

Durham County Council

Audit Completion Report  
Year ended 31 March 2013

September 2013

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*Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Members or Officers are prepared for the sole use of the audited body and we take no responsibility to any Member or Officer in their individual capacity or to any third party.*

*Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.*

## 1. Purpose of this document

This report includes the findings of our audit for the year ended 31 March 2013 and forms the basis for discussion at the Audit Committee on 30 September 2013.

Our communication with you is important in:

- sharing information to assist both the auditor and those charged with governance (i.e. Members of the Audit Committee) to fulfil their respective responsibilities;
- providing constructive observations arising from the audit process to those charged with governance;
- ensuring as part of the two-way communication process we, as external auditors, gain an understanding of the attitude and views of those charged with governance at Durham County Council (the Council) of the internal and external operational, financial, compliance and other risks which might affect the statement of accounts, including the likelihood of those risks materialising and how they are managed; and
- receiving feedback from those charged with governance on the performance of the engagement team.

## 2. Independence

As part of our on-going risk assessment, we monitor our relationships with you to identify any new actual or perceived threats to our independence. No

further threats to our independence have been identified since we issued our Audit Strategy Memorandum (see appendix 1).

## 3. Our audit approach

Our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board.

Since issuing our Audit Strategy Memorandum in March 2013, there has been one key change to our audit approach which was reported to the Audit Committee on 29 July. The change is detailed in section 8 of this report.

## 4. Overall conclusion, opinion and recommendations

At the time of issuing this report we anticipate:

- issuing an unqualified opinion on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Our work is on-going in a small number of areas at the point of issuing this report. We expect to complete all our work, including our final review procedures, before the Audit Committee on 30 September 2013. We will provide a verbal update to the Committee at this meeting.

We ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (Section 11); and

- approve the letter of representation (Appendix 2) on behalf of the Council before we issue our opinion and conclusion.

We would also like to take this opportunity to thank officers and Members for their continued co-operation and support in our first year of audit.

## 5. Limitations

Our audit procedures, which have been designed to enable us to express an opinion on the statement of accounts, have included the examination of the relevant transactions and controls. The International Standards on Auditing (UK and Ireland) do not require us to design audit procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.

Our audit included consideration of internal controls relevant to the preparation of the statement of accounts in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures and, consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

## 6. Audit status

We have substantially completed our audit of the statement of accounts for the year ended 31 March 2013.

As at the time of preparing this report, the following significant matters remain outstanding:

- Testing of council house revaluations;
- Trading accounts review;
- Financial instruments review;
- Contingent liabilities review;
- Capital grant receipts; and
- Checking the revised statement of accounts.

Alongside our audit of your statement of accounts, we are required to review your Whole of Government Accounts (WGA) submission and report to the National Audit Office in line with their group instructions and guidance produced by the Audit Commission. We anticipate completing this work by the deadline of 4 October 2013.

Once our work on WGA is complete we expect to be able to certify the closure of the 2012/13 audit by 4 October 2013. To-date we have not received any objections to the Council's 2012/13 statement of accounts from electors and have no outstanding matters or correspondence with electors.

We will provide an update to you in relation to the significant matters outstanding above at the meeting on 30 September 2013.

## 7. Significant risks identified during planning

Set out below are the significant risks from our Audit Strategy Memorandum. We paid particular attention to these risks in reducing the risk of material misstatement in the financial statements and the table below details how we addressed each risk and our conclusions.

Significant audit risks	How we addressed this risk	Audit conclusion
<p><b>Management override of controls</b></p> <p>Auditing standards state that management is in a unique position to perpetrate fraud, because of management’s ability to directly or indirectly potentially manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Whilst the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in <i>all</i> entities. It is therefore an inherent significant risk of material misstatement due to fraud.</p>	<p>We documented and evaluated management controls in this area. We assessed the risk of fraud in the financial statements. We sought written assurances from the Audit Committee and management on their controls and processes for assessing the risk of fraud in the financial statements and arrangements in place to identify, respond to and report fraud. We challenged the responses against our cumulative knowledge of the Council and identified no significant omissions or issues.</p> <p>Our testing strategy included:</p> <ul style="list-style-type: none"> <li>• general ledger journal testing;</li> <li>• consideration and review of material accounting estimates;</li> <li>• consideration and review of any unusual or significant business transactions; and</li> <li>• consideration of any other local factors.</li> </ul>	<p>Our work has provided the assurance we sought and has not highlighted any significant issues to bring to your attention.</p>

Significant audit risks	How we addressed this risk	Audit conclusion
<p><b>Pension entries (International Accounting Standard 19)</b></p> <p>The financial statements contain material entries in respect of retirement benefits.</p> <p>The calculation of these pension figures, both assets and liabilities and the charges to the Income and Expenditure Statement, can be subject to significant volatility and include estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We documented and evaluated management controls in this area. We discussed key changes to pension calculations with the Council during the year, including the impact of the revised IAS19 standard.</p> <p>In addition to our standard programme of work for pension entries, we:</p> <ul style="list-style-type: none"> <li>• evaluated the management controls in place for assessing the reasonableness of figures provided by the Actuary; and</li> <li>• considered the reasonableness of the pension figures, referring to an expert’s report on all Actuaries commissioned by our regulator, the Audit Commission.</li> </ul>	<p>Our work has provided the assurance we sought and has not highlighted any significant issues to bring to your attention.</p>
<p><b>Housing asset register migration</b></p> <p>The Council transferred data from the three separate housing asset registers into the existing IPF asset register during 2012/13.</p> <p>There was a risk that the data will not be migrated completely or accurately resulting in a material misstatement.</p>	<p>We discussed the migration with key contacts involved in the process. Our testing strategy included:</p> <ul style="list-style-type: none"> <li>• evaluating management controls over the data migration process; and</li> <li>• reviewing and testing data to ensure it was migrated successfully.</li> </ul>	<p>Our work has provided the assurance we sought and has not highlighted any significant issues to bring to your attention.</p>

Significant audit risks	How we addressed this risk	Audit conclusion
<p><b>Valuations</b></p> <p>The Council values all its assets over a five year period but is required to ensure that there are no material differences in valuations each financial year.</p> <p>There was a risk that that some material classes of assets may not have been included for valuation in year resulting in a material misstatement.</p> <p>There was also a risk of material misstatement due to high estimation uncertainty. This is because any percentage change in valuations would likely result in a material differences due to the Council’s large asset base.</p>	<p>We discussed valuations with key contacts and included the following in our testing strategy:</p> <ul style="list-style-type: none"> <li>• evaluating management controls over the valuation process;</li> <li>• assessing the reasonableness of asset valuations in the financial statements using the work of our expert, Gerald Eve;</li> <li>• ensuring that accounting records are supported by valuations on the correct basis as set out in relevant guidance; and</li> <li>• testing to ensure that asset valuations had been appropriately accounted for, and disclosed, in the financial statements.</li> </ul>	<p>Our work has provided the assurance we sought. However, we have identified two issues elsewhere in the report to bring to your attention. These relate to the revaluation of entire classes of assets and the assessment of enhancement expenditure in year for impairment. These are covered in more detail in the accounting estimates section below.</p>
<p><b>Bank reconciliations</b></p> <p>As at the end of February 2013, the Council had only completed the County fund monthly bank reconciliations for April 2012 for expenditure (all income bank reconciliations have been completed monthly to date). At the time we issued our Audit Strategy Memorandum the</p>	<p>We discussed the bank reconciliations with key contacts and included the following in our testing strategy:</p> <ul style="list-style-type: none"> <li>• evaluating management controls over the bank reconciliation process;</li> <li>• following up progress on the completion of the bank</li> </ul>	<p>Our work has provided the assurance we sought and has not highlighted any significant issues to bring to your attention. The bank reconciliations have now been prepared and are now up to date.</p>

Significant audit risks	How we addressed this risk	Audit conclusion
<p>reconciliation for the period May 2012 to December 2012 was still being prepared.</p> <p>There was a risk that there may be material unreconciled amounts.</p>	<p>reconciliation for the period May to December 2012 ; and discussing any significant or material unreconciled amounts.</p> <ul style="list-style-type: none"> <li>• substantively testing the year end bank reconciliation.</li> </ul>	
<p><b>Refinancing of Newcastle Airport</b></p> <p>During 2012/13, the Council, along with other local authorities in the North East, was involved in refinancing Newcastle International Airport.</p> <p>Given the complex nature of this exercise there was a risk that the valuation of the Council’s investment in the airport would be inappropriate and that accounting entries and disclosures would be materially incorrect.</p>	<p>We discussed the refinancing with key contacts and included the following in our testing strategy:</p> <ul style="list-style-type: none"> <li>• evaluating management controls over valuation and accounting processes;</li> <li>• evaluating the reasonableness of the approach taken to value the Council’s investment in the airport; and</li> <li>• reviewing the accounting entries in the financial statements.</li> </ul>	<p>Our work has provided the assurance we sought and has not highlighted any significant issues to bring to your attention.</p>



## 8. Additional significant risk identified during the audit

Since issuing our Audit Strategy Memorandum in March 2013, we identified an additional significant risk which we reported to Members at the 25 July 2013 Audit Committee. This new risk is set out below along with how we addressed it and our conclusion.

Significant audit risk	How we addressed this risk	Audit conclusion
<p><b>Risk of fraud in revenue and expenditure recognition</b></p> <p>Auditing standards include a rebuttable presumption of a significant risk in relation to the timing of revenue and expenditure recognition. This is in relation to the judgements made by management as to when income has been earned.</p> <p>In an update to our Audit Manual, the firm has clarified the scope for applying such rebuttals is limited. This does not imply that we suspect actual or intended manipulation but that we continue to approach the audit with due professional scepticism.</p>	<p>We documented and evaluated management controls in this area. Our testing strategy to address this risk then included:</p> <ul style="list-style-type: none"> <li>• testing of receipts and payments: we checked whether they had been included in the correct financial year;</li> <li>• testing of year-end adjustment journals;</li> <li>• obtaining direct confirmation of year-end bank balances and testing the reconciliations of key feeder systems to the general ledger;</li> <li>• testing of provisions; and</li> <li>• testing of grants recognised in the comprehensive income and expenditure statement.</li> </ul>	<p>Our work has provided the assurance we sought and has not highlighted any significant issues to bring to your attention.</p>

## 9. Audit findings

It is a requirement of ISA 260 that significant findings from the audit are communicated to those charged with governance.

### Significant qualitative aspects of accounting practices

ISA (UK&I) 260 requires us to communicate with those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. This communication may include the matters set out below.

#### ACCOUNTING POLICIES

- The appropriateness of the accounting policies to the particular circumstances of the entity. Where acceptable alternative accounting policies exist, this communication may include identification of the financial statement items that are affected by the choice of significant accounting policies.
- Any changes in significant accounting policies, including the application of new accounting pronouncements.

Our work showed that accounting policies are in line with those set out in the Code of Practice for Local Authority Accounting in the UK, appropriately tailored to the Council's circumstances. In line with expectations, there are no significant changes to the accounting policies for 2012/13.

#### FINANCIAL STATEMENT DISCLOSURES

- The issues involved, and related judgements made, in formulating particularly sensitive financial statement disclosures (for example, disclosures related to revenue recognition, remuneration, going concern, subsequent events, and contingency issues).
- The overall neutrality, consistency and clarity of the disclosures in the statement of accounts.

The Council is aware that project management of accounts preparation is important and continues to monitor closedown processes to secure further improvement. This is reflected in improvements in quality each year. Nevertheless, there have been a number of amendments to disclosures following our audit this year. Focusing work on the following areas should help reduce amendments to disclosures (and the number of audit queries) in future years:

- developing further the Council's own quality assurance review of the draft statement of accounts (in the context of the challenging timetable); and

### Significant qualitative aspects of accounting practices

- carrying out a more detailed analytical review of the primary statements.

#### ACCOUNTING ESTIMATES

- For items which estimates are significant, issues communicated could include: management's identification of accounting estimates, management's process for making accounting estimates, risks of material misstatement, indicators of possible management bias and disclosure of estimation uncertainty in the statement of accounts.

Significant accounting estimates in the Council's financial statements include those in relation to local government pensions (IAS19), the valuation of property, plant and equipment and provisions. While our work has not identified any material errors or uncertainties in these areas there are several significant issues that we need to bring to your attention that are not reported elsewhere in this report:

- **Insurance provision:** The Council's provision for insurance claims is set at 100 per cent of claim value (£13.5m). However, many recent insurance claims have been unsuccessful. Officers have no claims history data for older claims and are unable to comment on the likely success rate of these claims. This suggests that the provision is overstated although there is no risk of material misstatement. To address this, the Council has commissioned a review by Gallagher Heath in 2013/14 to provide a more accurate estimate of likely future insurance claims success based on claims history. This should be used as the basis for the provision in 2013/14.
- **Valuation of property, plant and equipment:** Following a large variance on the full valuation of Wear Valley housing in 2012/13 the Council's valuer has taken appropriate action to satisfy himself that there is also no significant variances in the valuations for Easington and Durham City this year by undertaking some sample testing. Our review of this work indicates that there is no material misstatement in the valuation of council dwellings. However, the Council should ensure that they value an entire class of asset in the same financial year to avoid a possible misstatement in the future.
- **Revaluation of council dwellings:** The Council does not fully comply with the Code or RICS in the revaluation of council dwellings and certain specialised assets. An annual impairment review of in year capital expenditure is not carried out each year. Instead, officers use the value of previous year's additions as an estimate for the impairment for the current year's additions. Although work is still on going, at this stage we do not consider this treatment (which is consistently applied from year to year) will give rise to a risk of material misstatement (some £5 million difference each year) and will not do so while expenditure remains fairly constant and decent homes expenditure continues. The accounting policies do not adequately disclose this practice. The Council needs to consider starting to review capital expenditure in year and deciding how much is enhancing expenditure in year.

## 10. Internal control

We are required to report to you any significant deficiencies in the accounting and internal controls systems identified during the course of the audit. The table below summarises issues to report in this respect.

The purpose of our audit was to express an opinion on the statement of accounts. As part of our audit we have considered the internal controls in place relevant to the preparation of the statement of accounts, in order to design audit procedures to allow us to express an opinion on the statement of accounts, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our audit and that we consider are of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported.

Regarding issues raised in respect of internal controls in previous years, progress reports have been submitted to members of the Audit Committee on a regular basis throughout the year. There are two recommendations outstanding and we understand that an update regarding payroll authorisation procedures will be given at the 30 September meeting. Regarding our recommendation concerning the lack of authorisation for P2P, previous updates to members have reported that authorised signature lists will be developed in due course but we now understand that this is not the case due to impracticality. Officers now intend to use the Oracle hierarchy list which we will review as part of our systems work for the 2013/14 audit to ensure that it is upto date, complete and that those set up on Oracle have been given specific delegated authority for the limits they are allowed to authorise.

Other recommendations in internal control			
Audit findings	Potential effects	Remedial action / recommendation	Management response
<p><b>Schools Information management system (SIMS) reconciliation</b></p> <p>Officers were unable to provide nineteen out of 107 Accounts Payable</p>	<p>The reports are evidence of operation of a key control and should be held to evidence accurate reconciliations.</p> <p>When this key control is not operating</p>	<p>The Council should keep all records in future years.</p>	<p>We will ensure that all the reports are maintained for 2013-14.</p>

Other recommendations in internal control			
Audit findings	Potential effects	Remedial action / recommendation	Management response
reports which were included in the SIMS to Accounts Payable reconciliation. This is because the files were not saved after the completion of the SIMS upload and it is not possible to re run the files.	as designed, this leads to increased risks in a number of areas.		
<p><b>Infrastructure assets</b></p> <p>The Council does not have detailed information to support the entries in the fixed asset register for a number of older infrastructure assets. It has not been possible to physically verify some of these assets. Our testing on the balance of infrastructure assets does not indicate a risk of material misstatement.</p>	Incomplete records in relation to these assets could result in misstatements in the statements in future years should assets be disposed if they cannot be recognised in the register.	The Council should ensure that adequate records are maintained for all future infrastructure expenditure.	We will discuss how best this can be achieved during 2013/14.
<p><b>Payroll files employee contracts</b></p> <p>During audit testing it was identified that seven out of 28 employees tested did not have a contract on file. We obtained supporting documentation to provide assurance over the accuracy of the amounts paid in year.</p>	Incorrect payments to employees.	Officers should ensure that all employees have a contract of employment included in their HR file.	We will discuss how best this can be achieved during 2013/14.

## 11. Adjusted and unadjusted misstatements

We are required to bring to your attention the significant misstatements found during the course of audit that have been corrected and those that have not been corrected, unless they are clearly trivial. In summary;

- there are no significant unadjusted misstatements; and
- there have been no material adjustments impacting on the reported outturn and General Fund balance.

Adjusted and unadjusted misstatements are summarised in the tables below. In addition to the adjusted misstatements shown below, there were also a number of presentational amendments made to the statements. ,

<b>Adjusted misstatements</b>					
		<b>Comprehensive Income and Expenditure Statement</b>		<b>Balance Sheet</b>	
		<b>Dr</b>	<b>Cr</b>	<b>Dr</b>	<b>Cr</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
1	CIES Financing and Investment Expenditure	73,650			
	CIES Financing and Investment Income		73,650		
	Gross expenditure and income both shown net. The net expenditure amount is correct. Comparative amounts are also incorrect -see adjusted misstatements below.				
2	Bank overdraft	4,525			
	Creditors		2,646		
	Debtors		1,879		
	Being income received before the year end incorrectly treated as debtors and creditors due to the bank account being reconciled prior to the year end.				

#### Adjusted misstatements

1	Amendment to CIES comparative figures for 2011/12: CIES Financing and Investment Income and Expenditure incorrect - both expenditure and income understated by £84,240k.
2	Amendment to Note 17 Inventories- to remove elements of double counting identified in the disclosure note for both 2011/12 and 2012/13. Purchases for 2011/12 reduced by £7,761k with corresponding reduction in expenses. Purchases for 2012/13 reduced by £5,337k with corresponding reduction in expenses. No impact on CIES.
3	Amendment to Note 37 – Grant income for an internal recharges £4,244k which was correctly excluded from the CIES but excluded in the Grant income note37 - no impact on CIES.

<b>Unadjusted misstatements</b>					
		<b>Comprehensive Income and Expenditure Statement</b>		<b>Balance Sheet</b>	
		<b>Dr</b>	<b>Cr</b>	<b>Dr</b>	<b>Cr</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
1	CIES Income: Corporate and Democratic Core (CDC)	4,100			
	CIES Expenditure: Corporate and Democratic Core		4,100		
	Costs recharged to other services but not removed from expenditure and income codes in Central Distributed costs.				
2	Note 12 PPE: Land and Buildings disposals			2,771	
	Note 12 PPE: Land and Buildings				2,771
	Twenty three properties no longer owned by the Council as they have been previously disposed of to housing associations and should be removed from the balance sheet.				
3	Creditors : Equal pay	2,036			
	24% HMRC payment	489			
	Provisions : Equal pay		2,036		
	24% HMRC payment		489		
	Being equal pay amounts (plus 24% HMRC payment) incorrectly treated as creditors, although there may be an argument that these should included in Contingent Liabilities as there is currently no claim outstanding and therefore no past event requiring a potential obligation to pay.				





## 12. Value for money

We are required to conclude whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against the two criteria specified by the Audit Commission. Our Audit Strategy Memorandum issued in March 2013, reported to you we had not identified any significant risks relevant to our Value for Money conclusion. We have set out below our conclusion on the two criteria.

We intend to issue an unqualified conclusion stating the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. Our draft conclusion is included in Appendix 3.

Criteria	Identified risks	Audit conclusion
<p><b>Securing economy, efficiency and effectiveness</b></p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p>	<p>No significant risks identified</p>	<p><b>Criterion met.</b></p> <p>The Council has, like other councils, faced significant cuts in funding plus other changes in how it works, including the localisation of business rates, the local council tax benefit scheme and the transfer of public health responsibilities from 1 April 2013. Other significant changes are likely in the near future.</p> <p>The Council has risen to the challenge well despite staff restructures and on-going retirements. The forward planning which has underpinned the MTFP process to date has been extremely effective and has enabled the Council to maintain its financial strength whilst still investing in key front line services and priorities including the capital programme. Effective forward planning and robust assurance frameworks have ensured that the Council has been successful in delivering the necessary savings required to date. Key issues the Council has recognised for the future include continued work on a strategic plan for the achievement of the savings required for 2014/15 to 2015/16 and beyond.</p>

Criteria	Identified risks	Audit conclusion
<p><b>Financial Resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience</p>	<p>No significant risks identified</p>	<p><b>Criterion met.</b></p> <p>The Council’s track record in delivering the savings required in recent years has been successful. The arrangements underpinning this track record have been maintained in 2012/13, with savings targets being met and £26.6m of savings being achieved. The latest Medium Term Financial Plan update sets out how the Council intends to achieve the savings required over the next few years. By 31 March 2013, £93 million of savings have been delivered for 2011/12 and 2012/13, with excellent progress being made in realising the £20.9m savings target in 2013/14. Total savings achieved will be £113.9 million by the end of 2013/14, but estimated additional savings of £25.9 million are going to be required for 2014/15 and a further £62.7 million for 2015/16 to 2016/17 to reach the revised £202 million total savings target.</p> <p>The Council regularly reviews its level of reserves. As at 31 March 2013, the Council has total usable reserves of £139.8 million. This comprises £105.9 million of earmarked reserves of which £19.4 million relates to schools and £1.1 million for the Housing Revenue account (HRA). The majority of the remaining reserves relate to General fund balances of £24.4 million and HRA balances of £7.2 million.</p> <p>The level of general fund balances is considered prudent in the financially challenging austere times the Council is facing over the coming years. The years 2014/15 onwards present an even greater challenge as savings and efficiencies become more difficult to achieve. The Government announced in the March 2013 Budget that local authorities will face an extra 1 per cent budget cut in 2014/15 and an additional 10 per cent funding cut for local authorities in 2015/16. It is now expected that cuts will continue until at least 2017/18 with a possibility that the cuts could continue until 2020.</p> <p>Key areas of focus in maintaining on-going financial resilience include:</p> <ul style="list-style-type: none"> <li>• consistent and clear reporting to Members of the cumulative financial position (revenue and capital) and progress in achieving savings throughout the year; and</li> <li>• maintaining the rigorous budgetary control of previous periods, particularly as staff rationalisations</li> </ul>

Criteria	Identified risks	Audit conclusion
		continue and savings become harder to achieve.

## Appendices

## Appendix 1 – Independence

We confirmed our compliance with relevant ethical standards regarding independence in our Audit Strategy Memorandum. However independence is an on-going consideration and, as such, we monitor it throughout the audit process. No new issues arose during the audit which could be perceived as a threat to our independence.

## Appendix 2: Management Representation

**To:**

Cameron Waddell  
Director  
Mazars LLP  
The Rivergreen Centre  
Aykley Heads  
Durham  
DH1 5TS

**Durham County Council - audit for year ended 31 March 2013**

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 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code).

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 and relevant legislation and International Financial Reporting Standards.

**My responsibility to provide and disclose relevant information**

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and

- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Corporate Director 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 affect 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 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 the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows

#### **Accounting estimates, including those measured at fair value**

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable. In respect of IAS 19 'Retirement Benefits' I confirm that I am satisfied the actuarial assumptions underlying the valuation of scheme liabilities are consistent with my knowledge of the business. I confirm that all settlements and curtailments have been identified and accounted for properly. I also confirm that all significant retirement benefits have been identified and properly accounted for, including any arrangements that are statutory, contractual or implicit in the employer's actions that are funded or unfunded.

#### **Contingencies**

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

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

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



There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and relevant legislation and International Financial Reporting Standards (IFRSs).

#### **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.

I confirm the Council has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.

#### **Fraud and error**

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

I have disclosed to you:

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

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

#### **Related party transactions**

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and relevant legislation and International Financial Reporting Standards.

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

**Impairment review**

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date other than the disclosures already made in the revised statements. Any further impairment review is therefore not considered necessary.

**Future commitments**

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

**Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the Code, relevant legislation and International Financial Reporting Standards 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.

**Unadjusted misstatements**

I 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.

**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 financial statements.

**Other specific representations**

I confirm the following specific representations:

- **Infrastructure non-current assets:** I confirm the useful economic lives of these non-current assets have been reviewed and are considered to be appropriate and the depreciated historical cost balance is an accurate representation of the value of infrastructure; and
- **Equal Pay:** I confirm that I have made appropriate enquiries to establish the extent and value of Equal Pay liabilities and that these have been appropriately disclosed in the financial statements.
- **Service Concession Arrangements:** I am not aware of any significant contract variations, payment deductions or additional service charges in relation to the Authority's PFI scheme.
- **Provisions:** I confirm that all provisions required under IAS37 have been included in the financial statements.

Signed

For and on behalf of Durham County Council.

## Appendix 3 – Draft audit report

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DURHAM COUNTY COUNCIL**

#### **Opinion on the Authority financial statements**

We have audited the financial statements of Durham County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. 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 2012/13.

This report is made solely to the members of Durham County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

#### **Respective responsibilities of the Corporate Director Resources and auditor**

As explained more fully in the Statement of the Corporate Director Resources' Responsibilities, the Corporate Director 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director Resources and the overall presentation of the financial statements. In addition, we read all the financial and non-financial

information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Durham county Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

#### **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

### **Opinion on the pension fund financial statements**

We have audited the pension fund financial statements for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2012/13.

This report is made solely to the members of Durham County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Corporate Director Resources and auditor**

As explained more fully in the Statement of the Corporate Director Resources' Responsibilities, the Corporate Director Resources is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director Resources and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for my report.

### **Opinion on financial statements**

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

#### **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

##### **Respective responsibilities of the Authority and the auditor**

The Authority 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

##### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission on 1 November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission on 1 November 2012, we are satisfied that, in all significant respects, Durham County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

### **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 authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Cameron Waddell

For and on behalf of Mazars LLP, Appointed Auditors

Mazars LLP  
The Rivergreen Centre  
Aykley Heads  
DURHAM  
DH1 5TS  
September 2013



## Appendix 4 – Required communication

ISA (UK&I) 260 ‘Communication with Those Charged with Governance’ and ISA 265 ‘Communicating Deficiencies in Internal Control to Those Charged with Governance and Management’ requires the auditor to communicate a number of matters with those charged with governance (i.e. Members of the Audit and Governance Committee). These are set out below along with our approach.

Required communication	When and how we will communicate
<p>Respective responsibilities of auditor and those charged with governance.</p> <p>Our responsibility for performing the audit is in accordance with International Standards on Auditing (UK and Ireland), which is directed towards forming and expressing an opinion on the statement of accounts.</p> <p>The audit of the statement of accounts does not relieve management or those charged with governance of their responsibilities.</p>	<p>This information was included in the Audit Strategy Memorandum.</p>
<p>Communication of the planned scope and timing of the audit.</p> <p>Matters communicated include:</p> <ul style="list-style-type: none"> <li>▪ significant audit risks and how we will address them;</li> <li>▪ our approach to internal control relevant to the audit;</li> <li>▪ the application of the concept of materiality in the context of an audit;</li> </ul>	<p>This information was included in the Audit Strategy Memorandum supported by regular Audit progress Reports and this report..</p>

Required communication	When and how we will communicate
<ul style="list-style-type: none"> <li>▪ our use of the work of internal audit;</li> <li>▪ your approach to internal control and how you oversee the effectiveness of internal control procedures;</li> <li>▪ the attitude, awareness and action of those charged with governance concerning the detection or possibility of fraud; and</li> <li>▪ your response to new accounting standards, corporate governance practices and related matters.</li> </ul>	
<p>Our views on significant qualitative aspect of accounting practices including accounting policies, accounting estimates and financial statement disclosures.</p> <p>When applicable, why we consider a significant accounting practice not to be appropriate to the entity.</p>	<p>Section 9 of this report.</p>
<p>Significant difficulties, if any, encountered during the audit.</p> <p>Significant difficulties encountered during the audit may include such matters as:</p> <ul style="list-style-type: none"> <li>▪ significant delays in management providing required information;</li> <li>▪ an unnecessarily brief time within which to complete the audit;</li> <li>▪ extensive unexpected effort required to obtain sufficient appropriate audit evidence;</li> </ul>	<p>No significant difficulties were encountered during this year’s audit.</p>

Required communication	When and how we will communicate
<ul style="list-style-type: none"> <li>▪ the unavailability of expected information;</li> <li>▪ restrictions imposed on the auditor by management; and</li> <li>▪ management’s unwillingness to make or extend its assessment of the entity’s ability to continue as a going concern.</li> </ul>	
<p>Details of significant matters discussed with, or subject to correspondence with management.</p>	<p>No significant matters were discussed with, or subject to correspondence with management during this year’s audit..</p>
<p>Details of written representations we require for our audit.</p>	<p>Appendix 2 to this report.</p>
<p>Any other matters which we consider to be significant to the oversight of the financial reporting process.</p>	<p>No significant matters we consider to be significant to the oversight of the financial reporting process. However, section 9 of this report sets out several qualitative aspects of accounting practices that require review for future periods.</p>
<p>Statement that the engagement team and the firm have complied with relevant ethical requirements regarding independence.</p> <p>Written disclosure of relationships which have a bearing on our independence and safeguards we have put in place, details of non-audit services provided and written confirmation of our independence.</p>	<p>The Audit Strategy Memorandum and appendix 1 of this report.</p> <p>No non-audit services have been provided and there has been no change to the original 2012/13 planned audit fee of £333k.</p>
<p>Form, timing and general content of communications.</p>	

Required communication	When and how we will communicate
	<p>We issue this Audit Completion Report along with reports during the year (Audit Strategy Memorandum and regular Audit Progress Reports), regular meetings with senior officers and meetings with those charged with governance (Members) as required. Should you require us to communicate in a different way please let us know.</p>
<p>Our evaluation of the adequacy of the communication process between ourselves and those charged with governance. This may include observations on:</p> <ul style="list-style-type: none"> <li>• the appropriateness and timing of action taken by you in response to matters we have raised the openness of your communication with us;</li> <li>• your willingness and capacity to meet with us without management being present;</li> <li>• your opportunity to fully comprehend matters we have raised;</li> <li>• the extent to which you probe issues raised and our recommendations;</li> <li>• any communication we have had in establishing with you the form, timing and general content of communications;</li> <li>• your awareness of how our discussions impact on your governance and management responsibilities and whether your communication with us meets legal and regulatory requirements.</li> </ul>	<p>We are satisfied with the adequacy of two-way communication; i.e. between ourselves and those charged with governance or management.</p>
<p>Any significant deficiencies and other control recommendations in respect of internal control that we have identified during the audit.</p>	<p>Section 10 of this report.</p>