

Annual Audit Letter 2014/15

Durham County Council including Durham County Council Pension Fund

October 2015



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October 2015

Dear Members

Annual Audit Letter 2015

I am delighted to present to you this year's 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.

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 cameron.waddell@mazars.co.uk.

Yours faithfully

Cameron Waddell
Partner
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Contents

01 Key messages	4
02 Financial statements.....	5
03 VFM conclusion.....	6
04 Future challenges	11
05 Fees.....	13

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

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01 Key messages

Our Annual Audit Letter provides a summary of our work and findings for the 2014/15 audit period for Durham County Council and Durham County Council Pension Fund for Members and other interested parties.

In addition to this letter, we issued and presented our Audit Completion Reports for Durham County Council and Durham County Council Pension Fund to the Audit Committee on 30 September 2015 which, together with the follow up letters we issued, provide more detail of the work we have undertaken as the Council's external auditor in 2014/15. The key conclusions for each element of our audit are summarised below.

Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Council's financial statements, including Durham County Council Pension Fund on 30 September 2015. Further details are provided in section 02 of this letter.

Our Value for Money (VfM) 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 2014/to provide us with sufficient assurance that the Council has established proper arrangements 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 and we issued an unqualified value for money conclusion on 30 September 2015. Further details are provided in section 03 of this letter.

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 your WGA consolidation pack with the audited statement of accounts. We reported that your consolidation pack was consistent with the audited statement of accounts on 30 September 2015.

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 formal objections or questions in relation to the 2014/15 accounts from local electors and we did not need to exercise our wider reporting powers.

02 Financial statements

Audit of the financial statements

We audited the financial statements in line with auditing standards and we reported the detailed findings of the audit in our Audit Completion Report to the Audit Committee on 30 September 2015 which, together with the follow up letter we issued, provides more detail of the work we have undertaken as the Council's external auditor in 2014/15. We issued an audit report, including an unqualified opinion, on the statement of accounts on 30 September 2015.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline. Working papers and other supporting evidence were produced on a timely basis throughout the audit.

Issues arising from the audit of the accounts

We would like to highlight the following key points:

- Good quality draft financial statements and working papers were provided by the Council.
- Our work identified very few errors, with no material errors that impacted upon the Council's General Fund balance.
- All errors were corrected other than two non-trivial misstatements that management assessed as not being material either individually or in aggregate to the financial statements.
- The audit progressed well and there were no significant difficulties encountered. We received the full co-operation of officers.
- We did not identify any significant deficiencies in internal controls during the course of the audit (our work is not intended to express an opinion on the effectiveness of the system of internal control). We made some recommendations based upon our work on the Council's IT controls.

Annual Governance Statement (AGS)

The AGS is drafted by the Council to provide assurance to the reader over how it is managed and how it has dealt with risks in the year. We reviewed the AGS to see whether it complied with relevant guidance and whether it was misleading or was inconsistent with what we know about the Council. We found no areas of concern to report in this context.

Durham County Council Pension Fund

We presented the detailed findings from our audit of the Durham County Council Pension Fund in a separate Audit Completion Report to the Council at the Audit Committee on 30 September 2015. These findings are summarised as follows:

- Good quality draft financial statements and working papers were provided by the Council.
- There were no non trivial misstatements to the Fund Account or Net Assets Statement but we identified material misstatements to the notes that were corrected.
- All errors (including disclosure errors) were corrected.
- The audit progressed well and there were no significant difficulties encountered. We received the full co-operation of officers.
- We did not identify any significant deficiencies in internal controls during the course of the audit (our work is not intended to express an opinion on the effectiveness of the system of internal control).

03 VFM 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 VFM conclusion for 2014/15. 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 focused on the two criteria specified by the Audit Commission namely:

Criteria	Focus of the criteria
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;
- considered the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carried out any risk-based work we determined to be appropriate.

Like other public sector bodies, the Council faces a number of challenges and in light of these we reviewed the Council's arrangements for managing financial risks and securing a stable financial position.

We considered the risks that are relevant to our value for money conclusion at planning stage and we did not identify any significant risks that needed to be addressed specifically through additional work. Securing financial resilience into the medium term is one of the Council's top priorities. The Council is taking action and is responding to the challenges to date with a programme of efficiencies, service reviews and developing new ways to manage demand and deliver services.

We focussed our audit 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. We reviewed the following to inform our understanding of the Council's arrangements:

- project monitoring and action plans for a sample of projects and savings included in the budget;
- the Medium Term Financial Plan;
- budget monitoring reports and other finance updates;
- key internal ratios e.g. income arrears and payment terms for suppliers; and
- progress made in identifying savings required.

Our work in relation to financial resilience for 2015/16 did not highlight any issues to bring to your attention.

We acknowledge that work is underway on proposed savings plans for future years in accordance with the Council's timetable and that the Council is closely monitoring recent developments which have added to the financial pressures.

The table below shows commentary alongside each aspect of the two criteria and we have indicated alongside each if arrangements are in place. This is followed by a reality check section. All are marked as 'yes' indicating that the expected arrangements were found to be in place in each area and an unqualified Value for Money conclusion has been issued.

Arrangements for how the Council secures financial resilience

Aspect	Comments	Arrangements in place?
Financial Governance	<p>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.</p> <p>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.</p> <p>Through prudent financial management, at 31 March 2015, the Council has increased:</p> <ul style="list-style-type: none"> • earmarked reserves to £214.6 million; and • the general fund balance to £28.9 million. <p>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.</p> <p>Within the Council, the statutory s151 officer (Corporate Director Resources) is a key part of the management team, contributing to strategic decisions.</p>	Yes

Aspect	Comments	Arrangements in place?
Financial Planning	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	Yes
Financial Control	<p>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.</p> <p>As noted above the Council has maintained adequate levels of reserves.</p> <p>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.</p>	Yes

Arrangements for challenging how the Council secures economy, efficiency and effectiveness

Aspect	Comments	Arrangements in place?
Prioritising resources	<p>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.</p> <p>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.</p> <p>Consultations are carried out with staff and the public.</p>	Yes
Improving efficiency and productivity	<p>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.</p> <p>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.</p>	Yes

Overall assessment

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.

Annual Governance Statement

We reviewed the Council's Annual Governance Statement to identify if there were any issues disclosed by the Council that would lead us to consider that the Council did not have proper arrangements for securing economy, efficiency and effectiveness. Our review did not identify any such issues.

Overall Conclusion

Our overall conclusion, having carried out a 'reality check', is that the Council had adequate arrangements in place for each criterion and an unqualified VFM conclusion was issued.

04 Future challenges

Financial challenges

The Council has made good progress in addressing its biggest challenges to date and has a proven track record of strong budget management and delivering planned budget reductions. The Council's budget for 2014/15 reflected £23 million of savings and savings for 2015/16 are estimated at £16.3 million. The Council has identified a significant overall savings target for the period from 2011/12 to 2019/20 of around £260 million.

The difficulty in maintaining good service performance levels at the same time as reducing budgets is recognised by the Council. Performance assessment arrangements are in place and outcomes are regularly reported to and monitored by Members.

Other challenges

The Council faces a number of other challenges in the coming year which include:

- better care funding and associated pooled budgets;
- joint working with health and others; and
- the ongoing impact of the Welfare Reform Act.

With a financial outlook that is increasingly challenging, to develop locally responsive services that maintain standards of access and quality, the Council will need to continue to:

- carefully forecast and effectively monitor budgets;
- identify and address financial pressures as they emerge;
- deliver a long term financial strategy that addresses immediate pressure while allowing scope for strategic service change;
- maintain effective arrangements for public engagement; and
- use constructive relationships with partners to safeguard service quality and resilience.

We will focus our 2015/16 audit on the risks that these challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

We will also share with you relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key area in this respect includes liaising with officers as they make preparations for the change in valuation basis for transport infrastructure required by the accounting Code. This will require significant changes in the 2016/17 financial statements and we are already working with both finance and highways officers to ensure all required systems are in place.

Audit regime changes

Earlier in the year we briefed Members of the Audit Committee on changes to the framework for external audit in local government, with the abolition of the Audit Commission on 31 March 2015 and, under the Local Audit and Accountability Act 2014, new provisions including:

- the National Audit Office to oversee the Code of Audit Practice and issue guidance to auditors;
- the establishment of a new company, Public Sector Audit Appointments Ltd (PSAA Ltd) to appoint auditors and manage the existing contracts with firms of private sector auditors until they expire; and
- the requirement for Councils to appoint their own auditors when the current contracts end.

Extension of current local government contracts by one year

The Department for Communities and Local Government recently announced that the external audit contracts for local authorities (except parishes in the limited assurance regime) will be extended for one year to include the 2017/18 audit. The legislation requires the Council to have appointed the auditor for the 2018/19 audit by 31 December 2017. The Chartered Institute of Public Finance and Accountancy is preparing guidance for local authorities to support them in this process.

05 Fees

As outlined in our Audit Strategy Memoranda for Durham County Council and Durham County Pension Fund presented to the Audit Committee on 17 April 2015, the Audit Commission sets a scale fee for our audit and certification work. The fees applicable to our work in 2014/15 are summarised below.

Element of work	2013/14 Final Fee	2014/15 Scale Fee (as previously reported)	2014/15 Final Fee
Durham County Council			
Code audit work	£333,720	£334,250	£334,250
Certification work	£26,995	£32,210	£32,210*
Non-audit work for certification of grants outside the Audit Commission regime	£5,900	TBC	£5,900**
Non audit work – officer attendance at Transport Infrastructure workshop	-	-	£400
Total	£366,615	£366,460	£372,760
Durham County Pension Fund			
Code audit work	£25,918	£25,918	£25,918

* 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 are yet to complete the non-audit work agreed to date for the certification of the Teacher's Pensions return and the Pooling of Housing Capital Receipts return.

We will confirm the final fees charged for certification work when we issue our Certification Report.

During the audit year we have continued to support the Council in other ways, including:

- Attendance at Audit Committee meetings where we inform the Committee about progress on the audit, report our key findings and provide updates about developments in the public sector and the wider environment; and
- Hosting briefing events for finance staff, such as our Accounts workshops, and more focused Accounts update sessions, as appropriate.

Further detailed findings, conclusions and recommendations in the areas covered by the audit are included in the reports issued to the Council during the year, which are summarised below.

Report	Date issued
2014/15 Audit Fee Letter	April 2014
Audit Strategy Memorandum	March 2015
Progress reports to Audit Committee	To each meeting
Audit Completion report, including follow up letter	September 2015
Auditors Report	September 2015
Annual Audit Letter	October 2015

The Council and management have taken a positive and constructive approach to our audit and I wish to thank them and the Audit Committee for their support and co-operation during our audit.

Cameron Waddell

Partner

October 2015

Should you require any further information on this letter or on any other aspects of our work, please contact:

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