

# **Annual Audit Letter**

**2012/13**

## **Durham County Council and Durham County Council Pension Fund**

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# 01

## Key messages

This letter summarises the findings from our 2012/13 audit of Durham County Council, including the Pension Fund which it administers.

# Key messages

Our 2012/13 audit of the Durham County Council ('the Council') and the Durham County Council Pension Fund ('the Pension Fund') was made up of three elements:

- the audit of the Council's financial statements;
- the audit of the Pension Fund financial statements (including review of the Annual Report); and
- our assessment of the Council's arrangements for achieving value for money in its use of resources.

We summarise below the key conclusions for each element.

## **The Council's financial statements**

We issued an audit report including an unqualified opinion on the Council's financial statements on 30 September 2013. Section two of this letter sets out the detailed findings in relation to our audit of the Council's financial statements.

## **The Pension Fund's financial statements**

We issued an audit report including an unqualified opinion on the pension fund financial statements on 30 September 2013. Section two of this letter sets out the detailed findings in relation to our audit of the Pension Fund financial statements.

## **Value for money**

We undertook work on the specified criteria and in line with guidance issued by the Audit Commission. We concluded that the Council had proper arrangements to ensure economy, efficiency and effectiveness in the use of its resources. Section three of this letter details the findings in relation to value for money.

We issued our certificate, closing the 2012/13 audit, on 4 October 2013 following completion of our Whole of Government Accounts work.

## Forward look

This letter represents the completion of our first year as your appointed auditor. We look forward to continuing the effective working arrangements we have developed with you. We recognise the challenges you face which include:

- the financial outlook for the Council, which continues to be extremely challenging with savings targets for the period 2014/15 to 2016/17 of £108.2 million;
- pressure on services, including demographic changes, inflation and legislative changes;
- uncertainty from recent budget and CSR announcements;
- New Business rate reduction regime;
- single pension implementation and impact upon NI contributions; and
- 1% public sector pay cap and review of incremental progression.

We focus our audit on the risks that these challenges present to the Council's financial statements and its ability to maintain proper arrangements for securing value for money. We will continue to share with the Council relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

# 02

## Financial statements

We issued unqualified opinions allowing the Council to publish its audited accounts before the statutory deadline. The Council recognises that scope remains to improve year end accounts preparation processes.

# Financial statements

## Financial statements of the Council

The financial statements are an important way for the Council to communicate how it has used public money as well as to demonstrate its financial performance and financial position.

We issued our audit report, including an unqualified opinion on the financial statements, on 30 September 2013.

We are grateful to officers in the finance team for their input into the audit process which ensured deadlines were met. Nevertheless, officers agree that scope remains to improve the closedown process. We will continue to work with the Council to improve processes and the quality of financial reporting in future years.

## Audit findings

We reported the detailed findings from the audit in our Audit Completion Report and subsequent update letter to the Audit Committee on 30 September 2013. In summary:

- We identified three significant deficiencies in internal control during the course of the audit. These related to the failure to save 19 of 107 accounts payable reports included in the schools Information management system (SIMS) reconciliation, the lack of detailed information to support the entries in the fixed asset register for a number of older infrastructure assets and the failure to keep on file seven out of 28 employee payroll contracts. In each case officers have agreed to review the Council's approach for 2013/14.
- We identified two matters to report to those charged with governance in respect of one of the significant risks we identified and reported to you in our Audit Strategy Memorandum in February 2013 (the valuation of assets risk). These related to the revaluation of entire classes of assets and the assessment of enhancement expenditure in year on council dwellings for impairment. Officers have agreed actions to address these matters for 2013/14.
- In addition to the two issues noted above we identified a third issue in relation to the financial statements that we were required to report to those charged with governance. The Council's insurance claim provision is currently set at 100 per cent of claim value. The Council has commissioned a review to provide more accurate estimates of likely future insurance claims success based on claims history. Officers have agreed to use this information as a basis for the provision made in 2013/14.

Our audit identified one material misstatement which the Council corrected for, several non-material misstatements and a number of presentation and disclosure errors. None of these errors impacted on the reported level of usable reserves.

The Council corrected the majority of errors and misstatements in the published accounts, helping to improve the accuracy of information provided to stakeholders. Management decided not to make adjustments for three misstatements on the grounds that the errors did not have a material impact on the financial statements.

For future years we recommend that the Council increases its focus on the following areas to improve the quality of its published financial statements (and reduce the number of audit queries):

- Develop internal quality assurance processes to continue to improve the quality of the draft statement of accounts presented for audit. This should include more comprehensive analytical review procedures to identify, and explain, areas of significant movement;
- Ensure that entire classes of property, plant and equipment are revalued in the same financial year to reduce the likelihood of material misstatement in future years; and
- Review total capital expenditure in year to inform how much enhances the value of property, plant and equipment in year and how much does not.

### **Financial statements of the Pension Fund**

We reported the detailed findings from our audit in the Audit Completion Report and subsequent update letter to the Council at the Audit Committee on 30 September 2013. We did not identify any significant deficiencies in internal controls during the course of the audit and there were no matters to report to those charged with governance in respect of the significant risks we identified and reported to you in our Audit Strategy Memorandum in April 2013. We did not identify any issues with the qualitative elements of the financial statements that we were required to report to those charged with governance.

Our audit identified a few non-material misstatements and a small number of material errors relating to the presentation and disclosure of amounts shown. There were no significant unadjusted misstatements (either cumulative or individually).

To secure improvement in future years, reduce amendments and audit queries, we recommend the Council improves internal quality assurance processes to continue to improve the quality of the draft statement of accounts. This should include more comprehensive analytical review procedures to identify, and explain, areas of significant movement.

### **Whole of Government Accounts (WGA)**

The Whole of Government Accounts return (WGA) was amended for a small number of errors noted during our audit and in addition we noted two inconsistencies which could not be amended and were reported in our WGA Assurance Statement for the Council. Our work also identified a small number of non material errors in the financial statements which were reported to members in our Audit Completion report as unadjusted. Council officers should consider next year using the work done in preparing the WGA as a check on the accuracy and quality of the financial statements.



# 03

## Value for money

Our work shows that the Council maintained proper arrangements for financial resilience, economy, efficiency and effectiveness during 2012/13 despite increasing pressure on resources.

# Value for money

## Arrangements to secure value for money

We are required to consider the Council's arrangements to secure value for money in its use of resources. We do this by considering whether the Council has proper arrangements:

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

We consider whether the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. In addition we consider whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We are pleased to note that, despite the significant funding restrictions and the demand on scarce resources it faces, the Council has risen to the challenge well despite staff restructures and on going retirements and has continued to maintain proper arrangements for securing value for money in its use of resources during 2012/13.

In particular we found that:

- the forward planning which has underpinned the medium term financial plan (MTFP) process has been extremely effective and has helped the Council maintain its financial strength whilst investing in key front line services and priorities;
- the Council's track record in delivering the savings required in recent years has been successful. Plans to achieve the estimated additional savings of £108.2m for the period 2014/15 to 2016/17 are well underway; and
- the Council regularly reviews its level of reserves and management is satisfied that the level of usable reserves is sufficient to meet current plans as well as potential contingencies.

For the future, the Council has recognised the need for continued work on the strategic plan for the achievement of the savings required for 2014/15 to 2015/16 and beyond. Members have agreed that for the next phase of the MTFP process, a full reassessment of priorities will be required and a comprehensive consultation process is being carried out this autumn to determine those services which are seen to be a key priority to the public to assist in determining the future approach to meeting the savings targets.

Key areas for focus will be consistent and clear reporting to members of the cumulative financial position (revenue and capital) and progress in achieving savings throughout the year.

# 04

## Added value

We have continued to seek ways to add value to the Council as its external auditors.

# Added value

As a major firm of accountants and advisors with a strong commitment to maintaining and, where required, improving the quality of public services we are well placed to support the Council as it faces its challenges in future years.

We do this within a framework of ethical standards applicable to external auditors and with the agreement of the Council.

## Additional services

Aside from our work on the Decent Homes grant claim, which was outside the Audit Commission regime and for which additional fee billed, we have not provided the Council with any other additional fee-based services since our appointment as your auditor. However, we attend all Audit Committee meetings, present regular progress reports to the Committee and meet key officers on a regular basis, providing written feedback where appropriate. We also attend all Pension Fund Committee meetings.

As part of our commitment to the sector as a whole and to you as our client, we provide Members and officers with relevant, practical insights from our extensive knowledge of local government and experience of other public and private sector organisations.

In 2012/13 these insights have included:

- the developments in the National Fraud Initiative; and
- the publication by CIPFA of new guidance on local government finance.

In February 2013 members of your finance team attended a workshop aimed at supporting our clients to prepare their 2012/13 financial statements and to provide an early insight into future developments in financial reporting that may be relevant to the local government sector. We plan on holding similar events in early 2014.

# 05

## Fees and closing remarks

Effective working with the Council has ensured our fees are in line with those agreed with you at the start of this year's audit.

# Fees and closing remarks

Our audit fees for the year are in line with those communicated to you in our Audit Strategy Memoranda for the Council and Pension Fund in April 2013, being £333,180 (plus VAT) and £25,919 (plus VAT) respectively. This represents a reduction in external audit fees of 40 per cent from 2011/12. We still have two grant claims left to certify, but we anticipate at this stage that our fees for certification work will be within the £53,200 stated in the Audit Strategy Memorandum. In addition, as outlined in section four of this letter, we audited the Decent Homes grant claim submission (£2,500 plus VAT).

We have discussed this letter with the Council's Corporate Director Resources and we will provide copies to all Members. Further detailed findings and conclusions in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued (for both the Council and the Fund where applicable)
2012/13 Fee Letter	December 2012
Audit Strategy Memorandum	April 2013
Audit Completion Report	September 2013
Auditor's report on the financial statements and value for money	30 September 2013
Certificate and Closure of the Audit	4 October 2013
Annual Audit Letter	October 2013

The Council has taken a positive and constructive approach to our audit for 2012/13 and we wish to thank Members and officers for their support and co-operation.

**Cameron Waddell**  
*Director*

October 2013