

Audit Completion Report

Durham County Council – year ended 31 March 2014

September 2014



Mazars LLP
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Aykley Heads
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Audit Committee Members
Durham County Council
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September 2014

Dear members of the Audit Committee

Audit Completion Report – Year ended 31 March 2014

We are delighted to present our Audit Completion Report for the year ended 31 March 2014. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and areas of management judgement was outlined in our Audit Strategy Memorandum which we presented on 20 May 2014. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and areas of management judgement remain appropriate.

We would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

Cameron Waddell
Mazars LLP

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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 Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2014 to the Audit Committee of Durham County Council and forms the basis for discussion at the Committee meeting on 30 September 2014.

Our communication with you is important to:

- share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- provide you with constructive observations arising from the audit process;
- ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Durham County Council; and
- receive feedback from yourselves as to the performance of the engagement team.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 3 of this report includes our conclusions on the significant risks and areas of management judgement that we set out in our Audit Strategy Memorandum.

We also set out details of internal control recommendations in section 4 and a summary of misstatements discovered as part of the audit in section 5.

Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2014.

At the time of preparing this report, the following matters remain outstanding:

- review of events after the balance sheet date; and
- completion of our review procedures.

We will provide an update to you in relation to the significant matters outstanding above by issuing a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate:

- issuing an unqualified opinion, without modification, on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 3 October 2014.

Our proposed audit report is set out in Appendix B.

02 Commentary on the financial statements

Comprehensive Income and Expenditure Statement (CIES)

The statement shows the cost of providing services for 2013/14 prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2013/14. The statement shows a surplus for the year for the provision of services of £27.2 million. This differs from the Council's reported performance on its revenue budget for 2013/14 because of items of expenditure which are correctly charged to the CIES under accounting rules but are not charged to the General Fund under statute. Note 7 to the financial statements sets out the adjustments between the accounting basis and the funding basis.

The Council's performance against its revenue budget is set out in the Explanatory Foreword (page 3 onwards) of the Statement of Accounts.

Balance Sheet

The balance sheet shows the value of the Council's assets and liabilities on a single date at the year end. It shows the Council's net assets of £653 million which is an increase on last year of some £220 million. The most significant movements from last year relate to a decrease in the net pension liability of £176 million following the actuarial valuation and an increase of £35 million in cash and cash equivalents and short term investments arising from lower than expected use of reserves and re-profiling of capital expenditure.

The Council's net assets are matched by reserves which comprise both usable and unusable reserves. Note 23 to the accounts sets out the Council's usable reserves and shows a £28 million general fund balance available to support future budget decisions along with £165.9 million balance on earmarked reserves set aside for future spending plans. The Council has recently reported to members a forecast usage in the current year of £14.3 million of these earmarked reserves leaving £151.5 million balance next year end, of which £102 million relates to non schools.

03 Significant findings

This section outlines the significant findings from our audit. These findings include:

- our audit conclusions regarding the significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum; and
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 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.

Significant risks and key areas of management judgement

Set out below are the significant risks and key areas of management judgement as set out in our Audit Strategy Memorandum. We paid particular attention to these risks and judgments in reducing the risk of material misstatement in the financial statements and the tables below detail how we have addressed each risk and our conclusion. We have not identified any additional significant risks during the course of our work.

Significant risk: management override of controls

Description of the risk

Auditing standards state that 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 is a risk of material misstatement due to possible management override of controls which is a significant risk on all audits.

This does not imply that we suspect actual or intended manipulation but that we approach the audit with due professional scepticism.

How we addressed this risk

We addressed this risk by performing audit work on:

- accounting estimates which affect material amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business;
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements;
- the reconciliation of gross income and expenditure to feeder systems and appropriate journals;
- adjustments between the accounting basis and funding basis; and
- the year-end bank reconciliation.

Audit conclusion

Our work has provided the assurance we sought, and not highlighted any issues in this area to report.

Significant risk: revenue recognition

Description of the risk

International Standards on Auditing include a rebuttable presumption that a risk of fraud in relation to the recognition of revenue always exists. We have decided not to rebut this presumption and as such there is a risk that revenue will be recognised in the incorrect accounting period.

How we addressed this risk

We have carried out audit work relating to journals recorded in the general ledger and other adjustments which recognise revenue, made in the preparation of the financial statements.

In addition to these procedures, we have increased the level of substantive testing performed on revenue items included in the ledger for the 2013/14 and 2014/15 financial years to confirm they have been accounted for in the correct accounting period.

Audit conclusion

Our work has provided the assurance we sought, and not highlighted any issues in this area to report.

Significant risk: expenditure recognition

Description of the risk

In the public sector the risk of fraudulent expenditure recognition is of equal likelihood as the risk of fraudulent revenue recognition. As such there is a risk that expenditure will be recognised in the incorrect accounting period.

How we addressed this risk

We have carried out audit work relating to:

- accounting estimates impacting on amounts included in the financial statements; and
- journals recorded in the general ledger and other adjustments which recognise expenditure, made in the preparation of the financial statements.

In addition to these procedures, we have increased the level of substantive testing performed on expenditure items included in the ledger for the 2013/14 and 2014/15 financial years to confirm they have been accounted for in the correct accounting period.

Audit conclusion

Our work has provided the assurance we sought, and not highlighted any issues in this area to report.

Significant risk: estimation of IAS 19 net pension liabilities

Description of the risk

The Council must include entries for retirement benefits at fair value using the revaluation method as described in IAS 19. 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 evaluated the management controls you have in place to assess the reasonableness of the figures provided by the actuary. We considered the reasonableness of the actuary's assumptions and sought assurance from a national review by the Audit Commission's consulting actuary (PWC).

We also agreed the pension figures from the actuary's report to the financial statements and checked the narrative disclosures are consistent with requirements.

Audit conclusion

Our work has provided the assurance we sought, and not highlighted any issues in this area to report.

Key areas of management judgement: property, plant and equipment (including council housing)

Description of the area of management judgement

As in previous financial years, the Council will engage its in-house valuer to carry out a valuation of a proportion of the Council's property and land assets. The valuation of property, plant and equipment is a significant estimate that has a material impact on the financial statements.

How we addressed this area of management judgement

We have carried out a series of procedures in order to gain sufficient assurance that the carrying value of property, plant and equipment is fairly stated and that the valuation programme carried out by the Council complies with the proper accounting practice. These procedures included:

- an assessment of the valuation results using information provided to us by our valuation expert as commissioned by the Audit Commission; and
- substantive testing of individual properties to review the appropriateness of the valuation basis applied by the valuer and the results of that valuation exercise.

Audit conclusion

Our work has provided the assurance we sought, and not highlighted any issues in this area to report.

Key areas of management judgement: business rate appeals

Description of the area of management judgement

Business rate appeals were included as a provision in the Council's accounts this year for the first time. Officers made estimates of appeals that were inherited on 1 April 2013, appeals that have been successful in 2013/14 that have not yet been accounted for, and any future trend in appeals based on previous information.

How we addressed this area of management judgement

We have reviewed the methodology used by officers to calculate the provision and ensured that the basis for the provision is reasonable and fairly stated

Audit conclusion

Our work has provided the assurance we sought, and not highlighted any issues in this area to report.

Accounting policies and disclosures

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.

We have reviewed the overall neutrality, consistency and clarity of the disclosures in the statement of accounts relating to areas where judgements are made in formulating particularly sensitive financial statement disclosures (for example disclosures related to revenue recognition, remuneration, going concern, subsequent events, and contingencies). We have concluded that the policies adopted by the Council comply with the requirements of the Code of Practice on Local Authority Accounting.

Significant matters discussed with management

We have discussed a number of matters with management as part of our audit and a number of these have been included within the draft management representation letter provided in Appendix A.

Significant difficulties during the audit

We are pleased to report that, as a result of the co-operation of Council officers, we consider the audit to have run smoothly. While we have not experienced any significant difficulties in the course of our audit that we wish to bring to the attention of members, there is scope for the Council to further develop the processes it has in place to:

- prepare financial statements that are free from material error;
- prepare a complete suite of working papers that support all entries within the financial statements; and
- quality assure the draft financial statements.

This is of particular importance due to the likelihood of earlier deadlines for the preparation and audit of financial statements from 2017/18. We are committed to working closely with the Council's strategic finance team to support them to achieve faster closedown and an even more efficient audit process in the coming years.

04 Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we considered the internal controls in place relevant to the preparation of the financial statements in order 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 internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (High)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (Medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	3
3 (Low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

Internal control recommendations

Level 2 – General Ledger journal authorisation

Description of deficiency

We have raised the lack of documentation accompanying journals when entered into the ledger in previous years. Officers agreed last year to authorise all journals with a value greater than £1 million and to retain supporting documentation where possible within Oracle prior to upload into the ledger; or to retain outside Oracle if not.

Recommendation

Journals over £1m (some of lesser value) are currently being approved but in some cases it is not easy to source the supporting documentation. Officers could consider a retrospective review of approval of journals along with the supporting documentation, possibly on a sample basis.

Management response To discuss how this can be carried out for 2014/15.

Level 2 – Payroll – Timesheet authorisation signatory lists

Description of deficiency

As reported in previous years, there is no authorised signatory list to enable payroll staff to check that timesheet authorisers are appropriate. It is not possible to check signatures to an authorised signatory list to ensure the person signing is an appropriate person to authorise timesheets. There is however now a compensating control in place. The new Oracle Business Intelligence system allows service managers to check hours paid and monitor employee costs charged to the revenue account.

Recommendation

We have previously reported that payroll should consider a control to check the validity of the timesheet authoriser. However, it was noted last year that there is project currently working on the further development of Resource Link which would enable on line authorisation. We are not aware that this system is yet in operation. Continued monitoring by service managers of their Business Intelligence reports for 2014/15 will ensure the revenue account accurately reflects payroll service costs.

Management response We will discuss with all officers for 2014/15.

Level 2 – Infrastructure assets

Description of deficiency

The Council does not hold detailed information to support the entries in the fixed asset register for a number of older infrastructure assets (total asset class net book value £357 million). It has not been easy to physically verify some of these assets. Our testing on the balance of infrastructure assets does not indicate a risk of material misstatement. However, 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.

Recommendation

The Council should ensure that adequate records are maintained for all future infrastructure expenditure.

Management response We will discuss how best this can be achieved following receipt of the guidance in the new CIPFA Code on Infrastructure.

05 Summary of misstatements

Adjusted material and / or sensitive misstatements

Our audit identified the following material errors in the presentation of disclosure notes within the financial statements. We did not identify any material errors which affect the main statements or the bottom line. We have discussed each of the errors set out below with management who have made appropriate amendments to the financial statements. In addition to the issues noted below a number of amendments have been made to correct minor presentational errors found..

Primary statement / disclosure note	Error identified	
Housing revenue account (HRA)	Note 2 to the HRA incorrectly showed the year-end value for council dwellings as £405.7million instead of £448.6million, consistent with Note 12, an error of £42.9 million. The majority of this difference arose because 2013/14 housing enhancements had not been uploaded into the Asset Manager system when the note was prepared.	
CIES: taxation and non-specific grant income	Note 11 shows top-up grant and Small Business Rate Relief Section 31 grant of £60.4 million included in 'non-domestic rates'. These should instead be shown as 'non-ring fenced government grants'.	
Post balance sheet events Note 6	Subsequent to preparation of the statements in June the Council has approved the LSVT of its Housing stock in March 2015. Note 6 to include this as an event after the balance sheet date. In addition, the Council is to add to Note 6 a reference to the Combined Authority which was approved in April 2014.	
Related party transactions Note 38	The disclosure note has been amended to disclose grant funding to local environmental projects, youth groups and community associations was actually £467k rather than £364k. Late member declarations form received after June statements identified that £15.8k transactions in 13/14 with one of the companies disclosed. This has now been added to the £88k works and services figure disclosed. Statements amended to disclose a directorship for one Director originally omitted in error from the statements. Transactions in the year between the Council and- Durham Foundation have been added - value £84k. The Pension Fund average balance of £14.932 million amended to correct amount of £17.448 million.	
Exit packages (Note 34)	Note amended to reflect banding requirements per Code (£20k bands). Note updated to reflect a comparative amount excluded in error.	

Unadjusted non-material misstatements

Unadjusted misstatement 1– Additions to land and buildings)

Correction of expenditure incorrectly included as additions to land and buildings.

Adjustments to the Comprehensive Income and Expenditure Statement for 2013/14	Dr £'000	Cr £'000
REFCUS expenditure		890
Property, plant and equipment – land and buildings	890	

Unadjusted misstatement 2– Usable reserves

The County Durham Sports surplus of £1.2m should be in reserves not creditors

Adjustments to the Balance Sheet as at 31 March 2014	Dr £'000	Cr £'000
Short-term creditors	1,185	
Useable reserves		1,185

Unadjusted misstatement 3– Provisions

Review of the Equal pay provision of £3.9 million indicates it may be overstated as to date only £60k has been paid. Officers to review this provision in 2014/15.

Unadjusted misstatement 4 –Central admin services, internal recharges

During our sample testing we found that certain internal recharges between the ICT section and schools had not been identified as such and hence had not been eliminated. This results in an overstatement of both income and expenditure in the CIES. We have established that the maximum value of this overstatement is £1.9 million, which is not material.

06 Value for money

We are required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do this by considering the Council's arrangements against two criteria specified by the Audit Commission:

- securing financial resilience: looking at the Council's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Council is prioritising resources and improving efficiency and productivity.

In our Audit Strategy Memorandum presented on 20 May 2014 we did not identify any significant risks relevant to the value for money conclusion. The focus of our audit has been on how the Council is addressing the increasing pressures and challenges over the next three to five years given the reductions in central government support and restrictions on council tax increases. Securing financial resilience into the medium term is one of the Council's top priorities. We have carried out the work detailed below to address these concerns.

We intend to conclude that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and issue an unqualified Value for Money conclusion as set out in Appendix B.

Securing financial resilience

Description of the issue

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 2013/14, with a £26.4 million underspend being achieved. However, the Medium Term Financial Plan (MTFP) programme remains very challenging and the savings for 2014/15 represent an increase of 10 per cent on the savings required in 2013/14.

How we addressed this issue

We assessed processes for managing the savings programme and then selecting a sample of savings projects for further testing. This involved reviewing project plans, savings projections and the arrangements in place for delivery.

Conclusion

The Medium Term Financial Plan 4 covering 2014/15 to 2016/17 has been agreed by Council and for 2014/15 the savings target is just over £23 million. This forms part of the overall savings target for the period from 2011/12 to 2016/17 of around £224 million.

The Council has good arrangements in place for managing its savings programme. Our testing has indicated that the savings plans we reviewed are established, well monitored and on track to be achieved. The robust approach in managing the savings programme gives assurance that the Council will achieve its 2014/15 savings targets. Already to date over 60 per cent of the target has been met and some £14.2m achieved in the first quarter. Since April 2011 the Council has now made almost £128 million of savings, which represents about 57 per cent of the projected savings target of £224 million.

The Council is in a strong position to continue to meet the financial challenges ahead through accurately forecasting the level of savings required, developing strong plans and robustly managing implementation including high volumes of consultation and communication. This position is further enhanced by the approach of planning and delivering MTFP proposals early where possible. As a result we have not identified a significant risk to our VFM conclusion for securing financial resilience.

Key areas of focus in maintaining on-going financial resilience include:

- consistent and clear reporting to Members of the cumulative financial position (revenue and capital) and progress in achieving savings throughout the year; and
- maintaining the rigorous budgetary control of previous periods, particularly as staff rationalisations continue and

savings become harder to achieve.

Challenging economy, efficiency and effectiveness

Description of the issue

The Council has, like other councils, faced significant cuts in funding and changes in how it works such as the transfer of public health, localisation of business rates and the local council tax benefit scheme. Other significant changes are likely in the near future.

How we addressed this issue

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness in prioritising resources and improving efficiency and productivity.

Conclusion

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.

We have not identified a significant risk to our VFM conclusion for challenging economy, efficiency and effectiveness.

Key areas of focus for the future include continued work on a strategic plan for the achievement of the savings required for 2015/16 to 2016/17 and beyond.

Appendix A – Draft management representation letter

To:

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

Durham County Council - audit for year ended 31 March 2014

This representation letter is provided in connection with your audit of the statement of accounts for Durham County Council ('the Authority) for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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 statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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 Cabinet 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 the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 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 Authority in making accounting estimates, including those measured at fair value, are reasonable.

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 Authority 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 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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. An 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.

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 material contract variations, payment deductions or additional service charges in 2013/14 in relation to the Council's PFI schemes.

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.

Provisions

I confirm that all provisions required under IAS37 have been included in the financial statements.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 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 Authority 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.

Signed

For and on behalf of Durham County Council.

Appendix B – 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 2014 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 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 2013/14.

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 2014 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 2013/14.

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 2014 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 2013/14.

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 and the annual report 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 Pension Fund 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 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014 other than liabilities to pay pensions and other benefits after the end of the scheme year; 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 and the content of the Annual Report 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, 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 2014.

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, we are satisfied that, in all significant respects, Durham County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

The Rivergreen Centre

Aykley Heads

Durham

DH1 5TS

September 2014

Appendix C – 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.