

Annual Audit Letter 2013/14

**Durham County Council including Durham County
Council Pension Fund**

October 2014



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October 2014

Dear Members

Durham County Council Annual Audit Letter 2014

We are pleased to present to you Durham County Council's (the Council's) 2013/14 Annual Audit Letter.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies as issued by the Audit Commission and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2011 and the National Audit Office.

2013/14 has been another challenging year for the finances of the Council and like most other councils in the North East and across the country it has made some tough decisions on spending priorities and plans for the future. We reflect on these matters in the value for money part of this letter. However, we were pleased to issue an unqualified opinion on the statement of accounts and the value for money conclusion.

I would like to express my thanks for the assistance of the Council's finance team, as well as senior officers and the Audit Committee, during the audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6314 or Catherine Banks on 0191 383 6410.

Yours faithfully

Cameron Waddell
Director
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 employees of Durham County Council are prepared for the sole use of the Council. We take no responsibility to any Member or employee in their individual capacity or to any third party.

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01

Overall messages

Purpose of this letter

Our Annual Audit Letter provides a summary of our work and findings for the 2013/14 audit period for Members and other interested parties.

In addition to this letter, we presented our Audit Completion Reports for the Council and Pension Fund to the Council's Audit Committee on 30 September 2014 which provide more detail of the work we have undertaken as the Council's external auditor in 2013/14. Our outline plans were set out in the Audit Strategy Memoranda we issued for the year, with regular updates to the Audit Committee in Audit Progress Reports.

Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Council's statement of accounts (including the Pension Fund) on 30 September 2014.

We highlight the following key points:

- The quality of the draft financial statements and supporting working papers had improved compared to previous years. We have noted the scope to further develop quality control arrangements in relation to the financial statements, especially if deadlines are brought forward in future years.
- Whilst there were a few errors in the draft financial statements (some material and sensitive), none of these impacted upon the Council's General Fund balance.
- Our work did not identify any significant deficiencies in internal control though we did make a small number of recommendations to enhance internal control in some areas which the Corporate Director Resources has agreed to implement.

Full details are available in our separate Audit Completion Report. We would highlight the positive outcome of the audit and in particular the continued constructive and responsive approach of officers.

We also presented the detailed findings from our audit of the Durham County Pension Fund in a separate Audit Completion Report to the Council at the Audit Committee on 30 September 2014. These findings are summarised as follows:

- We did not identify any significant deficiencies in internal controls during the course of the audit.
- We did not identify any 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.
- Our audit identified some material misstatements and disclosure errors which officers corrected and one non material misstatement which was not corrected on the grounds that the error did not have a material impact on the financial statements.

Our Value for Money conclusion

We performed our work in line with the Audit Commission's Code of Audit Practice for Local Government bodies and the Commission's guidance on the Value for Money conclusion for 2013/14. Our audit report included a conclusion that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Our work in this area focussed on the two criteria specified by the Audit Commission, namely:

- financial resilience; and
- economy, efficiency and effectiveness in the use of resources.

Work carried out included consideration of a range of evidence in respect of both criteria, including:

- your Annual Governance Statement; and
- your Medium-Term Financial Plan (MTFP).

Our assessment of the MTFP saving programmes included testing a sample of saving programmes and reviewing the robustness of project plans, savings projections and the arrangements for delivery. Our testing indicated those savings plans we reviewed were established, well monitored and on track to be achieved. The Council's performance has demonstrated a consistently successful record in delivering its savings plans in recent years.

Our work allowed us to satisfy ourselves, against the backdrop of the continued unprecedented change and challenges of recent years, that the Council has maintained proper arrangements for securing value for money in its use of resources during the year. As highlighted in our Audit Completion Report, the Council is well aware of the significant challenges it faces. We comment further on these in section 03.

Whole of Government Accounts (WGA)

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of the Council's WGA consolidation pack with the audited statement of accounts. We reported that the Council's consolidation pack was consistent with the audited statement of accounts on 2 October 2014.

Our other responsibilities

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Audit Commission Act 1998. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions or objections in relation to the Council's 2013/14 accounts from local electors, nor did we exercise our wider reporting powers.

02

Fees

As outlined in our Audit Strategy Memorandum presented to the Audit Committee on 12th May 2014, the Audit Commission sets a scale fee for our audit and certification work. The fees applicable to our work in 2013/14 are summarised below.

Element of work	2012/13 Final Fee	2013/14 As previously reported	2013/14 Final Fee
Durham County Council			
Code audit work	£333,180	£333,180	£333,720
Certification work	£53,200	£32,900	£26,995
Non-audit work	£3,700	£0	£6,900
Total	£390,090	£366,080	£367,615
Durham County Pension Fund			
Code audit work	£25,919	£25,918	£25,918
Non-audit work	£0	£0	£0
Total	£25,919	£25,918	£25,918

There has been a very small increase in fees for Code audit work of £540 since we reported to you earlier in the year. This increase has arisen because the Audit Commission no longer makes certification arrangements for the National Non-Domestic Rates (NNDR 3) return, which previously provided auditors with assurance over the relevant entries in the Council's accounts. As a result for 2013/14 we have undertaken additional audit testing to obtain sufficient assurance over the relevant entries in the Council's accounts. The associated additional audit fee is in line with guidelines provided by the Audit Commission to all local authority auditors.

The fee outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's Housing Benefit claim. We will confirm the final fee charged for certification work when we issue our Certification Report.

The only non-audit work undertaken in 2013/14 relates to the certification of grants outside the Audit Commission regime, for which fees are negotiated with the Council on a case by case basis. The fees relate to agreements reached for work as at 30 September 2014 and include work on the Decent Homes and European Regional Development Fund Net Park returns in both years and in addition for 2013/14 work on the Homes and Communities Agency and School Centred Initial Teacher Training returns.

03

Future challenges/other commentary

The Council has made good progress in addressing its biggest challenges in 2013/14 and 2014/15 to date. Key challenges facing the Council include:

- delivery of the Medium-Term Financial Plan, the sustainability of services and the level of performance;
- delivery of the Council Plan; and
- the impact of continued changes as a result of the Welfare Reform Act.

Each year undoubtedly becomes harder, and the scope for reducing expenditure without affecting service standards becomes more and more difficult. The Council, however, continues to have a strong approach in considering a range of options, including agreeing these plans well ahead of the relevant financial year. Since April 2011 the Council has made almost £128 million of savings which is 57 per cent of the overall forecasted savings required of £224 million up to 31 March 2017. Key areas 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 which are well advanced.

A key risk for the Council is that the success of achieving previous year's savings means stakeholders might perceive the continued achievement of savings can continue to meet the significant spending reductions required without effecting key services. However, as the Council is well aware, some difficult and bold decisions will be required including potentially radical decisions impacting on how the Council performs as well as the services it provides given the scale of savings required in the coming year.

Other key areas for the Council to continue to focus on are set out below:

- Following approval by tenants in August 2014 the council plans to transfer ownership of its Housing Stock to County Durham Housing Group in March 2015. There are legal, governance and accounting challenges associated with this transfer.
- Financial reporting changes such as changes to schools accounting and group accounts standards in 2014/15, fair value accounting in 2015/16 and infrastructure accounting in 2016/17 (with restated amounts as at 1 April 2015) will pose accounting challenges to the finance team.