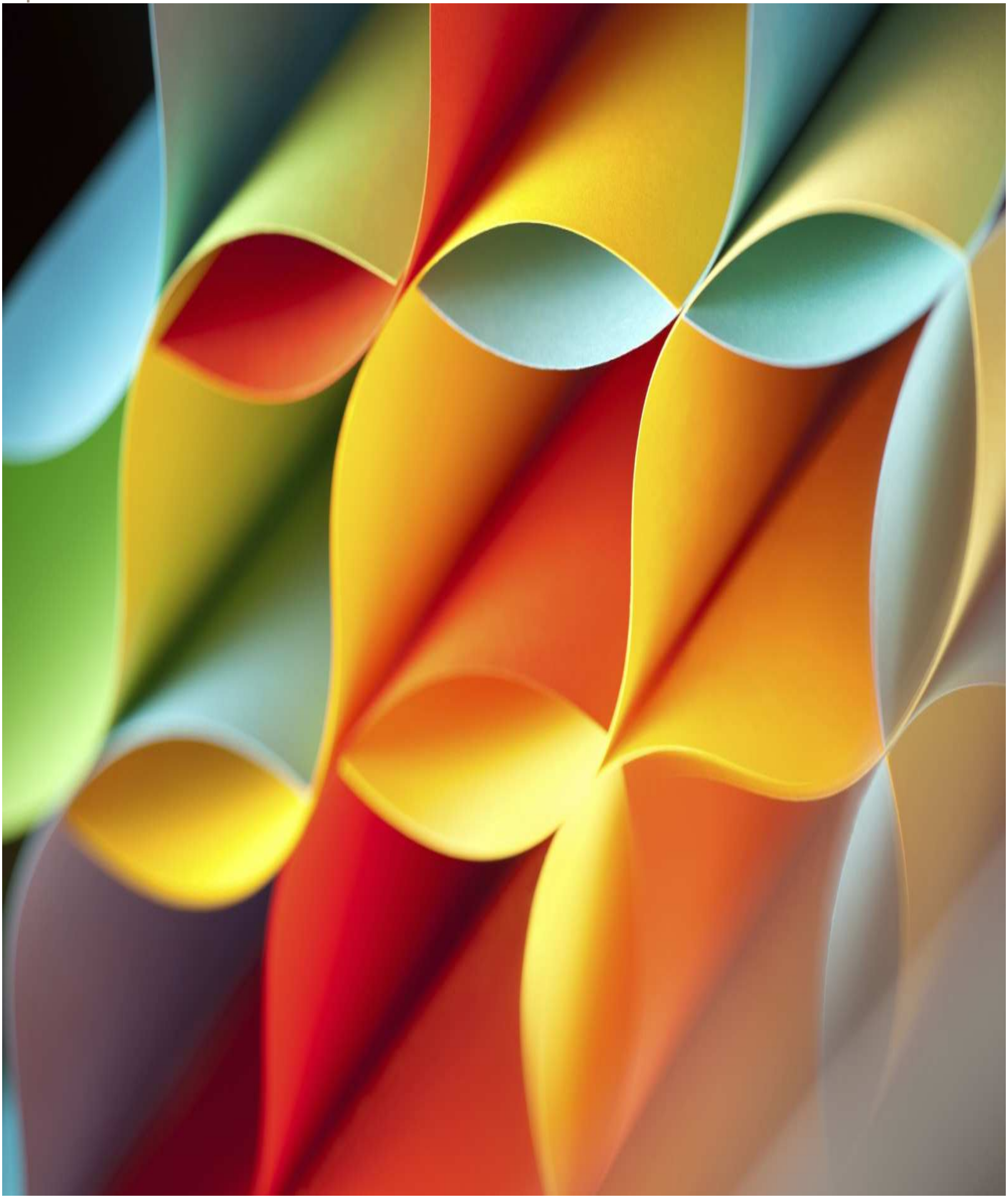
Audit Completion Report

Durham County Council – year ended 31 March 2015

September 2015



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Audit Committee Members
Durham County Council
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30 September 2015

Dear Members

Audit Completion Report – Year ended 31 March 2015

We are delighted to present our Audit Completion Report for the year ended 31 March 2015. 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 19 May 2015. 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 or cameron.waddell@mazars.co.uk.

Yours faithfully

Cameron Waddell

Director

Mazars LLP

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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 2015 to members of the Audit Committee (Those Charged with Governance) of Durham County Council (the Council) and forms the basis for discussion at the Audit Committee meeting on 30 September 2015.

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 2 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 3 and a summary of misstatements discovered as part of the audit in section 4.

Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2015.

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

Area outstanding	Work to be completed
Investments	We are waiting for one investment confirmation letter
Post balance sheet events	Review of events after the balance sheet date
Closure procedures	Completion of our procedures

We will provide an update on these outstanding matters in the form of a letter to members at the audit committee meeting.

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 2 October 2015.

Our proposed audit report is set out in Appendix B.

02 Significant findings

Set out below are 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;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 8 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; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

Management override of controls
Description of the risk In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
How we addressed this risk We addressed this risk 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; • consideration of other local factors; • journals recorded in the general ledger and other adjustments made in preparation of the financial statements; and • the year-end bank reconciliation. We also obtained 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.
Audit conclusion Our work has provided the assurance we sought and has not highlighted any issues in this area to report.

Revenue Recognition

Description of the risk

There is a risk of fraud in financial reporting relating to income recognition due to the potential to inappropriately record revenue in the wrong period. ISA 240 allows the presumption of fraud relating to revenue recognition to be rebutted in exceptional circumstances, but given the Council's range of revenue sources we have concluded that there are insufficient grounds for rebuttal in 2014/15.

How we addressed this risk

We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we undertook a range of substantive procedures including:

- tested revenue items recorded in the General Ledger in March, April and May 2015 to ensure they have been recognised in the right year;
- tested adjustment journals; and
- agreed major grant income to third party documentation.

Audit conclusion

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

Pension Liability

Description of the risk

The financial statements contain material pension entries in respect of the retirement benefits. 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 National Audit Office consulting actuary (PWC).

We 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 audit has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Accounting for the impact of the Large Scale Voluntary Transfer (LSVT) of the Council's Housing Stock

Description of the risk

The transfer of housing stock through LSVT saw 18,520 properties transfer to County Durham Housing Group on 13 April 2015. The Council will need to consider year end material accounting entries relating to this transfer, in particular the valuation of the housing stock on the Council's balance sheet.

How we addressed this risk

We have completed the following audit work:

- we reviewed the arrangements for valuing the housing stock at the 1 April 2014 and 31 March 2015;
- we reviewed the housing stock valuation to ensure it was in line with Code, Accounting Standards and relevant stock transfer guidance;
- we reviewed the valuation to ensure it had been accounted for in the accounts correctly; and
- reviewed the data used in the valuation to ensure it was complete, related to Durham County Council and was in line with the transfer agreement.
- considered the treatment of HRA assets not part of the transfer agreement and concluded they were not material. (these assets have however been reviewed on a sample basis as part of our testing on PPE).

Audit conclusion

Our audit work identified an error in the treatment of garages transferred under the transfer agreement. Review of the calculation demonstrated garages were included in the £114.4 million Tenanted Market Value (TMV). However garages remained on the Council's balance sheet at £7.6 million, which was the previous Economic Use Valuation (EUV).

Garages should have been revalued at the 31 March 2015 to TMV. If garages had been valued using the TMV valuation the impact would have been a charge to the revaluation reserve of £3.3 million and a charge to the HRA via the CIES of £2.5 million. Given the transitional provisions of the self-financing determinations the Council would not have been able to write this loss out via the Movement in Reserves (MIRS). Transitional arrangements only allow dwellings to be reversed out through the MIRS and garages are classified as non dwellings. Therefore the HRA reserve should have been charged £2.5 million. This has been highlighted as an unadjusted non trivial error in table 1 in Section 04.

Oracle Upgrade

Description of the risk

In July 2014 the Council upgraded the Oracle suite of programs to version R12.1.3. This is a significant upgrade to the General Ledger (and associated modules) during the year with a resulting risk of errors arising during the data conversion process.

How we addressed this risk

We completed the following audit work:

- completed an IT risk assessment;
- assessed managements controls over the conversion process; and
- completed substantive testing to confirm that the data was completely and accurately brought forward into the new environment following the data migration.

Audit conclusion

The required assurance has been obtained that no material misstatements have occurred as a result of the R12 upgrade.

Accounting policies and disclosures

We have reviewed Durham County Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting.

Significant matters discussed with management

As previously noted, we identified that garages have not been revalued following the Tenanted Market Valuation (TMV). If the garages had been revalued the impact would have been an estimated charge of £2.5 million to the HRA. Transitional arrangements to the Self Financing Determinations only allow dwellings to be reversed through the Movement In Reserves (MIRS). As garages are non dwellings they do not meet the transitional arrangements and therefore any downward valuation to these assets should have been charged against the HRA reserve at 31 March 2015. Therefore, the HRA reserve is overstated by £2.5 million and should be £23.6 million as at 31 March 2015. This is noted on the table of unadjusted misstatements in Section 4.

We have discussed this matter with management, including the Council's failure to comply fully with the Self Financing Regulations. Management have explained that when the draft statements were prepared they were not aware that the TMV obtained included the Council's garages. It was the intention to write the garages out in 2015/16 as a loss on disposal which would allow the Council to reverse the loss through the Movement in Reserves Statement with no impact on the HRA reserve. Self financing regulations allow losses on disposal to be reversed.

It is management's intention to treat garages as a loss in 2015/16 with a reversal being made via the MIRS. Management believe the self financing regulations were not designed to deal with Large Scale Voluntary Transfers (LSVT's) which removes the ability to manage the assets over the period of the 30 year Business Plan. Management believe the removal of mitigations in respect of HRA non-dwellings were designed for HRA's with a 30 year life and were not intended to have an impact when dealing with accounting entries for a wholesale stock transfer.

Given that the impact is not a material amount, we are proposing no further action on our part. We have sought specific representation in the letter of representation in Appendix A.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

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

We have not identified any significant deficiencies as a result of our work this year that we need to bring to your attention.

IT audit review

The objective of this work was to evaluate the controls in place over the IT environment (applications and underlying infrastructure), by:

- Understanding the IT environment, applications, interfaces and related controls; and
- Assessing the design and operating effectiveness of the controls in place over the main processes:
  - physical security;
  - backup and disaster recovery;
  - access management and logical security;
  - strategy and internal control; and
  - change management.

Our work concluded that reliance can be placed on the IT General Controls operating over the systems identified as material for the 2014/15 financial audit and the underlying infrastructure.

No significant issues were identified that could have an impact on the financial accounts; however we made improvement recommendations on:

- documenting a formalised disaster recovery plan which is acknowledged by all relevant staff and periodically tested;
- ensuring that access creation/modification is performed based on a formally documented and authorised request, clearly stating the access rights required by the new user/mover and access is restricted on a need-to-have basis;
- disabling generic accounts when they are inactive;
- ensuring that disabling leavers access is requested on a timely basis and all leavers have a formally documented and authorised disabling request;
- implementing a periodic review aiming to determine if user accounts are still required, covering users that have not logged on for more than 90 days, generic accounts and administrative accounts;
- considering the best practices for password settings including minimum lengths and accounts lockout;
- implementing a standardised change management process, managed through a dedicated system that would allow categorising, tracing and monitoring changes;
- ensuring proper segregation of duties between development and migration into production of changes where resources allow, or as a minimum ensure close monitoring of changes being deployed on Council's systems; and
- ensuring proper testing/reconciliation is performed to ensure data is correctly and completely migrated between systems / versions.

Relevant action plans have been established by the Council in order to address the identified recommendations.

04 Summary of misstatements

We set out below the misstatements identified during the course of the audit.

Table one outlines the non trivial misstatements that were identified during the course of our audit for adjustment. Management has assessed these as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

Table two outlines the material misstatements that have been adjusted by management during the course of the audit.

Table 3 highlights the amendments to the financial statements for other minor errors, omissions, rounding error corrections, clarifications and typographical errors. The main disclosure note misstatements identified during the course of the audit that have been amended by management are also shown in this table.

None of the adjusted misstatements identified during the audit resulted in a change to the Council's underlying financial position.

Table 1: Unadjusted misstatements 2014/15

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: PPE: Land and Buildings			1,739	
	Cr: Unusable Reserves: Revaluation Reserve				1,739
	This relates to the treatment of a revaluation of the Drum Lane traveller site. The work on the site was added in the Fixed Asset Register to the assets opening balance, rather than an in year revaluation. This meant the asset was omitted from the year end revaluation journal processed in the General Ledger. The result of this is that the Net Book Value as at 31 March 2015 for Land and Buildings is understated with the reverse entry in the Revaluation reserve.				
2	Dr: Unusable Reserves: Revaluation Reserve			3,268	
	Dr: Usable Reserves: Housing Revenue Account (HRA)			2,498	
	Cr: PPE: Land and Building				5,766
	Dr: CIES: Local Authority Housing	1,734			
	Cr: PPE: Council Dwellings				1,734
	Dr: Capital Adjustment Account			1,734	
	Cr: MIRS (Adjustment between accounting basis and funding basis under regulations)		1,734		

	Garages were included in the Tenanted Market Value of £114.4 million. The Council did not account for the revaluation of garages in the TMV revaluation which means garages remain on the balance sheet at the previous EUV valuation. The Council have estimated garages value, using based on TMV, is estimated to be £1.7 million. Therefore garages are overstated at 31/3/15 by £5.8 million. Had garages been revalued there would have been a charge to the HRA (via the CIES) of £2.5 million and a charge of £3.3 million to the Revaluation Reserve (which holds previous gains on garages). Self Financing rules would have restricted the Council from reversing this loss through the HRA movement in reserves. This is due to transitional arrangements only being applicable to dwellings. Therefore the charge would have hit the HRA balance, reducing it from £26 million to £23.6 million. Consequently, Council Dwellings as at 31 March 2015 was overstated by £1.7 million and the revaluation charge to the CIES understated by the same amount. The charge to the CIES would be reversed out via the MIRS under transitional arrangements, meaning there would be no impact on the HRA reserve as at 31 March 2015.				
3	Dr: CIES: Local Housing Authority	2,765			
	Cr: Short term Creditors				2,765
	Our review of the Housing Capital Work contingent liabilities (disclosed in note 46) showed that a present obligation existed and that there had been an outflow of economic benefit in July 2015. Therefore a capital creditor existed at the year end for £2.8m, which is the amount paid in the new financial year.				
4	**Note 12 PPE**: Testing of disposals identified some computer equipment relating to a school which became a Free School in 2013. This equipment should have been recognised in 13/14 but instead has been treated as a disposal in 2014/15. Review by the Council identified 7 similar items with a net book value of £3,000. Our extrapolation of this error suggests an estimated overstatement of £0.9 million.				
5	**Note 30 Amounts reported for resource allocation decisions** The reconciliation to subjective analysis does not include depreciation, amortisation and impairment as required by Code para 3.4.9.42. Also, the amount of impairment losses and reversal of losses should be recognised in the CIES during the period.				
6	**Note 1 Accounting policy 21 PPE** De minimus level for PPE accounting not disclosed in accounting policies (Code para 4.1.4.1)				

Table 2: Adjusted misstatements 2014/15

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Unusable Reserves: Revaluation Reserve			24,756	
	Cr: Unusable Reserves: Capital Adjustment Account				24,756

	Relates to the Prior Period Adjustment for three Foundation Schools which were brought onto the Council's balance sheet in 2014/15. The assets have been added to PPE with the reverse entry being a charge to the revaluation reserve. However the charge reverse entry should have been to the Capital Adjustment Account.				
2	Dr/Cr: CIES: Adult Social Care (13/14 comparatives)	6,668	6,668		
	Dr/Cr: Highways and Transport Services (13/14 comparatives)	3,536	3,536		
	Dr/Cr: CIES: Planning Services (13/14 comparatives)	1,986	1,986		
	Dr/Cr: CIES: Corporate and Democratic Core (13/14 comparatives)	961	961		
	Dr/Cr: CIES: Central Services to the Public (13/14 comparatives)	846	846		
	Our analytical review procedures identified a large variance between years on the Adult and Social Care income. When queried with the Council it was identified that the 2013/14 allocation of central admin recharges was inconsistent and the prior year gross figures had been understated. There is no impact on the net cost of services figure which remains at £466.2 million.				

Disclosure amendments

The financial statements have been amended for a number of minor errors, disclosures, omissions, rounding error corrections, clarifications and typographical errors. The main disclosure note misstatements identified during the course of the audit and amended by management are shown below:

Table 3: Adjusted Disclosure amendments

Note reference	Error
Note 28: Cash flow statement – investing activities	The line 'proceeds from short- term and long- term investments' of £329.9 million included £63.3 million in respect of capital grants applied to revenue. It is more appropriate for this amount to be disclosed as 'other receipts from investing activities' heading, also within note 28. As a consequence of the above the 2013/14 comparative figures have also been restated.

Note 15: Financial Instruments	The following were identified in our review of note 15: • Fair value disclosure note loans and receivables carrying value shown as £161.1 million when it should have been £158.4 million. The same line showed fair value as £161.3 million when it should have been 158.5 million. • Included in current debtors figure of £54.9 million is a debtor with HMRC relating to VAT. This amounts to £9.9 million. As this is a statutory debt it does not arise from contract and as such is not a financial instrument. The debtors amount has been amended to show £45.0 million and overall loans and receivables to show £148.5 million. The comparative figures have also been adjusted as a result of this error. • Included in creditors figure of £110.1 million are creditors relating to taxes £10.6 million (Income tax, national ins-employees etc.) and NNDR £5.2 million. As these are statutory debts which don't give rise to a contract they are not financial instruments. The financial liabilities at amortised costs amount amended to show £94.3 million and carrying amount of financial liabilities reduced to £556.5 million. The comparative figures have also been adjusted as a result of this error.
Note 41: Private Finance Initiatives and Similar Contracts	The table in note 41 includes elements of contingent rents expected to be paid over the remainder of the contract. These amounts should be included in the interest heading rather than the payments for services heading. The value of contingent rents over the remainder of the scheme is £0.9m. This is a classification error in the disclosure note which has no impact on the outstanding balance at 31/3/2015 disclosed in the Balance Sheet.

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05 Value for money (VfM)

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.

Criteria	Focus of each criterion
The Council has proper arrangements in place for securing financial resilience.	The Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The Council has proper arrangements for challenging how it secures economy, efficiency, and effectiveness.	The Council is prioritising resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

As part of our work, we also:

- reviewed your annual governance statement;
- reviewed the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities (where applicable); and
- carried out any risk-based work we determined to be appropriate.

In the Audit Strategy Memorandum we identified no significant risks relevant to the VfM conclusion. Securing financial resilience in the medium term is one of the Council's top priorities. The Council is taking action and is responding to the challenges with a programme of efficiencies, service reviews and developing new ways to manage demand and deliver services.

The tables that follow show commentary alongside each aspect of the two criteria along with our assessment. This is followed by an overall assessment which also provides a reality check on our findings.

Financial resilience

Criteria	Aspect	Comments	Arrangements in place?
Arrangements for securing financial resilience	Financial Governance	The Council appreciates the significant financial pressures it faces in coming years. Systems and processes to manage the financial risks are in place to secure a stable financial position that enables it to continue to operate for the foreseeable future. The medium term financial plan (MTFP) shows the Council needs to achieve savings of £87.6 million between 2015/16 and 2017/18 which would bring the total level of savings since 2011/12 to £224.5 million. The achievement of efficiency savings continues to be a priority. There is recognition that to achieve this, senior management and Members need to review all areas of potential efficiency. Through prudent financial management, at 31 March 2015, the Council has increased: • earmarked reserves to £214.6 million; and • the general fund balance to £28.9 million. This will help the Council to manage the impact of expected future reductions in funding and reserves and the Council has planned to utilise reserves in a structured way to support MTFP (5). This includes the planned delivery programme reserve which is intended to reduce the burden of savings in 2015/16 and 2016/17. Other reserves, such as the Adult Demographic Reserve are intended to delay the impact of cost pressures. The Council keeps earmarked reserves under review on a regular basis. As part of its budget setting the Council reviews reserves to ensure that balances earmarked for specific schemes are still relevant, where they are not, the reserve is released. Within the Council, the statutory s151 officer (Director of Corporate Resources) is a key part of the management team, contributing to strategic decisions.	Yes

Criteria	Aspect	Comments	Arrangements in place?
	Financial Planning	There are robust arrangements in place for planning for the medium and longer-term. The Council has identified savings for 2016/17 and officers and members are discussing savings plans for 2017/18. Workshops are held throughout the year with members and officers. The Council has been successful in achieving significant savings in recent years. There is recognition that efficiencies are becoming more difficult to achieve and requiring longer-lead in times. The Council recognises this and is planning on a worse case scenario. Senior Officers monitor progress of identified savings. The MTFP includes a risk assessment. This is linked to the Council Strategic Risk Management. Risk one in the Strategic Risk Register relates to the achievement of MTFP savings. Equality Impact assessments are completed for savings with the aim to assess the likely impact of individual savings proposals. Performance is monitored and reported to Cabinet on a regular basis. The Council has a good history of consultation with staff and the public.	Yes
	Financial Control	Underspends and the achievement of significant savings in recent years reflect the Council's good record of financial management. Revenue and capital budgets are regularly reported to Senior Officers and Cabinet. This allows any budget pressures to be identified at an early stage and where required remedial actions to be taken. The MTFP and savings plans are closely monitored with a traffic light system used to identify any high risk areas. The council has a good record of identifying mitigating actions where planned savings are not going to be achieved at the required levels. As noted above the Council has maintained adequate levels of reserves. The authority maintain a Treasury Management Strategy and a mid year treasury review is reported to the Audit Committee. The Treasury Management Strategy notes the primary principle governing the Council's investment criteria is the security of its investments.	Yes

Securing economy, efficiency and effectiveness

Criteria	Aspect	Comments	Arrangements in place?
Arrangements for challenging economy, efficiency and effectiveness	Prioritising resources	The MTFP demonstrates the leadership of the Council understand the future environment and are putting in place plans to address the identified risks. The first risk in the risk register relates to failure to achieve MTFP savings. This demonstrates the prominence of savings to the council. Significant efficiencies have been delivered in recent years. The Council is prioritising its resources within tighter budgets, and seeking to achieve cost reductions by improving efficiency and productivity. However the Council acknowledges that efficiencies alone will not bridge the funding gaps identified. There is an acknowledgment by management and members that tough decisions will be required if the Council is to achieve its future financial targets. Consultations are carried out with staff and the public.	Yes
	Improving efficiency and productivity	The Council has some challenging financial targets to meet in the coming years. Arrangements are in place to evaluate options for making efficiencies and meet savings targets. The Council has access to good quality information and uses comparative information available. The council are members of benchmarking clubs and uses this information to identify potential areas for efficiencies. Performance management is monitored on a regular basis allowing the council to identify any consequences of decisions made. Significant savings have already been made, and service performance has been maintained.	Yes

Overall assessment including 'reality check'

Having gathered evidence of the Council's arrangements for each criterion we conducted a 'reality check', building upon our existing knowledge of the Council and considering the robustness of our assessment by referring to:

- reports by statutory inspectorates or other regulators;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

Evidence	Auditor assessment
Reports by statutory inspectorates or other regulators	We considered reports by statutory or other regulatory bodies during the year which might impact on our conclusion. We also reviewed the value for money profiles (based on data previously maintained by the Audit Commission, but now available on the Public Sector Audit Appointments website). Based on this review, there were no indicators which would suggest significant weaknesses in the Council's arrangements, or any information contrary to our knowledge of the Council.
Achievement of performance and other targets	There are no significant issues arising from our review of the Council's quarter one performance report impacting on our VfM conclusion.
Performance against budgets and other financial targets	The Council has a history of achieving budget targets and a balanced budget has been set for 2015/16. No issues identified from review of the quarter 1 2015/16 outturn report which impact on our VfM conclusion.

Value for money conclusion

Having completed our assessment, and ‘reality check’, we can conclude that our initial risk assessment remains appropriate and that the Council has adequate arrangements in place for each criterion. Our proposed unqualified VfM conclusion is set out in our draft auditor’s report at Appendix B.

Appendix A – Draft management representation letter

To be provided to us on headed note paper

30 September 2015

Dear Mr Waddell

Durham County Council - audit for year ended 31 March 2015

This representation letter is provided in connection with your audit of the statement of accounts for Durham County Council for the year ended 31 March 2015 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 statement of accounts 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 statement of accounts 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 Head of Finance 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 other 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 Council in making accounting estimates, including those measured at fair value, are reasonable. I confirm that disclosures related to accounting estimates are complete and that no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

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 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.

In respect of the failure to fully comply with the self financing regulations, in preparing the statements I did not appreciate that the TMV included the Council garages. The intention was to write out the garages in 2015/16 and treat as a loss on disposal which would allow a reversal of the loss through the Movement in Reserves Statement. The self financing regulations allow for this reversal on a loss on disposal, but not on an impairment or revaluation loss in respect of non-dwellings. This has resulted in an unadjusted misstatement in respect of the accounting entries for the revaluation of garages from EUV to TMV, and the garages remain in the Council's balance sheet at EUV, pending writing out in 2015/16 when the transfer took place. In 2015/16, the loss will be reversed via the MIRS, as we believe that the self financing regulations were not designed to deal with Large Scale Voluntary Transfers which removes the ability to manage the assets over the period of the 30 year Business Plan, as intended by the regulations.

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

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's statement of accounts 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. A 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.

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2014/15 in relation to the Council's PFI schemes.

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.

Going concern

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

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the statement of accounts as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours faithfully for and on behalf of Durham County Council

Corporate Director Resources

Appendix to letter of representation

Schedule of unadjusted misstatements

Table 1: Unadjusted misstatements 2014/15

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: PPE: Land and Buildings			1,739	
	Cr: Unusable Reserves: Revaluation Reserve				1,739
	This relates to the treatment of a revaluation of the Drum Lane traveller site. The work on the site was added in the Fixed Asset Register to the assets opening balance, rather than an in year revaluation. This meant the asset was omitted from the year end revaluation journal processed in the General Ledger. The result of this is that the Net Book Value as at 31 March 2015 for Land and Buildings is understated with the reverse entry in the Revaluation reserve.				
2	Dr: Unusable Reserves: Revaluation Reserve			3,268	
	Dr: Usable Reserves: Housing Revenue Account (HRA)			2,498	
	Cr: PPE: Land and Building				5,766
	Dr: CIES: Local Authority Housing	1,734			
	Cr: PPE: Council Dwellings				1,734
	Dr: Capital Adjustment Account			1,734	
	Cr: MIRS (Adjustment between accounting basis and funding basis under regulations)		1,734		
	Garages were included in the Tenanted Market Value of £114.4 million. The Council did not account for the revaluation of garages in the TMV revaluation which means garages remain on the balance sheet at the previous EUV valuation. The Council have estimated garages value, using based on TMV, is estimated to be £1.7 million. Therefore garages are overstated at 31/3/15 by £5.8 million. Had garages been revalued there would have been a charge to the HRA (via the CIES) of £2.5 million and a charge of £3.3 million to the Revaluation Reserve (which holds previous gains on garages). Self Financing rules would have restricted the Council from reversing this loss through the HRA movement in reserves. This is due to transitional arrangements only being applicable to dwellings. Therefore the charge would have hit the HRA balance, reducing it from £26 million to £23.6 million. Consequently, Council Dwellings as at 31 March 2015 was overstated by £1.7 million and the revaluation charge to the CIES understated by the same amount. The charge to the CIES would be reversed out via the MIRS under transitional arrangements, meaning there would be no impact on the HRA reserve as at 31 March 2015.				
3	Dr: CIES: Local Housing Authority	2,765			

	Cr: Short term Creditors				2,765
	Our review of the Housing Capital Work contingent liabilities (disclosed in note 46) showed that a present obligation existed and that there had been an outflow of economic benefit in July 2015. Therefore a capital creditor existed at the year end for £2.8m, which is the amount paid in the new financial year.				
4	**Note 12 PPE**: Testing of disposals identified some computer equipment relating to a school which became a Free School in 2013. This equipment should have been recognised in 13/14 but instead has been treated as a disposal in 2014/15. Review by the Council identified 7 similar items with a net book value of £3,000. Our extrapolation of this error suggests an estimated overstatement of £0.9 million.				
5	**Note 30 Amounts reported for resource allocation decisions** The reconciliation to subjective analysis does not include depreciation, amortisation and impairment as required by Code para 3.4.9.42. The reconciliation to subjective analysis does not include depreciation, amortisation and impairment as required by Code para 3.4.9.42. Also, the amount of impairment losses and reversal of losses should be recognised in the CIES during the period.				
6	**Note 1 Accounting policy 21 PPE** De minimus level for PPE accounting not disclosed in accounting policies (Code para 4.1.4.1)				

Appendix B – Draft audit report

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

Opinion on the Council financial statements

We have audited the financial statements of Durham County Council for the year ended 31 March 2015 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 2014/15.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 Council'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 2015 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 2014/15.

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 Council 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.

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

Respective responsibilities of the Council and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council 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 Council 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 Council'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 Council 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 Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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 Council 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 2015.

Certificate

We certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Cameron Waddell
For and on behalf of Mazars LLP

The Rivergreen Centre

Aykley Heads

Durham

DH1 5TS

30 September 2015

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.

The following matters that do not impact on our independence but we wish to bring them to your attention to ensure that we ensure that members are fully aware of the services that we provide to the Council or to its related parties:

Support provided by Mazars	Threats to independence and safeguards
Potential assurance services in relation to the Teachers' Pensions return and Pooling of Housing Capital Receipts return for 2014/15.	We have considered threats and safeguards for all grants work as follows: • Self Review: The review does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars. • Self Interest: The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis. • Management: The work does not involve Mazars making any decisions on behalf of management. • Advocacy: The work does not involve Mazars advocating the Council to third parties. • Familiarity: Work is not deemed to give rise to a familiarity threat given these pieces of assurance work used to fall under the Audit Commission's certification regime and were the responsibility of the Council's appointed auditor. • Intimidation: The nature of the work does not give rise to any intimidation threat from management to Mazars.