



Audit Completion Report

Durham County Council – year ended 31 March 2024

November 2024

Audit Committee Members
Durham County Council
County Hall
Durham
DH1 5UQ

November 2024

Forvis Mazars
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Dear Committee Members,


Audit Completion Report – Year ended 31 March 2024

We are pleased to present our Audit Completion Report for the year ended 31 March 2024. The purpose of this document is to summarise our audit conclusions. The scope of our work, including identified significant audit risks, and other key judgement areas, was outlined in our Audit Strategy Memorandum, which we presented to you on 20th May 2024.

We have reviewed our Audit Strategy Memorandum and concluded that the significant audit risks and other key judgement areas set out in that report remain appropriate.

We would like to express our thanks for the assistance of your team during our audit. If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6339.

Yours faithfully

Signed: 

Mark Outterside

Forvis Mazars LLP

Contents

01	Executive summary
02	Status of the audit
03	Audit approach
04	Significant findings
05	Internal control conclusions
06	Summary of misstatements
07	Value for Money
A	Appendix A: Draft management representation letter
B	Appendix B: Draft audit report
C	Appendix C: Confirmation of our independence
D	Appendix D: Other communications

01

Executive Summary

Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2023/24 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

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

- management override of controls;
- risk of fraud in revenue recognition;
- valuation of net defined benefit liability;
- valuation of land, buildings and surplus assets;
- accounting for Private Finance Initiative; and
- debtors impairment allowance.

Misstatements and internal control recommendations

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

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2024.

At the time of preparing this report, significant matters remaining outstanding as outlined in section 2.

We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter.

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



Audit opinion

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



Value for Money

We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 7 of this report.



Whole of Government Accounts (WGA)

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



Wider Powers

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

02

Status of the audit

Status of our audit

Our audit work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the satisfactory resolution of the outstanding matters set out below.

Pensions

Our work in this area is substantially complete, however we are waiting for a response from the pension fund auditor.



Audit Closure Procedures

These are our standard audit closure procedures including: reviewing the final version of the Statement of Accounts, consideration of post balance sheet events and completing our final quality review procedures.



Whole of Government Accounts

We have not completed our work in this area. We are waiting for clarification from the NAO in regard audit requirements. Once this is issued, we will work with management to complete this work as soon as possible



Status



Likely to result in a material adjustment or a significant change to disclosures in the financial statements.



Potential to result in a material adjustment or a significant change to disclosures in the financial statements.



Not considered likely to result in a material adjustment or a change to disclosures in the financial statements.



Work on value for money arrangements

03

Audit Approach

Audit Approach

Changes to our audit approach

There have been no changes to the audit approach we communicated in our Audit Strategy Memorandum, issued in April 2024.

Materiality

Our provisional materiality at the planning stage of the audit was set at £31.142m using a benchmark of 2% of gross operating expenditure per the audited 2022/23 financial statements.

Based on the draft financial statement figures, the updated overall materiality we applied was £32.769m (final performance materiality: £26.215m; final clearly trivial threshold: £0.983m).

Service organisations

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

We have not identified any service organisations used by the Council

Use of experts

As detailed in our Audit Strategy Memorandum, management make use of experts in specific areas when preparing the financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account. Further to what was reported in our Audit Strategy Memorandum, we note that additional support was obtained from our internal valuation expert to review the methodology and approach to valuing specialised assets. See section 04 of this report for further details.

Item of account	Management's expert	Our expert
Defined benefit liability	AON Hewitt Limited (Actuary)	Consulting actuary, appointed centrally by the National Audit Office (PwC).
Property, plant and equipment	Council's internal valuer, plus external support from Align and Sanderson Weatherall	We have engaged our own internal valuation expert to review the methodology and assumptions used. We also considered relevant information which is available from third parties, including the consulting valuer, appointed centrally by the National Audit Office.
Financial instrument disclosures	Link Asset Services	We do not typically engage an audit expert to assess the reasonableness for your expert's financial instrument valuation estimates. Where this is required, we will engage our own internal experts.

04

Significant findings

Significant findings

Significant findings, including key areas of management judgement

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

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 17 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant Risks

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. 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.

How we addressed this risk

We addressed this risk through performing audit work over:

- accounting estimates impacting amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements

Audit conclusion

Our work has provided the required assurance, and we have no matters to report.

Significant findings

Significant Risks (continued)

Risk of fraud in revenue recognition

Description of the risk

There is a presumption under the International Auditing Standard that there is a significant risk of fraud in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements.

How we addressed this risk

We have addressed this risk by:

- 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; and
- obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger.

Audit conclusion

Our work has provided the required assurance, and we have no matters to report.

Significant findings

Significant Risks (continued)

Valuation of net defined benefit liability

Description of the risk

At 31 March 2023 , the financial statements included a defined benefit liability of £470m, a significant reduction of £1,300m 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:

- 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

As at 31 March 2024 the financial statements included a defined benefit liability of £301m.

Upon completion of the work, highlighted in section 2 we do not expect to report any issues regarding the net defined benefit liability valuation.

Significant findings

Significant Risks (continued)

Valuation of land, buildings and surplus assets

Description of the risk

At 31 March 2023 , the financial statements included £968.6m of land and buildings and £35.2m of surplus assets.

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.

How we addressed this risk

We have:

- 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

As at 31 March 2024 , the financial statements included £934.7m of land and buildings and £33.8m of surplus assets.

Except for the issues highlighted in sections 5 and 6, we have no other significant issues to report, and we have sufficient audit assurance regarding the valuation of land, buildings and surplus assets.

Significant findings

Other key areas of management judgement/ enhanced risks

Accounting for Private Finance Initiative (PFI) schemes

Description of the management judgement

Per the 2022/23 financial statements, 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.

The method of accounting for PFI assets/liabilities is complex, therefore, this increases the risk of misstatement.

How our audit addressed this area of management judgement

We have:

- 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.

Audit conclusion

Our work has provided sufficient audit assurance, no issues noted.

Significant findings

Other key areas of management judgement/ enhanced risks (continued)

Debtors' impairment allowance

Description of the management judgement

At 31 March 2023, the Council disclosed an impairment of debtors' allowance totalling £35.4m as an area of estimation uncertainty.

How our audit addressed this area of management judgement

We addressed this judgement by:

- 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.

Audit conclusion

Our work has provided sufficient audit assurance, no issues noted.

Significant findings

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council in June 2024 and were of a good quality.

Significant matters discussed with management

During our audit we communicated the following significant matters to management:

PPE Valuations

As highlighted in the previous pages of this report, valuation of land and buildings are deemed by the audit team to be an area of significant risk due to the high levels of estimation uncertainty because of the amount of judgement and number of variables involved. In addition to carrying out detailed audit testing of the valuations carried out in year as part of the Council's rolling valuations programme, the audit team also considers the Council's assessment of whether there have been any material movements in those assets which have not been revalued in year. To aid our assessment, as part of our initial audit fieldwork in June 2024, the audit team engaged our own internal valuation expert to review the valuations carried out by the Council's valuer.

From our work on PPE valuations, we noted that the Council's property valuations process complex, involving various departments, key officers and numerous valuation firms to complete some of this work. As part of this year's audit, we noted deficiencies in the overall coordination of the process which contributed to several errors and additional work for Council officers and the audit team.

This has led to an increase in input errors to the asset register, audit queries and findings, and some uncertainty as to the overall methodology and approach.

Following discussions with officers regarding the valuations approach by one of the Council's external valuers, we understand that further checks have been carried out by the Head of Corporate Property and Land. No issues were identified in relation to buildings valuations carried out as at 31 March 2024 from the checks carried out by the Council. However, a number of issues have been noted in relation to land valuations, in particular the areas used in the Modern Equivalent Assets (MEA) calculations. This issue noted

did not relate to valuations selected for audit testing. However, none of the land errors identified by the Council nor the audit team as part of our detailed testing are material, either individually or in total. As such, no amendments are proposed by management which has been deemed reasonable by the audit team given the values involved.

We consider that such checks should have been carried out when the initial valuations were received from the external valuer; any issues could then have been addressed before the figures were included in the asset register and accounts.

Our internal valuation expert carried out a review of the overall methodology applied to specialised assets valued under depreciated replacement cost (DRC) basis and concluded that the methodology applied by the Council's valuer is reasonable and consistent with CIPFA and RICS guidance. However, the Council should better align its approach to CIPFA's property asset valuation guidance, at a more granular level.

Based on the findings from the audit team noted above, we have included a number of internal control deficiencies and recommendations in section 5 of this report to highlight the improvements that the Council needs to make in this area.

IFRIC 14

During the audit, an issue emerged nationally regarding a technical accounting matter involving the consideration of IFRIC 14 (IAS 19 - the limit on a defined benefit asset, minimum funding requirements and their Interaction). The issue arose from a situation whereby entities may not have assessed whether positive secondary contributions gave rise to an additional liability when there is an IAS19 net liability position at the balance sheet date.

Based on the audit work carried out, we are satisfied that there is no additional liability that needs to be recognised by the Council under IFRIC 14. This was supported by the Council's own calculations and discussions with the actuary. We note that the actuary also included wording in the Council's IAS19 report which confirmed that no additional liability should be recognised.

Consideration of the Council's net pension liability at 31 March 2024 has not identified any other matters to report.

Significant findings

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.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

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

We have not exercised any of these powers as part of our 2023/24 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been raised.

05

Internal control conclusions

Internal control conclusions

Overview of engagement

As part of our audit, we obtained an understanding of Council's internal control environment and control activities relevant to the preparation of the financial statements, which was sufficient to plan our audit and determine the nature, timing, and extent of our audit procedures. Although our audit was not designed to express an opinion on the effectiveness of Council's internal controls, we are required to communicate to the Audit Committee any significant deficiencies in internal controls that we identified in during our audit.

Deficiencies in internal control

A deficiency in internal control exists if:

- a control is designed, implemented, or operated in such a way that it is unable to prevent, detect, and/or correct potential misstatements in the financial statements; or
- a necessary control to prevent, detect, and/ or correct misstatements in the financial statements on a timely basis is missing.

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

The matters reported in this section of our report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and which we consider to be of sufficient importance to merit being reported.

If we had performed more extensive procedures on internal control, we might have identified more deficiencies to report or concluded that some of the reported deficiencies need not in fact have been reported.

Our comments in this section should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The deficiencies Council's internal controls that we have identified as at the date of this report are in set out on the following pages.

Significant deficiencies in internal control

A significant deficiency in internal control is one which, in our professional judgement, has the potential for financial loss, damage to reputation, or a loss of information which may have implications on the achievement of business strategic objectives. Our view is that observations categorised as a significant deficiency is of sufficient importance to merit the attention of the Audit Committee.

We have not identified any significant deficiencies in the Council's internal controls as at the date of this report.

Other observations

We also record our observations on the Council's internal controls where, in our professional judgement, there is a need to strengthen internal control or enhance business efficiency that do not constitute significant deficiencies in internal control but which we view as being important for consideration by management.

We do not have any other internal control observations to bring to your attention as at the date of this report.

The following pages of the report sets out the deficiencies in internal control (not considered significant), as well as a follow up to any recommendations made as part of our prior year audit.

Whether internal control observations merit attention by Audit Committee and/ or management is a matter of professional judgment, taking into account the risk of misstatement that may arise in the financial statements as a result of those observations.

Internal control conclusions

Other deficiencies in internal control

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

Property valuations are inherently complex and are therefore an area of audit focus. We have noted that the Council's property valuations process is complex, involving various departments, key officers and numerous valuation firms to complete some of this work.

As part of this year's audit we noted deficiencies in the overall coordination of the process resulted in several errors and additional work for Council officers and the audit team.

Potential effects

The value of the Council's property, plant and equipment on the balance sheet may be materially misstated.

Recommendation

Ensure the overall responsibility for the PPE valuations process is clearly defined, as well as the roles and responsibilities of the various stages within it, and the instructions to external valuers are clearly documented.

Management response

Agreed and appropriate measures are being put in place. A comprehensive timetable has been agreed and covers the roles and responsibilities for the PPE Valuations. External Valuer instructions have been prepared collectively and include a clear methodology on valuations.

Internal control conclusions

Other deficiencies in internal control (continued)

Description of deficiency

Our work on property valuations has highlighted several issues in relation to land valuations, and particularly the areas used in the Modern Equivalent Assets calculations.

This was due to a lack of accuracy checks which should have been carried out when the valuations were received from the external valuer. These issues could have been addressed before the figures were included in the asset register and accounts.

Potential effects

The value of the Council's property, plant and equipment on the balance sheet may be materially misstated.

Recommendation

Ensure that a review is carried out of the initial PPE valuations provided by the external valuer(s) before being input to the asset register. This would provide the Council with assurance over the approach, methodology and reasonableness of the valuations and ensure early identification of any errors or anomalies.

Management response

Agreed and appropriate measures will be implemented by CPAL with support from Finance.

Internal control conclusions

Other deficiencies in internal control (continued)

Description of deficiency

As noted within the disclosure misstatements section, land and buildings carried at historic cost was overstated by £58,330k. This was due to assets that had been missed from the 5-year rolling programme and/or the use of incorrect valuation data.

Potential effects

The value of the Council's property, plant and equipment on the balance sheet may be materially misstated.

Recommendation

Ensure the relevant land and buildings are revalued in 2024/25 as part of the rolling programme or as ad hoc valuations, as already agreed, or are further investigated in 2024/25 as to whether the values should be impaired to nil or written out of the Council's balance sheet.

In future years, a reasonableness check should be carried out of the balance of Land & Buildings held at historic cost as shown on the report from Asset Manager.

Management response

The timetable covers both ad hoc valuations and the five- year rolling programme in agreement with Finance. Further joint working around the number of valuations, volume of DRC's and the timing of these is currently underway.

Description of deficiency

As part of our testing of property valuations we highlighted an issue in relation to an asset under construction reclassified to operational land and buildings in 2023/24. The valuation should have taken place as at the date of completion, the asset should have been reclassified as operational and depreciation charged. We have identified one other asset, a sub-asset of the same overall asset, with a similar issue. We are satisfied that the overall impact on the asset valuations and depreciation undercharged during the year are both trivial, so no amendments have been made in the accounts.

Potential effects

Valuing assets at a date prior to practical completion of capital works may results in inaccurate valuations in the Council's accounts and an understatement of depreciation during the year.

Recommendation

Ensure arrangements are in place for notifying finance and valuation teams of the practical completion of capital works so that valuations can be carried out appropriately and assets recategorised at the correct date.

Management response

The timetable now includes this process.

Internal control conclusions

Other deficiencies in internal control (continued)

Description of deficiency

Our testing of exit packages noted that, for 24 of the 31 items sampled, although the amount disclosed in the note is consistent with the actual amount paid to the individual, there is a difference to the amount approved. The Council has confirmed that the various was due to the 2023/24 pay award, which was not included in the approved exit package.

Potential effects

The Council has paid amounts different to those approved which may lead to error or dispute affecting the Council's reputation due to lack of transparency.

Recommendation

Ensure all exit packages are agreed, with confirmation that any pay awards should be included where there are timing differences between the approval date and the leaving date.

Management response

All exit packages are agreed by panel or via delegated decision based on the current costing and on (when applicable), the proviso that they will be subject to change following national pay award agreements. Pay offers remain subject to change whilst negotiations are undertaken, it is therefore the council's approach to exclude this element within the costings presented for decision / approval. To ensure that this is communicated formally, the council will now include the 'on proviso' wording within the reports considered.

Description of deficiency

We noted an inconsistency between the salary disclosed for a key officer on the Council's website to the value disclosed in note 28 of the draft accounts .

Potential effects

Inaccurate or inconsistent salary disclosures can harm the Council's reputation. Stakeholders may perceive this as a lack of transparency

Recommendation

Ensure public communications channels are updated with the accurate information

Management response

The value within the Accounts correctly reflected the key officer's salary. The website has been updated and process reviewed to ensure timely updates to the website in future.

Internal control conclusions

Follow up on previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency

Our testing of Capital Grants and Contributions Receipts in Advance identified that the Home Loan Recycled Fund of £1.161m was incorrectly classified as a RIA

Potential effects

Misstatement of grant income

Recommendation

Review of Capital Grants and Contributions Receipt in Advance to ensure they are appropriately classified.

Current position

Entries to correct the prior year errors have been made in the 2023/24 accounts. No similar issues have been identified from our testing in the current year.

Description of deficiency

Our testing identified a small number of variances between PPE values input to the asset register and the values one of the external valuers' reports. Although the overall net misstatement was trivial, the variances for three individual assets were non-trivial but not material.

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.

Current position

Entries to correct these errors have been made to the asset register and accounts in 2023/24.

However, we identified that the incorrect valuations for three assets had been input to the asset register as the external valuer's overall report had not been provided to the finance team. Therefore, this recommendation remains outstanding for follow up again as part of next year's audit.

Management response

Agreed and appropriate measures will be implemented.

Internal control conclusions

Follow up on previous internal control points (continued)

Description of deficiency

Our testing of related party transactions identified three missing declarations of interest from councillors.

Potential effects

Our testing of related party transactions identified three missing declarations of interest from councillors.

Recommendation

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

Current position

No similar issues have been identified from our testing in the current year.

06

Summary of misstatements

Summary of misstatements

We set out below and on the following pages a summary of the misstatements we identified during our audit, above the trivial threshold for adjustment of £0.47million.

The table below summarises the overall totals of unadjusted and adjusted misstatements identified.

The tables on pages 29 – 30 sets out the misstatements we identified which management has assessed as not being material, individually or in aggregate, to the financial statements and does not plan to adjust.

The tables on pages 31-32 outline the misstatements we identified during the prior year audit which were not adjusted for and are carried forward misstatements.

And the final table on page 33 outlines the misstatements we identified that have been adjusted by management.

Our overall materiality, performance materiality, and clearly trivial (reporting) threshold were reported in our Audit Summary Memorandum, issued in April 2024. Any subsequent changes to those figures are set out in the section 3 of this report.

Summary of unadjusted and adjusted misstatements

Details of adjustment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
Unadjusted misstatements identified during the 2023/24 audit	7,222	-3,967	2,158	-5,413
Unadjusted misstatements identified during previous audits which remain carried forward	1,411	-	6,943	-8,354
Sub-total unadjusted misstatements: current and prior year	8,633	-3,967	9,101	-13,767
Adjusted misstatements.	2,113	-8,343	9,334	-3,104
Total adjusted misstatements current year	2,113	-8,343	9,334	-3,104

We will obtain written representations confirming that, after considering the unadjusted misstatements, both individually and in aggregate, in the context of the financial statements taken as a whole, no adjustments are required.

Summary of misstatements

Unadjusted misstatements

Management has assessed the misstatements in the table below as not being material, individually or in aggregate, to the financial statements and does not plan to adjust. We only report to you unadjusted misstatements that are either material by nature or which exceed our reporting threshold.

Details of adjustment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
<p>DR CIES - Other Operating Expenditure - Losses on the disposal of non-current assets</p> <p>CR Property, Plant and Equipment (PPE) - Land and Buildings</p> <p>Our PPE disposals testing identified an error where an asset had not been written out of the asset register and the accounts. A full check of land and buildings assets relating to academy transfers in 2023/24 identified one other component that had not been written out. The total misstatement is £3,275k. Confirmed that the Council is to amend for this in 2024/25.</p>	3,275			-3,275
<p>Dr: Revaluation Reserve</p> <p>Dr: PPE – Depreciation</p> <p>Cr: PPE Land and Buildings - Revaluations</p> <p>Cr: CIES – Net Cost of Services expenditure</p> <p>Our testing of PPE valuations identified that for assets that been added to the asset register under PPE Land and Buildings following an audit finding in the previous year had been wrongly included as revaluation increases to the Revaluation Reserve and depreciated, before being transferred to Investment Properties. However, these assets should have been included as additions to Investment Properties</p>		-20	1,000 20	-1,000
<p>Dr: CIES – Cost of Services – Gross Expenditure</p> <p>Cr: CIES – Cost of Services – Gross Expenditure</p> <p>From our testing of the reallocation of central support costs we identified a classification issue in the CIES. Expenditure on the Resources service line is overstated by up to £3.9m of central support costs that have not been recharged across services, and other services' expenditure is understated by the same amount. The overall net impact on Net Cost of Services is nil.</p> <p>We understand that the process for reallocating central support service costs is being refined for 2024/25 so, as such, we have not made a control recommendation in relation to this issue.</p>	3,947	3,947		
				Continued overleaf

Summary of misstatements

Unadjusted misstatements (continued)

Details of adjustment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
<p>Dr: CIES: Cost of services then Capital Adjustment Account* / Revaluation Reserve</p> <p>Cr: Property, Plant and Equipment</p> <p>From our work on PPE valuations, we identified several input errors to the asset register; including some instances where the valuations per the valuer's report did not agree to the asset register, and another where the valuation had been input to the asset register as a new asset rather than against the existing piece of land. No adjustments have been made to the accounts and officers propose to amend the entries in the asset register in 2024/25.</p> <p><i>* Note that any element of the valuation changes charged to the CIES cost of services is written out to the Capital Adjustment Account via the MIRS under statutory adjustments meaning there is no impact on the Council's General Fund balance.</i></p>			1,138	-1,138
Aggregate effect of unadjusted misstatements	7,222	-3,967	2,158	-5,413

Summary of misstatements

Unadjusted misstatements - carried forward from prior year

Details of adjustment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
Dr: CIES - Other Operating Expenditure (loss on disposal of non-current assets) Cr: Property, Plant and Equipment – Land and Buildings	1,411			-1,411
Dr: Unusable Reserves- Revaluation Reserve Cr: Unusable Reserves – Capital Adjustment Account			714	-714
Brandon Community Primary converted to an academy during 2021/22, however the land element was omitted from PPE disposals and the loss to the CIES (£1,411k net book value) and the revaluation reserve balance for this asset had also not been written out (£714k). This issue remains as unadjusted error in 2023/24 as the asset still hasn't been written out. Same as in 2022/23.				
Dr: Unusable Reserves – Revaluation Reserve / Capital Adjustment Account Cr: PPE – Land and Buildings			1,015	-1,015
B/fwd 2021/22 issue (also b/fwd from 2022/23): From our testing of twenty-one PPE land assets linked to buildings revalued on an DRC basis, we identified three instances where the actual area was used in the calculation rather than the lower modern equivalent asset area due to a formula error in the valuation spreadsheet. A 100% check carried out by the valuation team, which we have checked for reasonableness, identified a further three land assets with the same formula error. As a result, PPE asset values are overstated by £1,781k. 2023/24 update: One of these assets was revalued in 2023/24. However the other two assets (0602S01 and 0807S01) and the three identified by DCC (0437S01, 0683S01 and 0447S01) were not revalued in 2023/24, therefore the issue remains in relation to these - total £1,015k.				
				Continued overleaf

Summary of misstatements

Unadjusted misstatements - carried forward from prior year

Details of adjustment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
Dr: PPE – Land and Buildings Cr: Unusable Reserves – Revaluation Reserve B/fwd 2022/23 issue: 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. 2023/24 update: one of the two assets has been revalued again in 2023/24, therefore the issue identified in the previous year has been superseded. The misstatement relating to the other asset (UPRN 50055S01) due to the incorrect floor area used in the calculation remains at £5,124k.			5,214	-5,214
Aggregate effect of unadjusted misstatements carried forward	1,411	-	6,943	8,354

Summary of misstatements

Adjusted misstatements

The misstatements in the table below have been adjusted by management. We report all individual misstatements above our reporting threshold that we identify during our audit and which management had adjusted and any other misstatements we believe the Audit Committee should be made aware of.

Details of adjustment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
Dr: Cost of Services - Income	203			
Dr: CIES - Financing and Investment I&E (Pensions net interest costs)	1,910			
Dr: Other Long Term Liabilities - Pensions			6,230	
Cr: Cost of Services – Expenditure		-4,633		
Cr: CIES – Other Comprehensive I&E – remeasurements of the net defined benefit liability		-3,710		
Following the publication of the draft accounts as at 31/05/2024, the Council received the IAS 19 results for unfunded discretionary benefits arrangements from the actuary and identified the required entries in the 2023/24 accounts. As a result, net expenditure in the CIES (cost of services income and expenditure, net interest on the defined benefit liability and remeasurements of the net defined benefit liability) reduced by £6,230k and the amount reversed out to the Pensions Reserve via the MIRS as part of the Adjustments between accounting basis and funding basis under regulations also reduced by £6,230k.				
This also impacted on the Cash Flow Statement and supporting note, disclosures in the Narrative Report, Note 4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty, Note 7 Expenditure and Funding Analysis (and supporting note), Note 8 Expenditure and Income Analysed by Nature, Note 9 Adjustments Between Accounting Basis and Funding Basis Under Regulations, Note 12 Financing and Investment Income and Expenditure, Note 22 Pensions Reserve and Note 39 Defined Benefit Pension Schemes.				
Dr: Short Term Creditors			3,104	-3,104
Cr: Short Term Debtors				
Following the publication of the draft accounts as at 31/05/2024, the Council identified that a £3.104k debtor / creditor adjustment was required in respect of business rates arrears as the central government and Fire Authority shares of arrears should have been netted off their net NNDR creditor balances. This also impacted on disclosures in the Narrative Report, Note 4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty, Note 18 Debtors, Note 19 Financial Instruments and Note 20 Creditors.				
Aggregate effect of adjusted misstatements	2,113	-8,343	9,334	-3,104

Summary of misstatements

Disclosure misstatements

We identified the following disclosure misstatements during our audit that have been corrected by management:

- **Note 6 Events After the Balance Sheet Date** - The 'Non-adjusting Event - Academy Schools' section has been updated to reflect the position with known academy conversions in 2024/25 as at the end of October 2024; this is now 9 schools and estimated loss £19,126k, an increase of £2,152k.
- **Note 14 Property, plant and equipment** - The amount of Land & Buildings carried at historical cost as shown in the table in Note 14 is overstated by £58,330k; confirmed that this is to be amended to £30,814k with the £58,330k to be included in the final line of the table for valued at current value as at 31 March 2020. There is no impact on the net book value of assets in Note 14 or the balance sheet.
- **Note 14 Property, plant and equipment** - From our testing of capital commitments, we identified that the contract value for one out of the three significant items tested was overstated as the main contract was not signed until April 2024. The capital commitment for Greenfield School has been amended to £1,250k rather than the £23,000k per the note in the draft accounts. Total capital commitments has therefore also been amended to £87,658k rather than £109,408k.
- **Note 18 Debtors and Note 20 Creditors** - The client has made amendments to reverse manual adjustments originally made in the draft accounts to Note 18 Debtors, with the corresponding adjustment made in Note 20 Creditors. The net impact on the total in both notes is nil.
- **Note 28 Officers' Remuneration - above £50k bandings** - As part of our review of Note 28, we noted that the total number of other staff disclosed differed to the total per the underlying payroll data. Total 498 employees has been changed to 500 employees.
- **Note 28 Officers' Remuneration - Exit Packages** - Our testing of exit packages noted two errors both relating to timing differences. These errors resulted in an extrapolated error above specific materiality for exit packages. Therefore we requested the Council to complete additional checks, which identified another error timing error. We have therefore identified a total error relating to exit packages totalling £33.4k. This has been adjusted by the Council.
- **Note 30 Dedicated Schools Grant (DSG)** – Review of the DSG disclosure highlighted several errors, including use of incorrect headings, prior year figures, incorrect application of the deficit figure to reserves. These have been corrected.
- **Note 31 Grant Income** – Capital Grants and Contributions Receipts in Advance - On testing of capital grants and contributions receipts in advance, we noted that there were grants received from the Department for Transport which were classified as received from the Department for Levelling-up, Housing and Communities. As the extrapolated error was material further investigation was carried out by the auditor by obtaining grant allocation letters and remittance advices for all grants included the line item. Total identified error is £7,639k
- **Note 32 Related Parties** – The Council has updated the disclosure note to reflect the latest/audited financial statements of the other organisations
- **Note 34 Leases** - As part of our review of leases, we noted vehicles have been misclassified as finance leases, when the Council's expert has suggested they should have been operating leases. This error is not material and was reported in 2022/23.
- **Note 36 Impairment and Revaluation Losses** - the draft accounts only disclosed one value which was the total of both impairment and revaluation losses. The Council has amended this disclosure to split the total to show separate values for impairments revaluation losses, along with details of the nature of both.
- **Note 39 Defined Benefit Pension Schemes** - Additional narrative has been included in the note for 'Virgin Media judgement' following a recent high court ruling.
- **Annual Governance Statement** - We noted several minor differences between the AGS presented to the Audit Committee meeting of 28 June 2024 to the version in the draft accounts. The version included in the final statements is the correct version.

07

Value for Money

Value for Money

Approach to Value for Money

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; and
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

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

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

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

The primary output of our work on the Council arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report when we issue our opinion on the financial statements.

Status of our work

We have completed our work in respect of the Council's arrangements for the year ended 31 March 2024 and we have not identified any significant weaknesses in arrangements that have required us to make a recommendation. Our draft audit report at Appendix B confirms that we have no matters to report in respect of significant weaknesses. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report which will be issued when we give our opinion on the financial statements.

Appendices

A: Draft management representation letter

B: Draft audit report

C: Confirmation of our independence

D: Other communications

Appendix A: Draft management representation letter

To be provided on client headed note paper, signed by the s151 officer and dated as close to (but not after) the date of the audit report as possible.

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

[Date]

Dear Mr Outterside,

Durham County Council - Audit for Year Ended 31 March 2024

This representation letter is provided in connection with your audit of the financial statements of Durham County Council (the Council) for the year ended 31 March 2024 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the Code), as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (“the Code Update”), published in November 2022, and applicable law.

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

My responsibility for the financial statements and accounting information

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

My responsibility to provide and disclose relevant information

I have provided you with:

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

Appendix A: Draft management representation letter

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

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

Accounting records

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

Accounting policies

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

Accounting estimates

I confirm that the methods, significant assumptions and the data used by the Council in making the accounting estimates, including those measured at current and/or fair value, are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework.

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

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

Laws and regulations

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

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

Appendix A: Draft management representation letter

Fraud and error

I acknowledge my responsibility as Corporate Director of Resource for the design, implementation and maintenance of internal control to prevent and detect fraud and error and I believe I have appropriately fulfilled those responsibilities.

I have disclosed to you:

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

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

Related party transactions

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

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

Impairment review

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

Charges on assets

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

Future commitments

The Council has no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2023/24 in relation to the Council's PFI schemes that you have not been made aware of.

Appendix A: Draft management representation letter

Subsequent events

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

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

Reinforced Autoclaved Aerated Concrete

I confirm the Council has assessed the potential impact of Reinforced Autoclaved Aerated Concrete on the Council, and in particular whether there are indications of a need for an impairment of the Council's property, plant and equipment balances. I confirm there are no such indications of impairment in those assets.

Impacts of Russian Forces entering Ukraine

I confirm that I have carried out an assessment of the potential impact of Russian Forces entering Ukraine on the Council, including the impact of mitigation measures and uncertainties, and that the disclosure in the Annual Report and the subsequent events note 6 to the financial statements fairly reflects that assessment.

Covid-19

I confirm that I have carried out an assessment of the potential impact of the Covid-19 Virus pandemic on the business, including the impact of mitigation measures and uncertainties, and that the disclosure in the Annual Report and the subsequent events note 6 to the financial statements fairly reflects that assessment.

Brexit

I confirm that I have carried out an assessment of the impact of the United Kingdom leaving the European Union, including the impact of the Trade and Cooperation Agreement, and that the disclosure in the Annual Report fairly reflects that assessment.

Going concern

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

Annual Governance Statement

I am satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and I confirm that I am not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

The disclosures within the Narrative Report fairly reflect my understanding of the Council's financial and operating performance over the period covered by the financial statements.

Appendix A: Draft management representation letter

Unadjusted misstatements

We confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix. Please make sure the appendix is attached to the letter and not cross-referenced to the appendix in the ACR.

Arrangements to achieve economy, effectiveness and efficiency in Use of Resources (Value for Money arrangements)

I confirm that I have disclosed to you all findings and correspondence from regulators for previous and ongoing inspections of which I am aware. In addition, I have disclosed to you any other information that would be considered relevant to your work on value for money arrangements.

Yours faithfully,

Corporate Director of Resources

Appendix

Schedule of unadjusted misstatements

Appendix B: Draft audit report

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

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Durham County Council ("the Council") for the year ended 31 March 2024, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund, and notes to the financial statements, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2024 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

Basis for opinion

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

Conclusions relating to going concern

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

Based on the work we have performed, and taking into account the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Other information

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

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

We have nothing to report in this regard.

Appendix B: Draft audit report

Responsibilities of the Corporate Director of Resources for the financial statements

As explained more fully in the Statement of the Corporate Director of Resources' Responsibilities, the Corporate Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, and for being satisfied that they give a true and fair view. The Corporate Director of Resources is also responsible for such internal control as the Corporate Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Corporate Director of Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Corporate Director of Resources is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

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

We evaluated the Corporate Director of Resources' incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to property valuations, fair value of loans and investments, net pension liability valuation, property depreciation, property impairments, expected credit loss allowance/impairment allowance provisions and significant one-off or unusual transactions.

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

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

Appendix B: Draft audit report

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

We are also required to conclude on whether the Corporate Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in February 2023.

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

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

Matter on which we are required to report by exception

We are required to report to you if, in our view we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024.

We have nothing to report in this respect.

Responsibilities of the Council

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

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

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

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in May 2024.

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

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

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

We have nothing to report in these respects.

Appendix B: Draft audit report

Use of the audit report

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

Delay in certification of completion of the audit

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

- the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack.

[Signature]

Mark Outterside, Key Audit Partner

For and on behalf of Forvis Mazars LLP

Bank Chambers

26 Mosley Street

Newcastle upon Tyne

NE1 1DF

XX November 2024

Appendix C: Confirmation of our independence

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

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

Appendix D: Other communications

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

Appendix D: Other communications

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

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