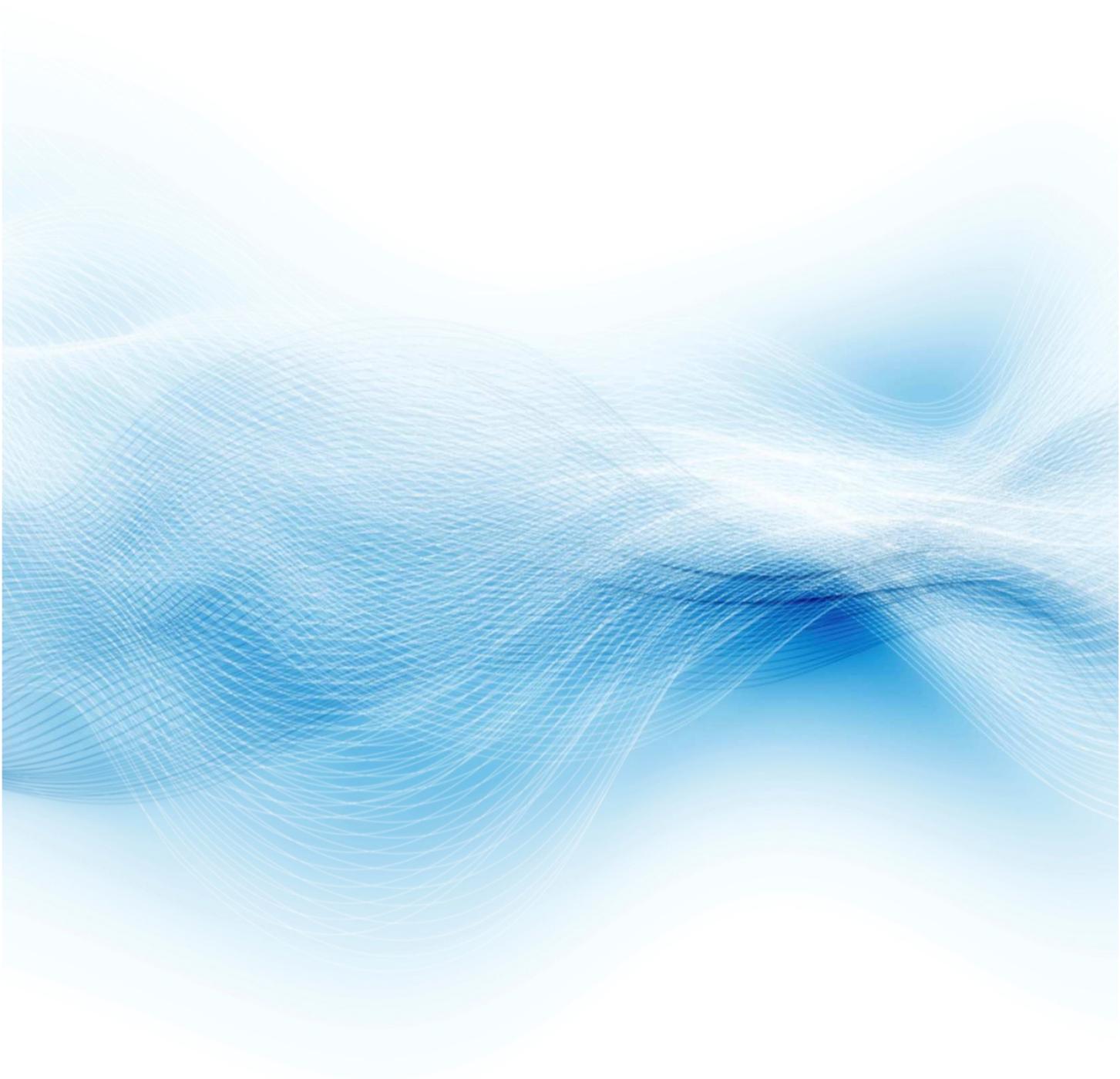
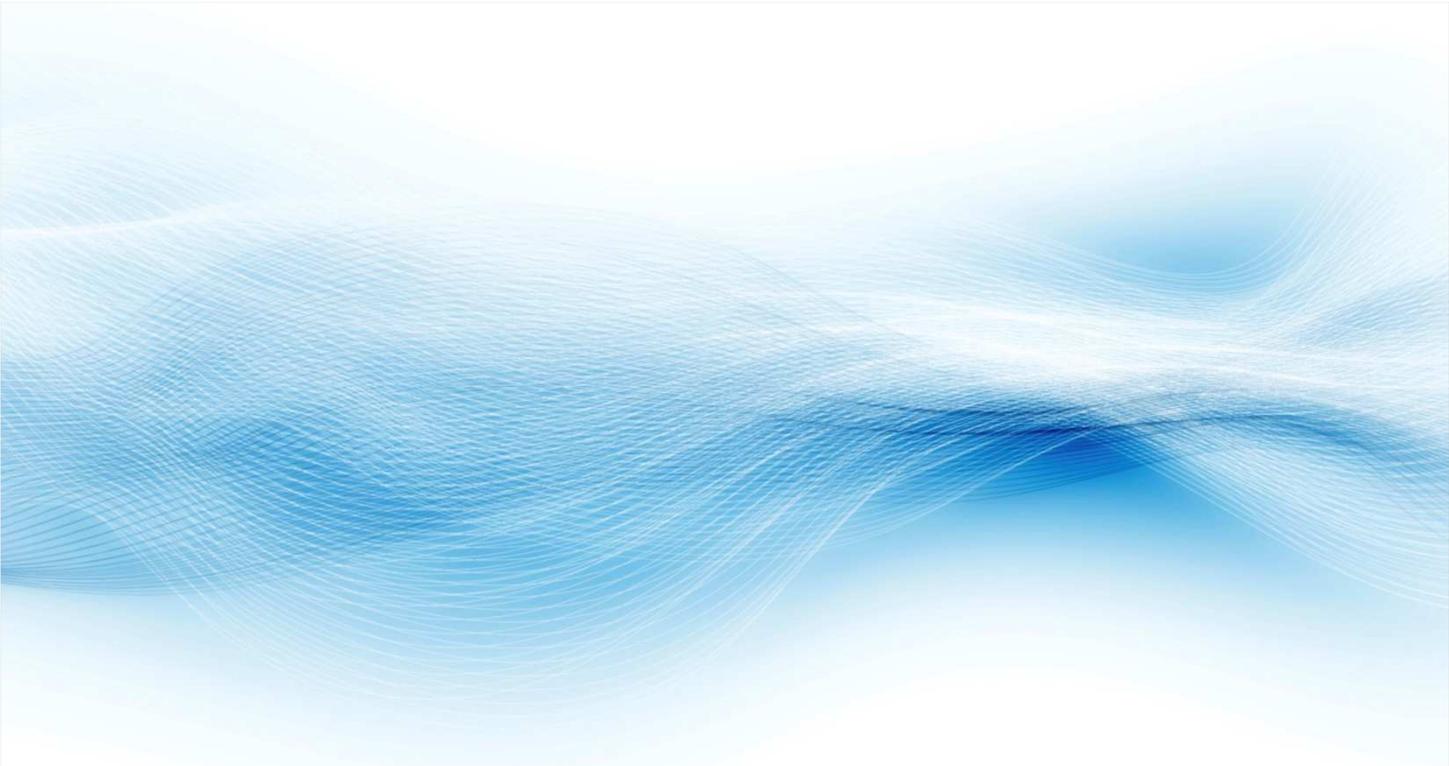




Audit Completion Report

Durham County Council
Year ending 31 March 2018





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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.

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Audit Committee
Durham County Council
County Hall
Durham
DH1 5UQ

20 July 2018

Dear Audit Committee Members

Audit Completion Report – Year ended 31 March 2018

We are pleased to present our Audit Completion Report for the year ended 31 March 2018. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 24 February 2018. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your Finance team during our audit.

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

Yours faithfully

Signed: 
Mark Kirkham (Jul 20, 2018)

Mark Kirkham
Mazars LLP

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VAT number: 839 8356 73

1. EXECUTIVE SUMMARY

Purpose of this report and principle conclusions

The Audit Completion Report sets out the findings from our audit of Durham County Council ('the Council') for the year ended 31 March 2018, and forms the basis for discussion at the Audit Committee meeting on 31 July 2018.

The detailed scope of our work as your appointed auditor for 2017/18 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.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. As we outline on the following page, our work is substantially complete and, subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including our proposed conclusion, is provided in Appendix B.

Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, by the deadline of 31 August 2018. We anticipate reporting that the WGA submission is consistent with the audited financial statements.

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We have received no objections or questions from local electors.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee in a follow-up letter.

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1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2018. At the time of preparing this report the following matters remain outstanding:

Audit area	Description of outstanding matters
Grant income	We have a small number of queries to resolve with officers before we can conclude this work.
Whole of Government Accounts	We are completing the procedures specified by the National Audit Office (NAO)
Closure procedures	We will complete our standard closure procedures, including consideration of post balance sheet events.

We will provide the Audit Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in February 2018. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum. We did highlight at the June Audit Committee, via our Audit Progress Report, an error in the reliance on experts. This change does not alter our audit approach.

Materiality

We set materiality at the planning stage of the audit at £24.277m using a benchmark of 2% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £24.246m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee), at £0.727m based on 3% of overall materiality.

2. FINANCIAL STATEMENTS AUDIT

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding 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;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit; and

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 intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls	<p>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. Because of 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.</p> <hr/> <p>How we addressed this risk</p> <p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none">• accounting estimates impacting on amounts included in the financial statements;• consideration of identified significant transactions outside the normal course of business;• selection and application of accounting policies; and• journals recorded in the general ledger and other adjustments made in preparation of the financial statements. <hr/> <p>Audit conclusion</p> <p>Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.</p>

2. FINANCIAL STATEMENTS AUDIT (CONTINUED)

Significant risk	Description of the risk
Revenue recognition	In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council's range of revenue sources, we have concluded that there are insufficient grounds for rebuttal in 2017/18. We have identified income from fees and charges as the key areas for audit testing. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.

How we addressed this risk

We addressed this risk by performing audit work that included:

- substantive testing of revenue items recorded around year end to ensure they have been recognised in the appropriate year;
- testing year end debtors;
- testing adjustment journals; and
- obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Significant risk	Description of the management judgement
Property Valuations	<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>Although the Council employs an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE because of the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk.</p>

How our audit addressed this area of management judgement

We addressed this risk by performing audit work in the following areas:

- consideration of the Council's arrangements for ensuring that PPE values are reasonable;
- consideration the data provided by our consulting Valuer, Gerald Eve, as part of our assessment of the reasonableness of the valuations provided by the Council's Valuer;
- assessing the competence, skills and experience of the Valuer and the instructions issued to the Valuer; and
- performing audit procedures on individual assets to ensure the basis of valuations was appropriate

Audit conclusion

Our consideration of the Gerald Eve report and local build indices indicated material movements in some assets not valued in the year as part of the rolling programme. In particular Children and Young People's Services school assets last valued on 1 April 2016. Our findings led to the need for material adjustment to the Statement of Accounts.

2. FINANCIAL STATEMENTS AUDIT (CONTINUED)

Significant risk	Description of the risk
Defined benefit liability valuation	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 addressed this risk by performing audit work on:

- the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and
- the reasonableness of the Actuary's assumptions that underpin the relevant entries made in your financial statements, through the use of an expert commissioned by the National Audit Office.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Area of management judgement	Description of the judgement
Depreciation of Property, Plant and Equipment	Property, Plant and Equipment is depreciated over its useful life in the financial statements.

	How we addressed this judgement
Depreciation of Property, Plant and Equipment	We tested the underlying calculation of depreciation to ensure it was reasonable.

	Audit conclusion
Depreciation of Property, Plant and Equipment	Our work provided the assurance we sought and has not highlighted any material issues to bring to your attention.

2. FINANCIAL STATEMENTS AUDIT (CONTINUED)

Qualitative aspects of the entity's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 31 May 2018 and were of a good quality.

Significant matters discussed with management

Property valuations

The Code (para 4.1.2.38) permits assets to be valued on a rolling basis. Where assets are valued on a rolling basis there is a requirement that:

Where assets are revalued (i.e. the carrying amount is based on current value), revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period (Code para 4.1.2.37).

As noted in our consideration of the property valuation significant risk, we used a report commissioned by the National Audit Office (NAO) to challenge the assumptions made in the valuation of assets. The NAO report was prepared by Gerald Eve and included details of movements in BCIS (Building Cost Information Service) All-in Tender Price Index indices. We used this report to challenge the Valuer's judgement that there had not been a material movement in those assets not valued in year as part of the Council's rolling asset valuations, specifically Children and Young People's Services assets which were last valued as at 1 April 2016 on a depreciated replacement costs (DRC) basis. The BCIS data indicated a material movement over the period which had not been reflected in the financial statements. Consideration of local data indicated a similar movement. As a consequence these assets have been revalued as at 31 March 2018 to account for the movement in indices. Movements in other asset categories and services did not indicate a material movement since their last valuation date.

NDR Appeals provision

The NDR appeal provision includes an amount associated with NHS Trust appeal for charitable status. The case is ongoing and there is evidence to support the provision made by the Council. We are satisfied, based on review of legal evidence, that the Durham County Council share of the provision is not materially misstated.

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 or 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 reviews this assessment and updates it for any significant changes.

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. We would like to express our thanks to management and officers for their co-operation throughout the audit.

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2. FINANCIAL STATEMENTS AUDIT (CONTINUED)

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2017/18 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have received no questions or objections.

3. 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 relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor 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 ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	1
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency

Our 2016/17 testing of land and buildings valuations identified errors in the areas recorded in the asset manager system for several council properties tested, 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.

2017/18 update

Our 2017/18 testing of land and buildings valuations did not identify any errors suggesting a risk of material misstatement. We obtained sufficient evidence to conclude floor areas used in the 2017/18 DRC valuations were materially correct.

We also note that officers, including the Council's Internal Audit team, completed significant testing of floor area data prior to the accounts being finalised.

Description of deficiency

Our IT user access testing for leavers in 2016/17 identified one case where 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 ICT team. The ICT 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 in a timely manner.

Potential effects

Leavers are not deactivated in a timely manner, meaning that inappropriate access to business critical systems would be possible.

2017/18 update

Our 2017/18 testing noted three leavers (from our sample of 25) who still had system access after their leave date. In all three cases we confirmed that the leaver had not accessed the network, or any business critical system, following their leave date.

Management response

ICT are notified of all leavers via a scheduled report generated by the HR Operations and Data Team. There can be a slight delay in leavers being entered onto the HR IT system as the team may not have been notified by the manager until after they have left and the current process is linked to payroll deadlines. However we are reviewing our systems as part of the HR IT system development which will mean leavers dates will be entered at the point of a manager submitting a resignation and ICT will be informed immediately by an electronic alert rather than waiting for the scheduled report.

However, with immediate effect ICT will as per the recommendation make a record of which member of the team has deactivated the leaver and on what date.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £0.737m.

The first table outlines the misstatements that were identified during the course of our audit 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 2017/18

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Other long term liabilities - Pensions Cr: Unusable Reserves: Pensions Reserve			4,400	4,400

Since the last triennial valuation 7 schools have transferred to academy status. When a school converts to an academy the Council is no longer responsible for the employees and the academy takes on the associated pension liability. The transfer of the 7 schools is not reflected in the Council Pension Liability. As a consequence the Durham County Council Balance Sheet includes liabilities associated with the 7 academy's.

The Council and Actuary have determined that the transfers would not be material and have elected to wait till the next triennial valuation to remove the associated scheme members. Based on extrapolations completed by the Councils it is estimated that the Council's net pension liability is overstated by £4.4m (a reduction of £2.077m in assets and £6.521m in liabilities). This is approximately 0.4% of the total net pension liability.

There is also an associated in years charge to the Comprehensive Income and Expenditure Statement. This is estimated to be trivial for the year ended 31 March 2018.

2 Dr: Unusable Reserves Cr: Property, Plant and Equipment			2,083	2,083
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The Property, Plant and Equipment (PPE) balance includes £2.083m of Children and Young People's (CYPS) service additions. These were not assessed by the Valuer in the revaluation of the CYPS assets, as officers judged that the value was not material. This creates an uncertainty as these additions may not be enhancing and therefore potentially should have been written out of the PPE balance following revaluation.

If these assets are non-enhancing there would either be an in year charge to the cost of services (which is then be reversed out to unusable reserves - Capital Adjustment Account) or to the Revaluation Reserve.

Note 1, Accounting policy 21 PPE; As reported in previous year a de-minimis level for accounting for PPE has not been included in the Accounting Policy disclosures as required by Code (4.1.4.1).

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements 2017/18

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Property, Plant and Equipment			115,603	
Unusable Reserves: Revaluation Reserve				99,789
CIES gross expenditure: Children and Young People's Services		15,814		
MIRS - adjustments to revenue resources	15,814			
Unusable Reserves: Capital Adjustment Account				15,814

As reported above there has been a material movement in BCIS indices since the 1 April 2016 valuation of Children and Young People's Services assets, specifically schools. The Code requires that revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period – 31 March 2018. Officers completed additional work to assess the impact of this movement and the Statement of Accounts were amended. The Cash Flow Statement and other supporting notes have been amended as a result of this adjustment.

Disclosure amendments

During our review of the financial statements we identified some amendments to disclosures. The following were amended by management.

Note 1, Accounting policies: there was some minor amendments to the accounting policy wording and an additional policy added for fair value measurement.

Note 2, Accounting standards that have been issued but have not yet been adopted: Some minor amendments were made to the disclosure narrative.

Note 3, Critical judgements in applying Accounting Policies: The wording regarding the pension fund advance payment was amended. The disclosure was also updated to remove reference to foundation school transfers in the year as there had been no such transfers.

Note 9, Adjustments between accounting basis and funding basis under regulations; Additional narrative added to describe the general fund, capital receipt and capital grants unapplied reserves as required by the Code.

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4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Disclosure amendments (continued)

Note 17, Financial Instruments; additional narrative was added to explain the restatement of the income, expense, gains and losses comparatives. The following amendments were made to the fair values table:

- Short term borrowing (£10.002m) removed as the loans were already included in the PWLB borrowing line;
- Short term creditors line amended as it included short term lease liability which was already disclosed in the note; and
- PFI liability was added to the table.

Other adjustments to the note included amending the description of care placement debtors.

Note 35, Officers' Remuneration: The disclosure was amended for some presentational errors.

Note 36, External Audit Costs; The note was amended by £0.002m. This was to reclassify grants work incorrectly treated as work completed as appointed auditor for PSAA.

Note 39, Related Parties: Some amendments were made to the disclosure.

Note 42, Private Finance Initiatives and Similar Contracts: The estimates of future payments due table was amended as payments for services column showed figures relating to 2017-18 onwards rather than 2018-19 onwards.

Note 45, Pension schemes accounted for as defined contribution schemes: Additional disclosure added to detail the expected contributions to the plan for the next financial year.

Note 47, Contingent liabilities; 'Closed landfill' and 'joint stocks phase 1 and phase 2 landfill' contingent liabilities have been removed following review. An additional Contingent Liability has been added to reflect the ongoing NHS Foundation Trust appeal for NDR charitable rate relief.

5. VALUE FOR MONEY CONCLUSION

Our approach

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>A Council Constitution is in place which is reviewed, as a minimum, annually. This sets out the governance structure of the Council. An active Audit Committee is in place which has met throughout the year. Internal Audit has reported directly to the Audit Committee during the year. Where it feels necessary the Committee has challenged officers, for example, in following up the implementation of Internal Audit recommendations.</p> <p>Risk management arrangements are in place including a Corporate Risk Management Group which provides regular reports highlighting the strategic risks facing the Council.</p> <p>During the year there has been regular reporting to Cabinet of performance and financial information. The year end position reported is not significantly different to that forecast during the year. Performance reports include staff indicators, such as sickness levels.</p> <p>A Medium Term Financial Plan (7) was in place for the year ended 31 March 2018. MTFP (8) covering the period 2018/19 – 2021/22 was approved by the Council in February 2018. This set a balanced budget for the 2018/19 financial year, including fully identified savings of £15m.</p> <p>A Treasury Management Strategy was in place for the year ended 31 March 2018. There has been regular Treasury Management reporting in the year. The 2018/19 Treasury Management Strategy was approved by full Council in February 2018.</p>	Yes

5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The Medium Term Financial Plan (7) was approved by the full Council ahead of the 2017/18 financial year and there was regular progress reporting during the financial year. As reported to the Cabinet in July 2018 the Council delivered the planned savings of just over £23m in 2017/18. The outturn reported in July confirms a surplus against the budget was delivered for the year ended 31 March 2018. This was consistent with the forecast outturn reported during the year.</p> <p>The Capital Member Officer Working Group (MOWG) was in place during the year and reviewed the progress in delivering the capital programme. The capital programme was reported to Cabinet during the year.</p> <p>The final MTFP (8) was presented to full Council in February 2018 ahead of the financial year. This included fully identified savings of £14m.</p> <p>The Transformation Programme remains in place. During the year the 'Inspire' brand was launched, This incorporates the three themes of inspiring change, inspiring people and inspiring places. A series of projects are in place for each theme and are intended to ensure the outcomes of the Transformation Programme are delivered.</p>	Yes
Working with partners and other third parties	<p>The Council's Constitution details the arrangements for contracting with third parties. The Council has written procedures for procuring products and services, which are within its constitution.</p> <p>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>	Yes

5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our 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 we had identified one significant audit risk. The work we carried out in relation to the significant risk is outlined below.

Risk	Work undertaken	Conclusion
<p>Our audit procedures in previous years has 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 addressed this risk by reviewing arrangements for:</p> <ul style="list-style-type: none"> • developing MTFP (8); • delivering the 2017/18 savings against planned target; • identifying future savings, including a review of robustness of identified plans for 2018/19 and beyond; and • developing and updating the Transformation Programme. 	<p>We obtained sufficient assurance to conclude arrangements are in place.</p>

Our overall value for money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified value for money conclusion for the 2017/18 financial year.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Durham County Council
County Hall
Durham
DH1 5UL

31 July 2018

Dear Mark

Durham County Council (including Pension Fund) - audit for year ended 31 March 2018

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 2018 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 2017/18 (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.

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DRAFT MANAGEMENT REPRESENTATION LETTER

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 2017/18 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 Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Yours sincerely

Corporate Director of Resources
31 July 2018

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DRAFT AUDITOR'S REPORT

Independent auditor's report to the Members of Durham County Council

Opinion on the Council's financial statements

We have audited the financial statements of Durham County Council ('the Council') for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund, and notes to the financial statements, including the summary of significant accounting policies. 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 2017/18.

In our opinion the financial statements:

give a true and fair view of the financial position of Durham County Council as at 31 March 2018 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 2017/18.

Opinion on the Pension Fund financial statements

We have audited the financial statements of Durham County Council Pension Fund for the year ended 31 March 2018 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, including the summary of significant accounting policies. 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 2017/18.

In our opinion the financial statements:

give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018 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 2017/18.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

the Corporate Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or the Corporate Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Corporate Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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DRAFT AUDITOR'S REPORT

Responsibilities of the Corporate Director of Resources for the financial statements

As explained more fully in the Statement Responsibilities, the Corporate Director of 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 2017/18, and for being satisfied that they give a true and fair view. The Corporate Director of Resources is also responsible for such internal control as the Corporate Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Corporate Director of Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Corporate Director of Resources is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Conclusion on Durham County Council's arrangements for securing economy, efficiency and effectiveness in the 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 in November 2017, we are satisfied that, in all significant respects, Durham County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider 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 2018.

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.

Responsibilities of the Council

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.

Auditor's responsibilities in relation to review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 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 Comptroller and Auditor General requires us to report to you our conclusion relating to proper arrangements. 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.

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Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

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 sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

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 as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate

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

Mark Kirkham
For and on behalf of Mazars LLP

Salvus House
Aykley Heads
Durham
DH1 5TS

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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.

Our Audit Strategy Memorandum detailed identified threats to our independence. 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.

Issue	Perceived threats	Safeguards
Skills Funding Agency In April 2018 the Council engaged Mazars LLP to provide external assurance on subcontracting controls. The value of this work, per our Engagement Letter, was £2,500.	Self-interest threat - where significant fees are derived from providing non-audit services to an audit client, there could be the perception that the audit firm will be less challenging during the audit for fear of losing the non-audit services.	Public Sector Audit Appointment (PSAA) restrict the value of non audit fee work public sector auditors can deliver. This work does not breach the limits set by PSAA.

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