the Council's financial statements on 27 November 2023. On the same day we issued our audit report on the Pension Fund's financial statements. Our opinions on the Council's and Pension Fund's financial statements were unqualified.



Value for Money arrangements

In our audit report issued we reported that we had 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. Section 3 provides our commentary on the Council's.



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 2022/23 financial year until this work is complete.

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 did not receive any questions or objections in respect of Value the Council's financial statements.

02

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 2023 and of its financial performance for the year then ended. Our audit report, issued on 27 November 2023 gave an unqualified opinion on the financial statements for the year ended 31 March 2023.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

The results of our opinion audit (Durham County Council Pension Fund)

We have audited the financial statements of Durham County Council Pension Fund ('the Pension Fund') for the year ended 31 March 2023, which comprise the Fund Account, the Net Asset Statement, and notes to the financial statements, including a summary of the significant accounting policies. Our audit report, issued on 27 November 2023 gave an unqualified opinion on the financial statements for the year ended 31 March 2023, and there were no significant matters arising from the work performed. On 27 November 2023 we concluded that the Pension Fund financial statements within the Pension Fund's Annual Report were consistent with the Pension Fund financial statements within the Statement of Accounts of Durham County Council. Our opinion was unqualified.

03

Section 03:

Commentary on VFM arrangements

3. Commentary on VFM arrangements

Overall summary



3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

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

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

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.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

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.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We did not identify a risk of significant weakness in the Council's arrangements for 2022/23.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**

We make these recommendations for improvement where we have identified a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**

We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11	No	No	Yes – see page 12
 Governance	14	No	No	No
 Improving economy, efficiency and effectiveness	18	No	No	No

3. Commentary on VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



3. VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements

We identified no risks of significant weaknesses in arrangements.

Overall commentary on the Financial Sustainability reporting criteria

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

Our review of minutes and supporting papers has confirmed medium-term financial planning arrangements have remained in place in 2022/23. In our assessment, we have considered the Medium-Term Financial Plan (12) (MTFP), covering 2022/23-2025/26, and MTFP (13), covering 2023/24-2026/27.

We have considered the Council's performance in delivering its MTFP, including any identified saving targets. In the July 2023 Cabinet report, the Council confirmed it has delivered savings totalling £2.3 million, representing 93.9% of the £2.4 million target for the year. While the Council did not achieve its savings target, due to financial resilience built into the savings target (£1.2 million being corporate savings) and its low overall value as a percentage (0.5%) of budgeted net expenditure (£466.7 million) this has not highlighted a risk to the MTFP.

In 2022/23 and in common with other local authorities, the Council experienced significant cost pressures linked to the war in Ukraine and Consumer Price (CPI) Inflation, which peaked at 11.1% (ONS) in October 2022. In the current financial year (2023/24) the Council continues to report significant financial pressures, including significant demand pressures and cost increases in service. As in previous years, we have confirmed that there has been regular monitoring of the Council's financial position throughout the year, which included arrangements to routinely update the MTFP, enabling the Council to respond to any identified financial challenges during the life of the plan.

How the body plans to bridge its funding gaps and identifies achievable savings

Our review of the MTFPs issued over the current reporting period, provides assurance that forecasts are based on prudent assumptions including the Council's latest understanding of future government funding arrangements, local revenue assumptions, service demand and other costs pressures. Arrangements for identifying and delivering savings include a timetable for consultation with stakeholders ahead of approval before each financial year. As in previous years, the Council is also forecasting the use of reserves to support the delivery of a balanced budget. While such an approach would not be sustainable in the medium term, the Councils level of reserves allows some flexibility.

In November 2023, the Council reported its Q2 2023/24 financial position, confirming it has achieved 83.7% (£10.4 million) of its saving total (£12.4 million), also included in MTFP (13).

Whilst we are satisfied there are no significant weakness in arrangements, in 2023/24 we recognise the continued challenge associated with delivering savings throughout the life of the MTPF, we have therefore we have raised the following 'other recommendation'.

Other recommendation

MTFP (14) for the period 2024/25 to 2027/28 highlights a saving requirement of £52.3m over the life of the plan. Currently, £5.9m of savings have been agreed and the Council is currently working with stakeholder to identify the remaining savings.

The Council should ensure it continues its arrangements to identify how it will deliver future savings to balance the MTFP. It should also ensure that its scrutiny arrangements, to monitor and deliver its saving plans are maintained in the current and future financial years, to minimise reliance on reserves to mitigate overspends.

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

As in the previous year, the council's MTFP strategy aligns with the 'council vision for 2035' which sets out the Council's strategic direction and ambitions for the County.

Our review provides assurance that the MTFP continues to be based on reasonable assumptions available at the time of approving the Plan. The MTFP is regularly reviewed, including the main assumptions, and regularly reported including where changes in assumptions impact on the forecast financial position. There is regular budget monitoring including quarterly forecast of outturn reports which support the identification of in-year pressures, whether savings are being achieved and if resources need to be redirected to areas in need. We reviewed the 2022/23 outturn and identified no evidence of significant short-term measures. In-year pressures, such as those in the Children and Young People's service, were clearly reported and have been reflected in the MTFP.

The Corporate Overview and Scrutiny Management Board considers the MTFP at various stages throughout the year and allows for Member scrutiny and challenge. The annual MTFP process includes reviewing the Council's earmarked reserves. We confirmed a review was completed to ensure funding set aside remains in line with strategic and statutory priorities of the Council.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

At its highest level the Council has a 'County Durham Plan' and 'County Durham Vision'. This is part of the Council's Strategic Planning Framework. The MTFP is part of this Framework. We confirmed that arrangements were in place for the development of the MTFP including linking the financial plan to the Council's Corporate objectives to ensure the priorities of the Council are delivered; scrutinising the MTFP, and; documenting key assumptions with each savings plan being risk assessed to advise Members of the impacts. We have confirmed a similar timetable exists for setting the 2024/25 budget which is evidenced in the report to the July 2023 Cabinet and includes the high-level forecast position for MTFP 14 (2024/25 to 2027/28).

In line with the Prudential Code and the Council's Capital Strategy, the revenue implications of capital investment decisions are considered and form part of the MTFP planning and budget setting process. This is designed to ensure investments are fully funded. The capital plan is included in the MTFP including the Capital Strategy (as detailed in appendix 10 of the MTFP 13). A detailed Capital plan is included in the MTFP. As in previous years, the Capital Member Officer Working Group (MOWG) remains in place and consider current and future capital programmes.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The Council has an established MTFP process which is designed to reflect changes that affect the Council's financial plans. The October 2023 Cabinet report provided an update on the 2024/25 budget and MTFP 14 (2024/25 to 2027/28), clearly outlining changes to the assumptions and judgements initially applied when designing the budget and MTFP. As a result of this review, the report provided updated savings targets, highlighting an increase of £11.6 million from the previous position as reported in July 2023. It also highlighted budget pressures, such as an increase in the pay award assumption from 2% to 4% and an overall increase in consumer price inflation (CPI) from 1.5% to 2%.

The budget is monitored on a regular basis at department level ahead of quarterly reporting to the Cabinet. We have reviewed outturn reports presented during the year and noted that they reflect in year changes. For example, consistent with the prior year demand pressures faced in the Children and Young People's Services which have been tracked and reported throughout the year. This enabled the Council to manage its financial position in 2022/23 and to mitigate the medium-term impact of budget pressures on the MTFP.

The 2022/23 Outturn Report has highlighted an overspend of £5.4 million, which is 1.05% of the revised net

expenditure budget totalling £511.0 million. This was mitigated using the Budget Support Reserve, to offset the overspend.

Consistent with the prior year and other local authorities, Children and Young People's Services continue to report significant overspends in year, reporting a £14.3 million overspend in 2022/23. The Council continues to closely monitor this service and develop mitigation plans to reduce overspends in the medium term. As a result, earmarked reserves (excluding schools) have reduced from £235.5 million (31 March 2022) to £196.3 million (31 March 2023). The Council also reported a £22.0 million underspend in its capital budget, which it will carry forward into 2023/24.

Our review of committee reports and attendance of Audit Committee, provides assurance that the Council monitors and identifies mitigations to manage any changes in demand and assumptions in the MTFP. The Council also has an established risk management framework, with regular reviews and reporting to Audit Committee. Attendance of Audit Committee meeting confirm it receives regular risk management updates.

While we have reported an 'other recommendation' on page 12 of this report, overall, our work did not identify any evidence to indicate a significant weakness in arrangements in the financial resilience criteria.

3. Commentary on VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks



3. VFM arrangements – Governance

Risks of significant weaknesses in arrangements

We identified no risks of significant weaknesses in arrangements.

Overall commentary on the Governance reporting criteria

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

The Audit Committee provides assurance over the adequacy of the Council's risk management framework and associated control environment.

The Council has an in-house internal audit team. The Internal Audit Plan and Head of Internal Audit Report is reviewed by the Council's Audit 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.

The 2022/23 Plan was presented to the Audit Committee in February 2022. We attended all Audit Committee meetings and confirmed that progress against the Plan was reported at each meeting. The Head of Internal Audit Opinion was presented to the June 2023 Audit Committee meeting and provided an overall 'moderate' level of assurance, unchanged from 2021/22. As reported in the Audit Opinion, there were 1 limited assurance review in the year (down from 5 in 2021/22). Internal Audit reports have been presented to Members of the Audit Committee via the Part B section of the meetings. We considered each review to obtain assurance the matters identified in these reviews were not indicative of a significant weakness in arrangements, none have been identified.

We confirmed through our attendance at Audit Committee that Members challenge management where recommendations are not implemented within the agreed timeframe. We observed Member scrutiny of matters raised in Internal Audit reviews. There is also a standing item which considers overdue Internal Audit recommendations/actions

Internal Audit's compliance with the Public Sector Internal Audit Standards was subject to external review. As detailed in a report considered by the Audit Committee in July 2022, the report stated that "Durham County Council's Internal Audit Service's self-assessment is accurate and as such we conclude that they fully conform to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note'.

A Risk Management Policy and Strategy is in place and was considered by the Audit Committee most recently in February 2023. We have confirmed, via our attendance at the Audit Committee, there has been regular

reporting against the Risk Management Strategy in the year.

The Council has an in-house Counter Fraud team. A Counter Fraud and Corruption Strategy is in place and has been subject to review. Counter Fraud activity has been reported throughout the year to the Audit Committee. The Protecting the Public Purse Annual Report was presented to the Audit Committee in June 2023. We have reviewed this report and did not identify any matters indicating a significant weakness in arrangements.

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

The Council adopted and followed a project timetable for setting the 2022/23 and future financial plans. The arrangements have been in place for several years and have supported the successful delivery of spending priorities. The MTFP 14 (2024/25 to 2027/28), has been presented Cabinet and was updated in October 2023. Although this is at a high level it illustrates the regular monitoring and refinement of the MTFP after Member input. The MTFP (14) report clearly sets out the challenges faced by the Council in the coming years.

Financial Procedure Rules are in place and detail the requirements for setting the budget over a period of four years. Financial Management Standards support the Council's Financial Procedure Rules set out in the Council's Constitution. Financial Procedure Rules provide the overall high-level framework for managing the Council's financial affairs and Financial Management Standards set out in more detail how these procedures will be implemented to embed sound financial management across the Council.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

How the body 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 noted that regular reporting of the financial position took place throughout the 2022/23 financial year. Quarterly forecasts of outturn reports were presented to Senior Management Teams, Corporate Management Team, Cabinet and Overview and Scrutiny Committees. The reports included details of movements in the budget between quarters and remedial measures taken. The quarterly and year-end positions, have not highlighted any weakness in the Councils monitoring and reporting arrangements. As already reported, the key areas of pressure consistent with other local authorities, is Children and Young People's services.

As well as financial performance data the Cabinet received quarterly performance management reports which presented an overview of progress towards achieving the key outcomes of the corporate performance framework and highlighted key messages to inform strategic priorities and work programmes.

The financial statements timetable for 2022/23 was approved by the Audit Committee and was achieved. 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.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

Membership of the Audit Committee includes Councillors and independent co-opted members. We have attended all meeting held in the year and post year end and found meetings to be effective and well represented. The Terms of Reference of the Audit Committee are detailed in the Constitution, and we have identified no evidence to indicate they are not being delivered.

The Council publishes on its website notice of key decisions and all officer decisions made under the Officer Scheme of Delegations. The website also includes details on how decisions are made in the Council.

The Committee structure includes overview and scrutiny. Overview and scrutiny meetings are intended to allow for challenge of decisions. We have reviewed meetings held in 2022/23 and identified no evidence to suggest this function has not been fulfilled. The Corporate Overview and Scrutiny Management Board is in place to oversee and coordinate overview and scrutiny work of. We reviewed the Overview and Scrutiny Management Board's Annual Report for 2022/2023 and identified no matters to indicate a weakness in arrangements. Below this Board are individual scrutiny groups such as the Children and Young People's Scrutiny Committee which are in place to scrutinise individual services. We reviewed a sample of in-year meeting minutes which confirmed the Committees received regular performance data specific to the department being reviewed.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

The Council constitution is reviewed annually. The Constitution sets out how the Council operates, how decisions are made and the rules and procedures which are followed to ensure that these are efficient, transparent and accountable to local people.

Codes of Conduct and behaviours are also in place for Members and officers. The Monitoring Officer's, as set out in the Constitution is: 'The Council officer charged with ensuring that everything that the Council does is fair and lawful. The Monitoring Officer is currently the Head of Legal and Democratic Services. This is a statutory 'proper officer' role.' Based on review we are not aware of any evidence of this role not being delivered in the year.

Registers of gifts and hospitality and registers of interest are maintained for Members and officers. These are available on the Council website, and we have confirmed their existence in our audit procedures on related party disclosures. The Statement of Accounts also detail material related party transactions as well of senior officer pay and member allowances paid. Our work on these areas identified no matters to indicate a significant weakness in arrangements.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Contract Procedure Rules are in place and require procurement decisions to comply with standard principles. Contract registers are published and available on the Council website.

The Standards Committee is responsible for promoting and maintaining high standards of conduct by councillors, independent members and co-opted members. It is responsible for advising and arranging relevant training relating to the requirements of the code of conduct for councillors and for:

- the initial assessment, investigation and determination of allegations of misconduct;
- dealing with any alleged breaches by a councillor of other relevant council codes and protocols;
- overseeing the probity aspects of internal and external audit;
- overseeing the code of conduct for employees;
- overseeing the council's confidential reporting code;
- granting exemptions on the political restriction of officer posts; and
- overseeing the council's complaints handling arrangements and performance

The Committee receives updates on compliance with the Code of Conduct including details of any complaints managed in the year.

At the June 2023 Audit Committee, the Council's assessment against the Financial Management Code was presented and scrutinised. No matters were noted that indicate a significant weakness in arrangements.

The Prudential Code and Treasury Management Policy are monitored as part of the MTFP process. This includes the annual approval of the prudential indicators (for example, see appendix 14 of MTFP (14)). The Treasury Management Strategy was approved ahead of both the 2022/23 and 2023/24 financial years 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. Treasury Management performance is reported to the Cabinet on a regular basis.

Our work did not identify any evidence to indicate a significant weakness in arrangements for the governance criteria.

3. Commentary on VFM arrangements

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Risks of significant weaknesses in arrangements

We identified no risks of significant weaknesses in arrangements.

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

As detailed in the previous sections we confirmed there was regular financial reporting during the year. Reporting includes consideration of HR implications and equality impact assessments. The Cabinet also receive regular updates on delivery of the MTFP savings.

The Council has a performance management framework which is designed to report against a corporate basket of indicators. Quarterly report are considered by the Corporate Management Team, Cabinet and various scrutiny committees. The arrangements enable scrutiny of corporate performance and the identification of areas for improvement. This is underpinned by performance management within each service grouping, with many services accessing demand, delivery, Service Level Agreement and performance information.

There is regular treasury management performance reporting which uses benchmarking and treasury management indicators to assess performance.

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

The Council's Cabinet and scrutiny committees received quarterly performance management reports throughout 2022/23. Reports were in a consistent format and designed to report on the direction of travel of indicators and compare the Council's performance against national and regional comparatives.

The Council's services are reviewed by several regulators including the Care Quality Commission and Ofsted. In the most recent Ofsted review (dated May 2022) Children's Services received an overall rating of 'good'.

Our attendance at Audit Committee confirmed regular reporting by Internal Audit of recommendations raised and management's response. We observed the Committee challenging management on individual reviews and

the actions taken in following up on recommendations.

How the body 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.

In September 2023, the Council announced its intention to develop the 'Durham Innovation District', in conjunction with Durham University. It will be located at Aykley Heads in Durham city and the Council has launched a procurement exercise, to find a suitable partner to deliver the project.

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.

Our work did not identify any evidence to indicate a significant weakness in arrangements for the improving the 3Es criteria.

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.

We submitted this information to the NAO on 27 November 2023

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. Having completed our work for the 2022/23 financial year, we can confirm that our fees are as follows:

Area of work	2021/22 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice	£193,030	£206,229
Additional fees in respect of VFM approach*	£30,660	TBC
Additional fees in respect of applicable additional audit work (e.g., infrastructure assets, property and pension liability valuations).*	£35,019	TBC
Total fees	£258,709	£206,229

*Additional fees are subject to PSAA approval.

Fees for other work

In 2022/23 the Council engaged Mazars LLP for the following non-audit services:

- Housing Benefit Assurance - £17,000 (plus VAT); and
- Teachers' Pension Assurance - £5,750 (plus VAT).

4. Other reporting responsibilities and our fees

Fees for work as the Pension Fund's auditor

Area of work	2021/22 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice	£19,957	£23,102*
Additional fees in respect of applicable additional audit work (e.g., increased regulatory focus, increased audit scrutiny on the value of Level 3 investments).**	£4,994	TBC**
Fees in relation to pensions assurance provided to employers (e.g., Durham County Council, Darlington Borough Council, County Durham and Darlington Fire and Rescue Authority, Office of the Police and Crime Commissioner for Durham, Chief Constable of Durham Constabulary)	£7,500	TBC
Fees in respect of audit procedures for assurance on 31 March 2022 triennial valuation	-	TBC
Total fees	32,451	TBC

* PSAA Scale fees for year ended 31 March 2023, net of PSAA contribution

** Additional fees are subject to PSAA approval



Appendix

A. Further information on our audit of the financial statements

Significant risks and audit findings (Durham County Council)

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Management override of controls	Description of the risk	Revenue recognition	Description of the risk
	<p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>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. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>		<p>In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but given the Council's range of revenue sources, we have concluded that there are insufficient grounds for rebuttal for all income streams in 2022/23. 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 through performing audit work over:</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 or that are otherwise unusual; andJournals recorded in the general ledger and other adjustments made in preparation of the financial statements.		<p>How we addressed this risk</p> <p>We have addressed this risk by:</p> <ul style="list-style-type: none">testing fees, charges and other revenue items recorded around year end to ensure they have been recognised in the appropriate year;testing year end receivables; andobtaining 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>		<p>Audit conclusion</p> <p>Our work has provided the required assurance, and we have no matters to report.</p>

A. Further information on our audit of the financial statements

Significant risks and audit findings (Durham County Council)

Net defined benefit liability valuation	Description of the risk At 31 March 2023 , the draft financial statements included asset defined benefit liability of £470m, a significant reduction of £829m compared to the previous year. 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 have: <ul style="list-style-type: none">• critically evaluated the Council’s arrangements relevant controls for making estimates in relation to pension entries within the financial statements; and• challenged the reasonableness of the Actuary’s assumptions that underpin the relevant entries made in the financial statements, using an expert commissioned by the National Audit Office;• critically assessed the competency, objectivity and independence of the Actuary;• liaised with the auditors of the Pension Fund to gain assurance that the overall IAS19 procedures and controls in place at the Pension Fund are operating effectively;• compared assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; and• agreed data in the Actuary’s valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council’s financial statements.
	Audit conclusion Our work has provided the required assurance, and we have no matters to report in regard to the net defined benefit liability valuation.

A. Further information on our audit of the financial statements

Significant risks and audit findings (Durham County Council)

Valuation of land, buildings and surplus assets	Description of the risk <p>At 31 March 2023 , the draft financial statements included £1,005m of land and buildings and £35m of surplus assets (gross value).</p> <p>Although the Council employs valuation experts to provide information on valuations, there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment due to the significant judgements and number of variables involved.</p>
	How we addressed this risk <p>We have:</p> <ul style="list-style-type: none">• critically assessed the Council’s arrangements for ensuring that land and buildings and surplus assets valuations are reasonable and not materially misstated;• critically assessed the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by valuers;• considered the competence, skills and experience of the valuers and the instructions issued to the valuers;• substantively tested revaluations, including critically reviewing the Council’s own consideration of assets not revalued in the year and why they are not materially misstated; and• performed further audit procedures on individual assets to ensure the basis of valuations is appropriate.
	Audit conclusion <p>Except for the issues highlighted in sections 5 and 6 of our Audit Completion Report, we have no other significant issues to report, and we have sufficient audit assurance regarding the valuation of land, buildings and surplus assets.</p>

A. Further information on our audit of the financial statements

Key areas of management judgement (Durham County Council)

Debtors' impairment allowance	<p>Description of the management judgement</p> <p>The Council has disclosed its impairment of debtors' allowance (£35m) as an area of estimation uncertainty.</p> <hr/> <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, including any exemptions relevant to non-contractual debt. <hr/> <p>Audit conclusion</p> <p>Our work has provided sufficient audit assurance, no issues noted.</p>
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Accounting for Private Finance Initiative (PFI) schemes	<p>Description of the management judgement</p> <p>The Council is deemed to control the services provided under the contracts for Sedgefield Community College (now an Academy), Shotton Hall School (now The Academy at Shotton Hall) and Shotton Hall Primary School. The accounting policies for PFI schemes and similar contracts have been applied to these arrangements.</p> <p>The method of accounting for PFI assets/liabilities is complex, therefore, this increases the risk of misstatement.</p> <hr/> <p>How our audit addressed this area of management judgement</p> <p>We have:</p> <ul style="list-style-type: none"> reviewed the adopted approach for accounting for PFI arrangements; reviewed any changes from prior years to the long-term financial model used; critically reviewed the assumptions made by management; and assessed the completeness and accuracy of disclosures. <hr/> <p>Audit conclusion</p> <p>Our work has provided sufficient audit assurance, no issues noted.</p>
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A. Further information on our audit of the financial statements

Summary of uncorrected misstatements (Durham County Council)

		Comprehensive Income and Expenditure Statement Debit (£'000)	Comprehensive Income and Expenditure Statement Credit (£'000)	Balance Sheet Debit (£'000)	Balance Sheet Credit (£'000)	Description of unadjusted misstatement
1	Debit: Long Term Liabilities - Capital Grants Receipts in Advance			1,161		When considering the conditions for the Home Loan Recycled Fund totalling £1.161m, we did not consider there to be sufficient evidence to support its classification as a Capital Grant Receipt in Advance and we therefore consider it to be a creditor. We have identified this as an isolated error. There is no impact on the financial position from this error.
1	Credit: Creditors				1,161	
2	Debit: Cost of services, reversed to Capital Adjustment Account (CAA)			1,341		Our testing identified a small number of variances between PPE values input to the asset register and the values in one of the external valuers' reports. Although the overall net misstatement was trivial, at £844k, the variances for three individual assets were non-trivial but not material (undervalued by £1,686k, overvalued by £1,621k and £1,340k.respectively), and the impact on the CIES (then reversed out to the CAA within statutory adjustments) is non-trivial. This is the actual net total error as all revalued assets have been checked. The client has not amended for this on the grounds of materiality.
	Credit: Property, plant and equipment (PPE)				844	
	Credit: Revaluation Reserve				497	

A. Further information on our audit of the financial statements

Summary of uncorrected misstatements (Durham County Council)

3	Debit: PPE		6,609			From our testing of six significant building assets valued on a DRC basis we identified errors within the valuer's supporting workings for two of them. As a result, the asset values were understated by £6,609k. These related to manual input errors for the area of one of the buildings, and the incorrect location factor and allowance for external works applied in the calculation for the second building. These are actual errors in our non-sampled items selected for testing and so no extrapolation is required. The client has not adjusted for these errors.
	Credit: Revaluation Reserve			6,609		
4	Debit: Cost of services	6,827				The calculation of the in-year depreciation charge on assets is based on the gross book value brought forward, less any residual value, divided by useful asset life. We noted, the depreciation charge on some land and building assets that have had additions or enhancements in the year added to the net book value rather than gross book value. This was the case for one out of the two land and buildings assets in our sample. We have considered the potential impact on the accounts by extrapolating the differences identified in our testing and estimate this to be £6.827m.
	Credit: Property, plant and equipment				6,827	
1	Credit: CAA		6,827			
	Credit: General fund			6,827		
	Total unadjusted misstatements	6,827	6,827	15,938	15,938	

A. Further information on our audit of the financial statements

Summary of uncorrected misstatements (Durham County Council)

We identified the following disclosure adjustments during our audit that have not been corrected by management:

Note 4 (assumptions made about the future and other major sources of estimation uncertainty) – We have noted the following issues which have not been corrected:

- a. The property depreciation disclosure includes the carrying value of land which is not depreciated. As the disclosure relates to depreciation this element should have been excluded; and
- b. The property valuation disclosure includes the total carrying value of all assets, not all assets are subject to revaluation so this should be calculated on only the applicable carrying values.

Note 17 (financial instruments) - The value of the shares in Chapter Homes and Forrest Park in long term investments have remained unchanged since 2018/19. While there is no evidence to suggest a material misstatement, the Council should complete a review to ensure their accuracy.

Note 17 (financial instruments) – Our review has noted that fair value through other comprehensive income equity instruments have been valued by using the level 3 fair value method. However not all disclosures per the requirements of the Code, have been included for these type of financial instruments.

Note 32 (members' allowances) - Our testing of member's allowances noted that a member holding the post of Vice Chair of Overview and Scrutiny Committee was paid a specific responsibility allowance of £8,645 not £7,980. No adjustment is required, as the difference is within the £1k bandings as required by the Code – however we have reported the error for transparency purposes.

Note 39 (leases) – All vehicles are operating leases, however they are disclosed as finance leases. While the amounts involved are not material, we think it would be beneficial if there was a disclosure explaining the Council's judgement to account for its vehicles as finance leases.

Note 46 (contingent assets) - The Council should disclose an estimate of the contingent asset's financial effect. The disclosure states the amount received and recognised in year but not the estimate of the financial effect for the contingent asset in future years, as required by the Code.

A. Further information on our audit of the financial statements

Internal control observations (Durham County Council)

Description of deficiency

Our testing highlighted an item (Home Loan Recycled Fund of £1.161m) that has been classified as a capital grant receipt in advance, however the Council was unable to demonstrate why its conditions met the criteria of capital grant receipted in advance. See the error reported on page 25 of this report.

Potential effects

Misstatement of grant income.

Recommendation

The Council should complete a review of the conditions of capital grants and contributions received in advance to ensure there are appropriately classified.

Management response

Management will implement this check in 2023/24.

Description of deficiency

Our testing identified several variances between PPE values input to the asset register and the values one of the external valuers' reports.

Potential effects

PPE balances are not completely or accurately reported in the Statement of Accounts. Valuation entries in the Revaluation Reserve and/or CIES are not fairly stated.

Recommendation

A reconciliation should be carried out between amounts recorded in the asset register and the Valuer(s) reports for all assets revalued in the year.

Management response

Management will implement this check in 2023/24. To aim to mitigate against the risk of human error when inputting manually, we will review processes that could be put in place to reduce the risks of these instances occurring.

With regards to the refurbishment works expenditure recorded against the land asset held at historic cost, an impairment will be carried out during 23/24 to correct this figure.

A. Further information on our audit of the financial statements

Internal control observations (Durham County Council)

Description of deficiency

Our testing of related party transactions identified three missing declarations of interest from councillors for 2022/23.

Potential effects

The related party transactions disclosure note in the Statement of Accounts is not complete, conflicts of interest may not have been declared and potential public perception of impaired transparency.

Recommendation

Ensure all completed declarations of interest forms are obtained prior to the draft accounts being prepared.

Management response

Management will implement this check in 2023/24.

A. Further information on our audit of the financial statements

Internal control observations (Durham County Council)

Follow up on previous internal control observations

Description of deficiency

No segregation of duties within the Oracle change environment. Same group of IT personnel from Finance Team have both access to develop and implement changes to Oracle.

Potential effects

Data integrity and functionality provided by the application may be compromised. Unauthorised or inappropriate changes may be migrated to production environment, which may compromise system stability. This may further lead to system downtime and business disruption.

Recommendation

Management should ensure that the access to production, test and development environments is segregated. IT access to production databases should be restricted and monitored on regular basis.

IDs should be created for the programmers without having access to the production environment. Changes should be implemented in the production environment after testing by the person independent of development responsibilities to prevent any unauthorized changes being made.

A Segregation of Duties (SOD) matrix should also be maintained which lists the users and their profiles. The matrix should be updated and reviewed on periodic basis.

2022/23 update

No issues noted in 2022/23.

A. Further information on our audit of the financial statements

Internal control observations (Durham County Council)

Follow up on previous internal control observations

Description of deficiency

IT Auditors were unable to obtain a formally documented and approved policy/procedure documents around the controls for change management, user access management, password management, backup and restoration and incident management.

Potential effects

Lack of standardised procedures may weaken the overall control environment.

Recommendation

Management should define formal policies and procedures covering the key IT process areas in the organisation. The formalised processes and procedures should be implemented to standardise operations and monitored to identify any deviations.

A periodic review of these documents should be performed (at least once a year) to ensure their alignment to the management's intent and industry best practices.

2022/23 update

No issues noted in 2022/23.

Description of deficiency

As part of our work on property valuations, we noted not all capital additions had not been input to the asset register at the time of the final account's preparation, which did not enable a full reconciliation between the GL and asset register to be carried out as is normally expected.

This is a 'key control' and should be completed at the year-end as part of the account's preparation process.

Potential effects

There could be material omissions from the land and buildings balance in the financial statements, because of additions not being capitalised or not being included as part of the valuations process.

Recommendation

Management should ensure arrangement and procedures are in place to ensure this key control is completed and reviewed before final accounts are prepared.

2022/23 update

No issues noted in 2022/23.

A. Further information on our audit of the financial statements

Significant risks and audit findings (Durham County Council Pension Fund)

Management override of controls	<p>Description of the risk</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to 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> <hr/> <p>How we addressed this risk</p> <p>We addressed this risk through performing audit work over:</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 and other adjustments made in preparation of the financial statements. <hr/> <p>Audit conclusion</p> <p>Our work has provided the required assurance, and we have no matters to report.</p>
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Valuation of Level 3 Investments	<p>Description of the risk</p> <p>As at 31 March 2023, the fair value of investments classified within level 3 of the fair value hierarchy was £397.5m, accounting for 11.8% of the Fund's net investment assets. These investments are not quoted on an active market, and their value is estimated using unobservable inputs, which increases the risk of material misstatement. The values of level 3 investments are provided by fund managers.</p> <hr/> <p>How we addressed this risk</p> <p>In addition to our standard program for investments, we performed the following additional procedures:</p> <p>agreed holdings from fund manager reports to the global custodian's report;</p> <ul style="list-style-type: none"> agreed the valuation to supporting documentation including the investment manager valuation statements and cash flows for any cash adjustments made to the investment manager valuation; agreed the investment manager valuation to audited accounts or other independent supporting documentation, where available; where audited accounts were available, checked that they are supported by an unmodified opinion; reviewed the valuation methodologies for reasonableness through review of accounting policies within audited financial statements and challenge of the fund manager, where necessary; and compared valuations used in the accounts to more up-to-date valuations available at the time of audit which incorporate information up to 31 March 2023, where available. <hr/> <p>Audit conclusion</p> <p>Our work provided the required assurance.</p>
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A. Further information on our audit of the financial statements

Summary of uncorrected misstatements (Durham County Council Pension Fund)

		Fund Account		Net Assets Statement		Description of unadjusted misstatement
		Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)	
1	Dr: Pooled investment vehicles (private equity)			1,320		Actual and extrapolated difference between the fair value of level 3 investments included within the Pension Fund accounts and third-party confirmations provided to auditors as a result of more up to date information being available at the time of the audit than was available to officers when preparing the draft accounts. The actual difference on the tested items was £1.6m. This would also impact on fair values disclosed in Note 14 Investments, Note 15 Financial Instruments and Note 16 Nature and Extent of Risk Arising From Financial Instruments.
	Dr: Pooled investment vehicles (climate opportunities)			728		
	Cr: Pooled investment vehicles (pooled infrastructure)				13	
	Cr: Pooled investment vehicles (pooled private credit)				490	
1	Cr: Profits and losses on disposal of investments and change in market value		1,545			

A. Further information on our audit of the financial statements

Summary of uncorrected misstatements (Durham County Council Pension Fund)

	Fund Account		Net Assets Statement		Description of unadjusted misstatement
	Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)	
2					
Dr: Profits and losses on disposal of investments and change in market value	2,469				Actual and extrapolated difference in fair value due to differences in the number of units held by custodian and the fund managers for level 3 investments. The actual difference on the tested items was £2.3m. This would also impact on fair values disclosed in Note 15 Investments, Note 16 Financial Instruments and Note 17 Nature and Extent of Risk Arising From Financial Instruments.
Cr: Pooled investment vehicles – pooled property				2,469	
3					
Dr: contributions due from employers			1,203		Actual difference due to payments in relation to deficit contributions being accounted for in the incorrect period.
Cr: contributions receivable – deficit contributions		1,203			
Total unadjusted misstatements	2,469	2,748	3,251	2,972	

A. Further information on our audit of the financial statements

Internal control observations (Durham County Council Pension Fund)

Description of deficiency

As part of the Pension Fund's control environment for contributions receivable, the accounting team prepare a year-end reconciliation between the cashbook and GL. This reconciliation is expected to be reviewed and authorised by a senior officer. When we obtained a copy of the reconciliation, we were unable to establish if this review had been completed by a senior officer.

Potential effects

There is a risk that the year-end reconciliation may not be accurate and the contributions receivable figure may not agree to cash book records. This could mean the figure for contributions receivable is not appropriately stated within the Fund's financial statements.

Recommendation

The accounting team should ensure the year-end reconciliation is reviewed by a senior officer and this review is evidenced on a copy of the reconciliation control document.

Management Response

Year-end process reflection is diarised for December 2023. This recommendation will be included in the discussion points

Description of deficiency

During the course of the audit testing on Level 3 investments, we discovered that there are differences in the reporting of holdings values by the fund manager, CBRE, and the Custodian, Northern Trust.

There is currently no reconciliation of the holdings values communicated by fund managers to those reported by the custodian.

Potential effects

The market value of investments is derived from calculating a net asset value (NAV) per units and multiplying by the number of units (holdings) held for a particular investment. If the holdings value were to be significantly over/undervalued, the difference in the market value could increase beyond trivial limits and, if applied to a large number of investments, could give rise to a material misstatement in the Level 3 investments balances included in the financial statements of Durham County Council Pension Fund.

Recommendation

The Pension Fund accounting team should discuss the matter further with CBRE and Northern Trust to fully understand the reason for differences in the reporting of holdings values. There should be an ongoing review of all information communicated to DCCPF by CBRE/Northern Trust to reconcile the information provided.

Management Response

Officers will discuss with NT and CBRE our end user requirements from reporting. Further work via the Pool will also be fed back into this action.

A. Further information on our audit of the financial statements

Internal control observations (Durham County Council Pension Fund)

Description of deficiency

During our audit work, we attempted to agree the balances for the book (holdings) value of Level 3 investment assets per the Pension Fund's records to balances per the confirmations received from the fund manager Border to Coast Pensions Partnership (BCPP) and the custodian Northern Trust (NT). There were significant differences between the figures per BCPP and NT so it was unclear what the correct value was for the book cost/holdings value of these investments.

Potential effects

Information relating to the market value of investments and holdings at the year-end could be materially misstated in the Pensions Fund's financial statements.

Recommendation

The Pension Fund accounting team should seek to obtain an improved understanding of the information provided in the reports from BCPP and NT. The Pension Fund should also conduct a regular review of information received from BCPP and NT and, where any significant differences arise in the figures communicated from BCPP and NT, discuss the matter with the organisations to establish the reasons for the differences arising.

Management Response

Discussion has commenced with BCPP regarding our end user reporting requirements. A wider action plan is now being developed in which both DCC and BCPP officers will discuss separately with NT the overall system reports requirement. We have also commenced networking groups with other pension authorities to identify best practice and report change requirements requests to both BCPP and NT.

A. Further information on our audit of the financial statements

Internal control observations (Durham County Council Pension Fund)

Follow up on previous internal control observations

Description of deficiency

No segregation of duties within the Oracle change environment. Same group of IT personnel from Finance Team have both access to develop and implement changes to Oracle.

Potential effects

Data integrity and functionality provided by the application may be compromised. Unauthorised or inappropriate changes may be migrated to production environment, which may compromise system stability. This may further lead to system downtime and business disruption.

Recommendation

Management should ensure that the access to production, test and development environments is segregated. IT access to production databases should be restricted and monitored on regular basis. IDs should be created for the programmers without having access to the production environment. Changes should be implemented in the production environment after testing by the person independent of development responsibilities to prevent any unauthorized changes being made. A Segregation of Duties (SOD) matrix should also be maintained which lists the users and their profiles. SOD matrix should be updated and reviewed on periodic basis.

2022/23 update

No issues to report.

Description of deficiency

No reconciliation of holdings reported by fund managers to those reported by the custodian.

Potential effects

As the fair value of investments is derived from multiplying by the number of units (holdings) by the price, incorrect holdings could result in an under or overstatement of fair values.

Recommendation

A quarterly review of holdings should be undertaken between the fund managers and the custodian.

2022/23 update

Management have stated some progress has been with this during the year, however some reconciliations are required in further detail, as noted earlier within this section of the report.

A. Further information on our audit of the financial statements

Internal control observations (Durham County Council Pension Fund)

Follow up on previous internal control observations

Description of deficiency

No reconciliation of cash movements for investments managed by BCPP.

Potential effects

As cash movements form part of the book cost and potentially the asset value, this could result in an under or overstatement of book cost and fair values.

Recommendation

A quarterly reconciliation should be undertaken between BCPP cash movements recorded by the pension fund and those reported by BCPP.

2022/23 update

Management have confirmed some progress has been made with reconciliations being undertaken. Classification of cash movements have been highlighted through this process which are to be further addressed via the BCPP reporting requirements work.

Description of deficiency

There was a lack of understanding of the BCPP new report format.

Potential effects

A lack of understanding could lead to an under or overstatement of fair values.

Recommendation

Management should seek to understand the new format or liaise with BCPP to agree a report format that is less complex.

2022/23 update

Management have confirmed that their understanding of the reports has increased during the period and have made some progress in identifying changes required for reporting purposes. Management should continue to work closely with BCPP to ensure reported information is suitable to meet their requirements.

A. Further information on our audit of the financial statements

Internal control observations (Durham County Council Pension Fund)

Follow up on previous internal control observations

Description of deficiency

Investment purchases and sales transactions were not received from BCPP during the year as a result of which the net transactions have been allocated to purchases.

Potential effects

BCPP purchases and sales were understated, which could also impact on book cost and change in market value.

Recommendation

Management should ensure that BCPP provide gross figures for purchases and sales.

2022/23 update

No issues to report.

Description of deficiency

IT Auditors were unable to obtain a formally documented and approved policy/procedure documents around the controls for change management, user access management, password management, backup and restoration and incident management.

Potential effects

Lack of standardised procedures may weaken the overall control environment.

Recommendation

Management should define formal policies and procedures covering the key IT process areas in the organisation. The formalised processes and procedures should be implemented to standardise operations and monitored to identify any deviations.

A periodic review of these documents should be performed (at least once a year) to ensure their alignment to the management's intent and industry best practices.

2022/23 update

No issue to report.

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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.

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