

31 July 2017

**External Audit – Durham County Council Audit
Completion Report Year Ended 31 March 2017**

Report of the External Auditor

Purpose of the Report

1. The Committee is asked to note the contents of the attached External Auditor report on the audit of the statement of accounts for the County Council for year ended 31 March 2017.

Background

2. This report illustrates the findings of the external audit completed by Mazars for the year ended 31 March 2017 for Durham County Council.
3. The audit has been completed in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board.

Summary of audit progress

4. Our work on the audit is substantially complete. Section 1 of the report details the ongoing audit procedures. The most significant ongoing piece of work relates to the review of floor areas used for asset valuations. This work is being completed by management and will not be completed by the 31 July 2017. This work follows the identification of errors in our detailed valuation testing. The statutory deadline for completing the audit is 30 September 2017.

Recommendation

5. The Committee is requested to:
 -) Note the report, including the adjustments to the financial statements included at Appendix A of the report.

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

Statutory approval of the accounts

Audit Completion Report

Durham County Council



For the year ended 31 March 2017



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Our reports are prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies’ and the ‘Terms of Appointment’ issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Council 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.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

1. Executive summary

Purpose of this report

The Audit Completion Report sets out the findings and progress to date of our audit of Durham County Council (the Council) for the year ended 31 March 2017, and forms the basis for discussion at the Audit Committee meeting on 31 July 2017. Members will note that the statutory reporting deadline for completion of the external audit is 30 September 2017, which will move forward to 31 July, from next year

The scope of our work and overall summary

The detailed scope of our work as your appointed auditor for 2016/17 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and include the matters outlined in the following table.

Financial statements	<p>In our Audit Strategy Memorandum we reported that materiality for the financial statements as a whole was set at £24.627 million. We have updated our assessment as part of our continuous planning processes and have set materiality at £24.153 million. Our clearly trivial threshold for reporting matters to you has been set at £0.725 million.</p> <p>We communicated identified significant risks to you as part of our Audit Strategy Memorandum in February 2017. Section 2 of this report outlines the work we have undertaken for each significant risk.</p> <p>A draft auditor's report is provided in Appendix C. We are unable to issue the auditor's report until management have completed additional work on the floor area data used in the valuations of Land and Buildings. We provide further details of this later in the report.</p>
Identified misstatements	<p>Our work has so far identified a number of misstatements that have been discussed with management. A summary of the identified misstatements is provided in Appendix A.</p> <p>Our work is ongoing so there may be additional matters which we will need to report to the Audit Committee.</p>
Value for Money	<p>At the time of issuing this report we anticipate having no matters to report in respect of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. This is subject to the satisfactory conclusion of the remaining audit work.</p>
Whole of Government Accounts (WGA)	<p>We anticipate completing our work on your WGA submission, in line with the group instructions issued by the National Audit Office, by the deadline of 30 September 2017.</p>

The status of our work

Working with Council officers we have attempted to complete the audit in line with the new statutory deadline which is effective in 2017/18. We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2017 in line with the early reporting deadline. At the time of preparing this report, the following significant matters remain outstanding. A verbal update on the progress in resolving these matters will be given at the meeting:

Property, Plant and Equipment	<ul style="list-style-type: none"> Additional testing of the source data used in the valuation of assets. This relates to the areas used in the valuation of assets. We have reported a deficiency in control later in this report and will provide an update on the work at the Audit Committee meeting. This will require further testing which will not be completed by the 31 July 2017 and will prevent us from issuing our opinion at this stage. Fixed Asset Register to GL reconciliation. We are waiting for an updated reconciliation. 	Debtors testing	We have a small number of outstanding items to conclude on in our detailed sample testing.
Income and expenditure testing	<ul style="list-style-type: none"> We are yet to complete our consideration of the double counting adjustments made in the preparation of the accounts. We have some work to complete for our cut off and completeness assurance, including agreement of year end control accounts. 	Creditors testing	We have a small number of outstanding items to conclude on in our detailed sample testing.
Loans – direct confirmations	We are waiting for direct confirmation for one loan.	Financial Instruments	We have some outstanding queries to resolve with officers.
Cash Flow Statement	We have some outstanding queries to resolve with officers.	Pensions	We will complete testing when assurance from the Pension Fund auditor is received.
		Collection Fund	We have a small number of tests to complete before we can conclude on the Collection Fund.
		Closure procedures and review	We will complete our standard closure procedures, including review of the amended financial statements and consideration of post balance sheet events.
		Whole of Government Accounts	We will complete the required procedures for the WGA return when the amended accounts are received.

We will provide a verbal update to you in relation to these outstanding matters at the 31 July 2017 Audit Committee meeting. A follow up letter detailing the results of the additional testing will be provided in September prior to giving our opinion.

Significant findings

This section sets out the significant findings from our audit and provides information on a number of matters that we are required to report to you by ISA 260 'Communication with those charged with governance'.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we will mitigate these risks. No new risks have been identified since we issued our Audit Strategy Memorandum. The significant risks identified, and our conclusions against each are outlined below.

Significant risk	How we addressed the risk	Audit conclusion
<p>Management override of control 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 overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk by performing work in the following areas:</p> <ul style="list-style-type: none"> considered accounting estimates affecting amounts included in the financial statements; considered significant transactions outside the normal course of business; considered the selection and application of accounting policies; and using a risk based approach, we tested journals recorded in the general ledger and considered other adjustments made in preparation of the financial statements. 	<p>Our work has identified no matters to report.</p>
<p>Revenue recognition 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</p>	<p>We completed the following substantive procedures:</p> <ul style="list-style-type: none"> tested revenue items posted prior and post year end to ensure they have been recognised in the appropriate year; tested adjustment journals; and for major grant income, agreed amounts to third party documentation. 	<p>We identified some errors in the treatment of grant income but no material misstatement – see appendix A.</p>

revenue sources we have concluded that there are insufficient grounds for rebuttal in 2016/17.		
<p>Valuation of defined benefit pension scheme</p> <p>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.</p>	<p>We completed the following procedures:</p> <ul style="list-style-type: none"> evaluated the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and challenged the reasonableness of the Actuary's assumptions that underpin the entries in the financial statements. We did this using an expert commissioned by the National Audit Office. 	<p>As noted above our work is ongoing. We will provide an update when we receive assurance from the Pension Fund auditor.</p>

Identified key areas of management judgement

Area of management judgement	How we considered this judgement	Audit conclusion
<p>Valuation of property, plant and equipment</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE.</p> <p>The value of the Council's PPE is material to the accounts and involve management judgements over the valuations and useful lives of assets.</p>	<p>We completed the following procedures :</p> <ul style="list-style-type: none"> considered the Council's arrangements for ensuring that PPE values are reasonable; engaged our own expert to provide data to enable us to challenge the reasonableness of the valuations provided by the Council's valuer; assessed the competence, skills and experience of the valuer and the instructions issued to the valuer; and perform audit procedures on individual assets to ensure that the basis and level of valuation was appropriate 	<p>Our valuations testing identified several errors in the floor areas used in the valuation of assets.</p> <p>Further details of these errors and the impact are detailed in appendix A. At the time of preparing this report additional work is being completed by management. We will update members on this testing at the 31 July Audit Committee meeting, though completion of this work has prevented us from issuing our opinion at the stage.</p>

Qualitative aspects of the Council's accounting practices

We are required to communicate to you our views on the significant qualitative aspects of the Council's accounting practices, including the accounting policies used and the quality of disclosures.

Qualitative aspect	Our views
Accounting policies and disclosures	<p>We have reviewed the Council's accounting policies and disclosures and found these to be in line with the requirements of the Code of Practice on Local Authority Accounting (the Code).</p> <p>In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2017.</p>
Quality of the draft financial statements	<p>We received draft financial statements from management on 31 May 2017. This is one month ahead of the 2015/16 draft statements. A number of errors were identified and these are detailed in appendix A. Subject to these the accounts were of good quality.</p>
Quality of supporting working papers	<p>Producing high-quality working papers is as crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. Officer's provided good quality working papers to support the accounts.</p>

Significant matters discussed with management

Group accounts: The Code of Practice on Local Authority Accounting, paragraph 9.1.1.6 states:

'Authorities with interests in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered not material.'

The Council has assessed its subsidiaries, associates and joint ventures and considers them to be not material either qualitatively and quantitatively. We have considered management's judgement and are satisfied that the accounts are not materially misstated as a result of this judgement. In the coming years the Council will need to ensure it updates assessment for any changes.

Significant difficulties during the audit

During the course of the audit we had the full co-operation of management. As reported above our testing of Land and Buildings valuations identified a number of errors in the floor area data used in valuation that require further testing of records before we can conclude the financial statements give a true and fair view on the financial position of the Council. We are therefore not in a position to issue our auditor's report in line with the earlier 31 July deadline until management have completed additional work to resolve the matters identified. The statutory deadline for issuing the auditor's report is the 30 September 2017.

Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to 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.

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 1 (high)**
There is potential for financial loss, damage to reputation or loss of information. Weaknesses may have implications for the achievement of strategic objectives and our recommendations should be considered immediately by management.
- **Priority 2 (medium)**
There is a need to strengthen internal controls or enhance efficiency. Our recommendations should be actioned in the near future.
- **Priority 3 (low)**
Internal controls should be strengthened where practicable and where there is a cost benefit from doing so.

Other deficiencies in internal control – Priority 2

Description of deficiency	Our testing of land and buildings valuations identified errors in the areas recorded in the asset manager system for several council properties testing, in particular school buildings. In one case the whole second floor of a building had not been recorded. In another the asset system had not been updated and the valuation was based on the old school site which was no longer operational.
Potential effects	A significant amount of council properties are valued using the Depreciated Replacement Cost (DRC) method. DRC is calculated using area information. Inaccurate area information will therefore result in incorrect valuations. This increases the risk of the Property, Plant and Equipment figure being materially misstated on the Council's Balance Sheet.
Recommendation	The Council should ensure that area information is regularly reviewed and updated. There should be a process, in particular for schools, where the Asset Team are informed of any changes in property area.
Management response	Lessons have been learnt following the most recent School Valuations under the Capital Accounting Rolling Programme, processes will be updated with more defined and increased communications across all services a necessity

Other internal control recommendations – Priority 3

Description of deficiency	<p>IT user access testing for leavers identified that in one case (from 25 tested) an individual employee still had access to Council IT systems after their leaving date. This occurred as the HR Turnover sheet, used to record leavers, had additional leavers added to the list after it was provided to the Service Direct team. The Service Direct team had already reviewed the list and created the ITBM call (which created the deactivation list) for that week. This meant the individual was not processed as a leaver.</p> <p>In two further cases (from 25 tested), we noted that leavers who were logged on ITBM had not been removed in a timely manner.</p>
Potential effects	<p>Leavers are not deactivated in a timely manner, meaning that inappropriate access to business critical systems would be possible.</p> <p>We do note, however, that this had not occurred in any case tested – no leavers had accessed the network, or any business critical system, following their leave date.</p>
Recommendation	<p>Processes should be in place to ensure that, once the HR list has been submitted to the Service Direct team:</p> <ol style="list-style-type: none"> 1. Service Direct team monitors the timely removal of all leavers requiring deactivation, for example by adding an additional column to the deactivation spreadsheets to confirm which member of the team has deactivated each leaver, and on what date. 2. No-one in HR is able to make further amendments to the list once submitted to Service Direct
Management response	<p>We are acting on the recommendation and changing the process for notifying leavers to ICT to ensure leavers are processed in a timely manner and to ensure the list cannot be amended. We are developing a new report to extract all leavers based on the date the change was processed rather than the leaving date. This will ensure that any back-dated leavers do not get missed.</p>

Value for Money Conclusion

Our approach to Value for Money

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The Council has a Constitution in place which is reviewed annually. The Constitution records the leadership and committee structure of the Council. A new Council structure has been introduced to adapt to the Council's future plans and challenges. This includes creation of the Transformation and Partnerships service and separate Children's and Adult service areas. The Council has an active Audit Committee who receive regular risk management reports. Key strategic risks are regularly reported. Internal Audit report progress and recommendations at every Audit Committee. Where necessary Committee Members challenge officers on internal control weaknesses. Internal Audit delivered its planned audit days in 2016/17.</p> <p>During the year there has been regular financial and performance reporting. Financial information includes details of outturn against budget and explanations for any variances. Medium Term Financial Plan progress reports were presented to the Cabinet for each quarter. Key target indicators and key tracker indicators are used to track performance across the Councils 'Altogether' priority themes. Scrutiny, including</p>	Yes

	<p>the Overview and Scrutiny Management Board, was in place to challenge the financial and operational performance of the Council, including at individual services.</p> <p>The Quality Improvement Board has monitored the delivery of the Ofsted Improvement Plan. Updates have also been provided to the Cabinet during 2016/17.</p>	
Sustainable resource deployment	<p>The Council delivered a surplus in 2016/17, including delivery of just over £28 million of planned savings. This is consistent with recent financial performance of the Council. As at the 31 March 2017 the Council reported £23m General Fund and £233m earmarked reserves. This includes a Business Support Reserve which is intended to support the delivery of future Medium Term Financial Plan's (MTFP).</p> <p>MTFP(6) was presented to Council in February 2016 and MTFP (7) in February 2017. Both ahead of the start of the financial year and after consultation and scrutiny. An update on MTFP (8) was provided to the July 2017 Cabinet. Development of the Transformation Programme continued in 2016/17. The programme is intended to focus on how services are delivered and ensuring outcomes are appropriate.</p> <p>A capital plan is in place and was progress against the plan was reported during the year. The Capital Member Officer Working Group (MOWG) was in place during the year to monitor delivery of the Capital Plan.</p> <p>Staff indicators, including sickness levels, are reported within the regular performance management reporting. Staff surveys have also been conducted and results analysed.</p>	Yes
Working with partners and other third parties	<p>The Council's Constitution details the arrangements for contracting with third parties. Where appropriate partnerships are monitored through Council performance reporting arrangements. Area Action Partnerships are intended to give local residents a voice in how services are provided locally. Consultation with partners feeds into the Council's MTFP development. The County Durham Partnership is in place bringing together key partners in the County.</p> <p>The Health and Well-being Board is responsible for the Durham Better Care Fund plan. Financial and health outcome performance of the plan is monitored.</p> <p>The Council has written procedures for procuring products and services, which are within its constitution.</p>	Yes

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that no significant Value for Money risks had been identified. We did, however, identify areas of additional work. The additional work we carried out is outlined below.

Area of additional work	Work undertaken	Conclusion
<p>Sustainable resource deployment</p> <p>Our audit work in previous years concluded that the Council has arrangements in place for medium term financial planning. We are not aware of any matters to suggest a significant change in arrangements.</p> <p>The Council continues to face financial pressure in the coming years and the Council updating its medium term financial plan (MTFP) to meet these pressures. We need to ensure our knowledge of the Council's MTFP arrangements and its monitoring of the planned delivery of savings, remains up to date in order to ensure we give the correct VFM conclusion.</p>	<p>We completed the following work:</p> <ul style="list-style-type: none">• documented how the Council has developed its MTFP;• reviewed the delivery of 2016/17 savings against plans;• reviewed the arrangements for 2017/18 savings;• reviewed the arrangements for the Transformation Programme; and• reviewed the arrangements for identifying savings in 2018/19 to 2019/20	<p>We identified no matters to suggest a significant value for money risk.</p>

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix C states that we intend to issue an unqualified Value for Money conclusion for the 2016/17 financial year.

Appendix A – Summary of misstatements

The misstatements identified for adjustment during the course of the audit that are above the trivial level of £0.725 million are set out below.

The first table outlines the identified misstatements which management has assessed as not being material, either individually or in aggregate to the financial statements, and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2016/17				
	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Dr: Other operating expenditure: losses on disposal of non-current assets*	4,050			
Cr: Property, Plant and Equipment: Land and Buildings				4,050
<p>1 Our testing of the gain and losses on disposal of non-current assets identified two assets which are included in the 2016/17 accounts but relate to assets disposed in March 2016. As a result the 2015/16 loss on the disposal of non-current assets charged to other operating expenditure is overstated. We discussed with officers who explained the tight year end close down period means capital journals are posted near to the year end. Given neither of the disposals were material it is not the current policy to amend the capital journals. To confirm this approach did not risk a material misstatement we extrapolated the errors identified against the whole population. An extrapolated error of £4.543 million has been calculated. The above details the impact of this on the current year financial statements.</p> <p>We have completed testing of disposals made in March, April and May 2017 to see if there is any indication of a material omission. This testing did not identify any material disposals omitted from the 2016/17 statements.</p> <p>Whilst the year-end balance sheet position of Property, Plant and Equipment (PPE) is correct the brought forward figures (cost/valuation and accumulated depreciation) disclosed in note 14 will be overstated – the above shows the potential net position of the overstatement.</p> <p>*there were no sale proceeds associated with either of the two disposals.</p>				
Dr: Net cost of services: Gross expenditure	1,782			
Cr: Net cost of services: Gross income		1,782		

Our grant income testing (note 38) identified errors associated with the Skills Funding Agency grant. The Council have amended for this individual error, however given the error was part of our sample testing we have extrapolated to determine the potential impact on the population we tested. This generated an extrapolated error of £1.782 million. If this error had been duplicated the population the impact would be as above.

Dr: CIES: Children and Young People's Services	1,104			
Dr: Revaluation reserve			978	
Cr: Other Operating Expenditure		2,082		
Dr: Capital adjustment account			1,104	
Cr: Movement in reserves		1,104		

3 Our disposals testing identified that the demolition of the components of the Durham Free School site had been treated inconsistently. One component had been treated as an impairment whilst another had been treated as a disposal. The Council confirmed the asset should have been impaired prior to its demolition. As a result an incorrect charge of £2.082 million was made to Other Operating Expenditure (loss on the disposal of non-current assets) rather than a charge of £1.104 million to net cost of services (Children and Young People's Services). The remainder of the balance, £0.978 million, should have been reflected in the revaluation reserve where a balance associated with this component existed.

The overall impact on the general fund is nil given the charge to the CIES is reversed out through the Movement in Reserves (Adjustment between accounting basis and funding basis under regulations).

We have reviewed other demolitions during the year and have confirmed there were no other errors of this nature.

Note 1, Accounting policy 21 PPE

4 A de minimis level for PPE accounting is not disclosed in accounting policies as required by the Code (para 4.1.4.1)

Adjusted misstatements 2016/17

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Long Term Provisions			4,967	

	Cr: Short Term Provisions			4,967
	Review of the non-domestic rates appeals provision suggested that it was not appropriate to treat 100% of the provisions as long term.			
	Dr: Cash and cash equivalents: current liabilities		1,953	
	Cr: Cash and cash equivalents: current assets			1,953
2	<p>The Code paragraph 3.4.2.14 states that cash and cash equivalents shall include bank overdrafts that are an integral part of an authority's cash management.' and Code Guidance paragraph 3.4.2.77 states bank overdrafts are shown separately as liabilities in the Balance Sheet only where they are not an integral part of an authority's cash management. If the overdraft at 31 March arises on a bank balance that fluctuates between being in credit and overdrawn then it should be netted off against Cash and Cash Equivalents (asset). The prior year figure has also been amended.</p> <p>The overdraft is not borrowing and so should be included in cash and cash equivalents balance in current assets.</p>			
	Dr: Financing and Investment Income and Expenditure (gross income)	86,922		
	Cr: Financing and Investment Income and Expenditure (gross expenditure)		86,922	
3	<p>Code Guidance Notes, paragraph 173, states that the trading deficit/surplus in the Financing and Investment Income and Expenditure (FII&E) line of the CIES will only contain 'trading account balances arising from external trading activity not covered by the service expenditure analysis or balances attributable to under or over-recovery of internal recharges where reappportionment would not have had a material effect on total costs'. Given a large proportion of the trading activity is internal it is not appropriate to treat this as gross expenditure and gross income in the FII&E .</p> <p>SERCOP guidance (2.37.5) states 'Where a support service/internal trading account has a year-end balance attributable to under or over-recovery of internal recharges, then the balance should be reappportioned to services, if doing so would have a material effect on total cost figures – the cost of the activity will then be absorbed fully by all its client services'. With the above adjustment the net surplus or deficit on the trading activity reflected in the FII&E is £2.206m. This is a mixture of internal and external trading surplus. Given the amount is not material we are satisfied there isn't a material impact on the net cost of services. There is no impact on the overall surplus or deficit on provision of services.</p> <p>The prior year figures have also been adjusted. This is £78.192 million adjustment to gross income and gross expenditure.</p>			
	Dr: CIES: Children and Young People's Services	3,046		
4	Dr: Revaluation Reserve		7,633	
	Cr: Property, Plant and Equipment			10,624
	Cr: Movement in reserves		3,046	

	Dr: Capital Adjustment Account			2,991	
	Our Property, Plant and Equipment testing identified that Seaham School of Technology has not been impaired during the year despite no longer being operational. This was still reflected in the Council balance sheet as at 31 March 2017. Also the asset, despite being operational for part of the year, was not revalued by the valuer as at 1 April 2017.				
	Dr: Other Long Term Liabilities			1,120,277	
5	Cr: Pension liability				1,120,277
	Other long term liabilities was amended to separately disclose the pension liability of £1,120.277 million which is a material amount.				
	Dr: CIES: Children and Young People's Services: Skills Funding - Gross expenditure	1,430			
	Cr: CIES: Children and Young People's Services: Skills Funding - gross income		1,430		
6	Our testing of grant income note 38 identified an error in the Skills Funding Agency grant income. The actual income in year was £2.896 million. This error impacts on the gross income and gross expenditure shown in the CIES. This error was selected in our sample testing and whilst the Council have chosen to amend we have extrapolated the error to determine the impact if the error was repeated. This extrapolation is detailed in the above unadjusted error table – error 2.				
	Dr: CIES: Children and Young People's Services: Skills Funding - gross income	2,108			
7	Cr: CIES: Children and Young People's Services: Skills Funding - gross expenditure		2,108		
	An error was identified in the treatment of the PFI Service charge. This resulted in gross income and gross expenditure being overstated. There was no impact on the net expenditure.				
		Collection Fund Income and Expenditure Account			
		Dr (£'000)		Cr (£'000)	
8	Dr: 113 Towns and Parishes and 1 Charter Trust (Precepts and Demands)	11,513			
	Cr: Durham County Council (Precepts and Demands)			11,513	
	The £11.513m of town and charter trust precepts were incorporated into the Durham County Council figures. This treatment is in line with the Code.				

Disclosure amendments

The following disclosure amendments were made:

Note 7, Expenditure and Funding Analysis: Paragraph 3.4.2.99 of the Code requires a disclosure of segmental income. This disclosure has been added to note 7.

Note 8, Expenditure and Income Analysed by Nature: Following the error identified in treatment of trading income and expenditure the figures in the note have been amended. Also the Council have classified items previously disclosed as several lines into one category - 'other service expenditure'. This treatment is not inconsistent with the Code requirements.

Note 14, Capital Commitments: A number of previously unidentified capital commitments have been added to the disclosure. Comparative year figures have also been added.

Note 14, Property, Plant and Equipment (PPE): The note has been amended to reflect some misclassifications between asset categories and lines. This included a movement of additions from Land and Buildings to Assets Under Construction – the impact of this adjustment was £1.4 million. Other amendments were individually trivial. None of these adjustments had an impact on the balance sheet figure for PPE.

Note 14, Property, Plant and Equipment (PPE): The note was amended to show impairment losses/reversals, charged to the surplus or deficit on the provision of services and to the revaluation reserve in the financial year. This is a requirement of paragraph 4.7.4.2(1) of The Code.

Note 27 and 3, Cash Flow Statement: Some amendment to the disclosures were made for non-cash items.

Note 35, Officers' Remuneration; The note was amended to document that the role of Corporate Director was split between two individuals in the financial year 2016/17.

Note 36, External Audit Costs; some minor amendments were made to the presentation and figures relating to external audit services.

Note 39, Grant and contribution income credited to services: Pupil Premium figure corrected to show £20.435m following a £0.753m adjustment.

Note 39, Related Parties: The loan to Durham County Cricket Club has been added to the disclosure note. There were some minor amendments to the wording of the note.

Note 47, Contingent liabilities: A contingent liability relating to claims made by NHS Trusts and Foundation Trusts for non-domestic rating relief has been removed. Upon review this did not meet the criteria of a contingent liability.

Note 52, Prior Period Adjustments (PPAs): The note has been amended to include narrative explaining why the comparative net cost of services totals have been restated in the year.

Housing Revenue Account: the HRA account and supporting notes have been removed given there were no in year transactions. A narrative note explaining that the HRA has closed has been included.

Other amendments: There was a small number of non-material disclosure misstatements which have been corrected by management. These were mainly spelling, grammatical, referencing, rounding, terminology and typographical amendments.

Appendix B – Draft management representation letter

Durham County Council
County Hall
Durham
DH1 5UL
Insert date

Dear Mark

Durham County Council - audit for year ended 31 March 2017

This representation letter is provided in connection with your audit of the statement of accounts for Durham County Council (the Council) for the year ended 31 March 2017 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 2016/17 (the Code).

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 Code.

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 Corporate Director of 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 effect 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 Council 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 Code 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.

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 Code.

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.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Corporate Director of 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 Code.

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.

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2016/17 in relation to the Council's PFI schemes that you have not been made aware of.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code 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 as included in the auditor's draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Yours sincerely

Corporate Director of Resources

Date.....

Appendix C – Draft audit report

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

Opinion on the Durham County Council financial statements

We have audited the financial statements of Durham County Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. 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 2016/17.

This report is made solely to the members of Durham County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Durham County Council, 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 2016/17, 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 Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2017 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 2016/17.

Opinion on other matters

In our opinion, the information given in the Narrative Report 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 comply with Delivering Good Governance in Local Government: Framework (2016);
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Report on the Pension Fund financial statements

We have audited the Durham County Council pension fund pension fund financial statements for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. 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 2016/17.

This report is made solely to the members of Durham County Council as a body in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Durham County Council, 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 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 2016/17, 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 Pension 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 Authority's Statement of Accounts and Annual Governance Statement] to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our 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 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017 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 2016/17.

Opinion on other matters

In our opinion, the information given in the Authority's Statement of Accounts and Annual Governance Statement for the financial year for which the financial statements are prepared, is consistent with the financial statements.

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

Respective responsibilities of the Durham County Council 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 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made 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 are required to conclude whether the Authority has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the Comptroller and Auditor General, and had regard to relevant guidance. 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 criterion issued by the Comptroller and Auditor General, 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 2017.

Certificate

We certify that we have completed the audit of the financial statements of Durham County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

Mark Kirkham

For and on behalf of Mazars LLP

Salvus House,
Aykley Heads,
Durham
DH1 5TS

Appendix D – 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.

During the audit the following issues arose which could be perceived as a threat to our independence. The table below details these potential threats and the safeguards put in place to mitigate the risk.

Independence issue	Perceived threats and safeguards
<p>Assurance on Skills Funding Agency arrangements</p> <p>Fee: £2,000</p>	<p>We have considered threats and safeguards for all grants work as follows:</p> <ul style="list-style-type: none"> - 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. - Intimidation: The nature of the work does not give rise to any intimidation threat from management to Mazars.