



Auditor's Annual Report
Durham County Council – year ended 31 March 2024

November 2024

Contents

- 01** Introduction
- 02** Audit of the financial statements
- 03** Commentary on VFM arrangements
- 04** Other reporting responsibilities
- 05** Audit fees and other services
- 06** Audit of the Pension Fund

- A** Appendix A: Further information on our audit of the Council’s financial statements
- Appendix B: Further information on our audit of the Pension Fund’s financial statements

Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person 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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01

Introduction

Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Durham County Council ('the Council') for the year ended 31 March 2024. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We anticipate issuing our audit report following the Audit Committee meeting on 29 November 2024. Our opinion on the financial statements will be unqualified.



Value for Money arrangements

We did not identify any significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. Section 3 provides our commentary on the Council's arrangements.



At the time of preparing this report the group audit instructions have not been issued by the NAO. As a result, our whole of government accounts work has not yet been concluded. We are unable to issue our audit certificate which will formally close the audit for the 2023/24 financial year until this work is complete.

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 to consider any objection made to the accounts. We did not receive any questions or objections in respect of Value the Council's financial statements.

02

Audit of the financial statements

Audit of the financial statements

Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council’s financial position as at 31 March 2024 and of its financial performance for the year then ended. Our audit report, which we anticipate issuing following Audit Committee meeting on 29 November 2024, will give an unqualified opinion on the financial statements for the year ended 31 March 2024.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Qualitative aspects of the Council’s accounting practices

We have reviewed the Council’s accounting policies and disclosures and concluded they comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 appropriately tailored to the Council’s circumstances.

Draft accounts were received from the Council in June 2024 and were of a good quality. As part of our audit work, we have identified some improvements that the Council can make in respect of the process for valuing property, plant and equipment. Further detail is provided in Appendix A of this report.

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.

Reporting responsibility	Outcome
Narrative Report	We did not identify significant inconsistencies between the content of the annual report and our knowledge of the Council.
Annual Governance Statement	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.

03

Our work on Value for Money
arrangements

VFM arrangements

Overall Summary



VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider 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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:



Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.



Governance - How the Council ensures that it makes informed decisions and properly manages its risks.



Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources, including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with officers

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We have not identified any risks from our work.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.




We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements** - we make these recommendations for improvement where we have identified a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations** - we make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant, but which still require action to be taken.

The table on the following page summarises the outcome of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements, or made other recommendations.

VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11-14	No	No	Yes – see commentary on page 13
 Governance	15-18	No	No	No
 Improving economy, efficiency and effectiveness	19-20	No	No	No

VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability

2023/24 Financial statement performance

We have completed our audit of the financial statements of Durham County Council for the financial period ended 31 March 2024. Review of the financial statements show the Council's Balance Sheet has remained stable when compared to the prior year, with net assets increasing from £913.855m as at 31 March 2023 to £1,036.211m as at 31 March 2024. The most significant change in the balance sheet relates to movements in the Council's share of the pension fund net liability, being a deficit position of £294.95m, reduced from a deficit of £470.42m in the prior year. It is not unusual to see material movements in the net pension liability and this is consistent with our experience at other local authorities.

Useable reserves have decreased from £279.003m at 31 March 2023 to £236.326m at 31 March 2024. This reflects decreases in the usable capital receipts reserve and earmarked reserves, although these decreases are partially offset by an increase in the General Fund Balance reserve. These reserves provide some mitigation against future financial challenges; however, the Council will need to ensure that any use of reserves to smooth the financial position over the next few years is properly planned. The use of reserves cannot be relied on to provide a long-term solution to funding gaps. Therefore, all future income streams need to be considered in detail by the Council to mitigate future challenges, including reviewing Council Tax raising powers.

Notwithstanding this, our work has not highlighted a risk of significant weakness in the Council's arrangements for ensuring financial sustainability.

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

Our review of minutes and supporting papers has confirmed medium-term financial planning arrangements have remained in place in 2023/24. In our assessment, we have considered the Medium-Term Financial Plan (13) covering 2023/24-2026/27, and Medium-Term Financial Plan (14) covering 2024/25-2027/28.

The Council has an established process for developing its Medium-Term Financial Plan (MTFP), with a history of either meeting or underspending against its financial targets with savings consistently delivered over the past few years. We discussed the process for developing the MTFP process with council officers, including how they identify pressures. Officers explained that MTFP development process starts at the service management team level. During this process, significant financial pressures are identified, reviewed and revised, as necessary.

The arrangements for approval and reporting of the budget and MTFP are also well established. Quarterly performance and forecast outturn reports are a means of monitoring these pressures and delivery of savings targets to ensure the council remains within tolerated spending levels. These reports are agreed within Service management teams, Corporate Management Team, Cabinet, County Council and are also scrutinised by Overview & Scrutiny Committee.

Our review of these reports, plus review of minutes of these meetings, show that there is sufficient monitoring and challenge of the information provided. Our work has not highlighted a weakness in arrangements.

In the current financial year (2023/24) the Council continued to report significant financial pressures, including significant demand pressures and cost increases. The outturn report for 2023/24 was presented at the Council meeting in July 2024, with the revenue budget showing that the General Reserve position increased by £6.044m. The Capital Programme outturn position was also reported in the same report taken to Cabinet in July 2024 and confirmed that the final capital outturn position for 2023/24 showed capital expenditure of £233.010m, which is lower than revised capital budget of £259.187m. As in previous years, we have confirmed that there has been regular monitoring of the Council's financial position throughout the year, which included arrangements to routinely update the MTFP, enabling the Council to respond to any identified financial challenges during the life of the plan.

Also, in August 2023 the Council commissioned Chartered Institute of Public Finance and Accountancy (CIPFA) to carry out an independent Finance Review; including a review on the provision of reports and strategies. This review has enabled CIPFA to assess the council against their CIPFA Financial Management Code

The Council's score reported by CIPFA is 3.25 out of 4 with at least 3 scored in 11 of the 12 scoring criteria and a score of 4 in the other. A small number of actions have been identified by CIPFA to seek to bring the councils rating up to a 4, however CIPFA note that "*The Council has a well-understood and complied with MTFP process. Budget setting expectations are clear, and non-compliance is low. For the most part, service managers take ownership of their own budgets. Financial competency is embedded within service manager job descriptions, and we understand that financial competency is sought in Budget Manager recruitment*".

Our review of the report has not highlighted any weaknesses in the Council's arrangements.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria – continued

How the body plans to bridge its funding gaps and identifies achievable savings

The MTFP sets out savings required to bridge funding gaps over the medium term. The funding gaps identified could be as a result of service pressures, such as increased demand or price inflation, or as a result of reduced funding from central government.

Our review of the MTFPs issued over the current reporting period, provides assurance that forecasts are based on prudent assumptions including the Council's latest understanding of future government funding arrangements, local revenue assumptions, service demand and other costs pressures. Arrangements for identifying and delivering savings include a timetable for consultation with stakeholders ahead of approval before each financial year. As in previous years, the Council is also forecasting the use of reserves to support the delivery of a balanced budget. While such an approach would not be sustainable in the medium term, the Council's level of reserves allows some flexibility.

In February 2024, the Council agreed savings proposals totalling £8.083m as part of MTFP(14). Per the Q1 2024/25 financial position which was presented to Cabinet in July 2024, the Council reported it had achieved 71% of the savings total (equivalent to £5.736m), although they also noted that 12.5% of savings are forecast not to be achieved in year although the Council is carrying out work to mitigate the undelivered savings within the relevant service departments.

Whilst we are satisfied there are no significant weakness in arrangements, we recognise the continued challenge associated with delivering savings throughout the life of the MTFP. Therefore, in line with the recommendation raised in the previous year, we have once again raised a following 'other recommendation'.

Other recommendation

MTFP (15) for the period 2025/26 to 2028/29 highlights a saving requirement of £64.130 over the life of the plan. The Council did not include the savings plan in the MTFP update taken to Cabinet in September 2024 due to the number of uncertainties as a result of unknown positions on Government funding and Council Tax limits.

The Council should ensure it continues its arrangements to identify how it will deliver un-costed efficiency savings included in the MTFP.

It should also ensure that its scrutiny arrangements, to monitor and deliver its saving plans are maintained throughout 2024/25, to minimise reliance on reserves to mitigate overspends.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

As in the previous year, the council's MTFP aligns with the 'council vision for 2035' which sets out the Council's strategic direction and ambitions for the County.

Our review provides assurance that the MTFP continues to be based on reasonable assumptions available at the time of approving the Plan. The MTFP is regularly reviewed, including the main assumptions, and regularly reported including where changes in assumptions impact on the forecast financial position. There is regular budget monitoring including quarterly forecast of outturn reports which support the identification of in-year pressures, whether savings are being achieved and if resources need to be redirected to areas in need. We have not identified evidence of significant short-term measures. Our review of the outturn as well as the financial statements has not highlighted any apparent reliance on significant one-off accounting measures. Furthermore, our review of both MTFP (13) and MTFP (14) has not identified significant one-off measures to balance the budget.

The Corporate Overview and Scrutiny Management Board considers the MTFP at various stages throughout the year and allows for Member scrutiny and challenge. The annual MTFP process includes reviewing the Council's earmarked reserves. We confirmed a review was completed to ensure funding set aside remains in line with strategic and statutory priorities of the Council.

How the body ensures that its financial plan is consistent with other plans

The Council has a 'County Durham Plan' and 'County Durham Vision' which is part of its Strategic Planning Framework. The MTFP is part of this Framework. We confirmed that arrangements were in place for the development of the MTFP including linking the financial plan to the Council's Corporate objectives to ensure the priorities of the Council are delivered; scrutinising the MTFP, and; documenting key assumptions with each savings plan being risk assessed to advise Members of the impacts. We have confirmed a similar timetable exists for setting the 2024/25 budget which is evidenced in the report to the July 2024 Cabinet meeting.

A key partner in the development of the MTFP is the NHS, and the Council works closely with finance leads from the Integrated Care Board (ICB), with meetings held on a quarterly basis to share common issues and compare development of MTFPs.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria – continued

In line with the Prudential Code and the Council's Capital Strategy, the revenue implications of capital investment decisions are considered and form part of the MTFP planning and budget setting process. This is designed to ensure investments are fully funded. The capital plan is included in the MTFP which is linked to the Capital Strategy (as detailed in appendix 10 of the MTFP 13). As in previous years, the Capital Member Officer Working Group (CMOWG) remains in place and considers current and future capital programmes.

How the body identifies and manages risks to financial resilience

The Council has an established MTFP process which is designed to reflect changes that affect the Council's financial plans. The MTFP outlines uncertainties, challenges, and risks facing the Council over the life of the plan. MTFP reported to Cabinet also includes a risk assessment. Due to inflation, demand for services and short-term settlements the risks are higher than normal. Although the Council has consistently achieved the budget and delivered agreed savings plans over previous years, there is a clear recognition that the identification of new savings is becoming increasingly more difficult, particularly where the Council is looking to protect the impact on front line services. However, as noted above, the MTFP model is established and there is evidence that it is updated on a regular basis to address financial pressures as they emerge. Our other recommendation on the previous page highlights the importance of identifying and monitoring delivery of savings plans.

The budget is monitored on a regular basis at department level ahead of quarterly reporting to the Cabinet. We have reviewed outturn reports presented during the year and noted that they reflect in year changes. For example, consistent with the prior year demand pressures faced in the Children and Young People's Services have been tracked and reported throughout the year. This enabled the Council to manage its financial position in 2023/24 and to mitigate the medium-term impact of budget pressures on the MTFP.

There was regular reporting of the Council's 2023/24 financial position throughout the year. The outturn report presented to the July 2024 Cabinet meeting was consistent with the financial position reported during the year and did not indicate a weakness in the Council's budget monitoring and reporting arrangements.

Our review of committee reports and attendance of Audit Committee, provides assurance that the Council monitors and identifies mitigations to manage any changes in demand and assumptions in the MTFP. The Council also has an established risk management framework, with regular reviews and reporting to Audit Committee. Attendance of Audit Committee meetings provides assurance it receives regular risk management updates.

Based on the above considerations we are satisfied there is not a significant weakness in Durham's arrangements in relation to financial sustainability. We have, however, raised an other recommendation associated with the continuing challenges associated with delivering savings targets and the risk this poses to the Council's financial sustainability.

VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks



VFM arrangements – Governance

Overall commentary on Governance

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Durham has a comprehensive risk management system in place which is embedded into the governance structure of the organisation. As part of the Council's governance framework, the Audit Committee are responsible for providing assurance over the adequacy of the Council's risk management framework and associated control environment. We have attended all audit committees throughout the year and have observed that Members challenge management where recommendations are not implemented within the agreed timeframe. We observed Member scrutiny of matters raised in Internal Audit reviews. There is also a standing item which considers overdue Internal Audit recommendations/actions.

The Council's Constitution, sets out how the Council operates, how decisions are made and the rules and procedures to ensure that decisions are transparent and therefore accountable to local people. The Constitution is reviewed on an annual basis, with the most recent review taking place in May 2024. The Council also have a Code of Corporate Governance, which is consistent with the seven principles of good governance as identified in the CIPFA/SOLACE 2016 Framework – "Delivering Good Governance in Local Government". Our review of the above items has not identified any significant weaknesses.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, Durham has a team of internal auditors, led by the Head of Internal Audit. At the start of the financial year, the annual Internal Audit plan is agreed with management. In-year reviews then highlight weaknesses, and the Internal Audit team are able recommend actions where the Council is required to strengthen processes or procedures. Finally, at the end of the financial year, the Head of Internal Audit provides an opinion based on the work completed during the year. Both the Internal Audit Plan and Head of Internal Audit Report are reviewed by the Council's Audit Committee.

The Emergent Internal Audit Plan for 2023/24 was presented to Audit Committee in February 2023, with the final plan presented to Audit Committee in May 2023. We have reviewed the Internal Audit Plan for 2023/24 and confirmed they are consistent with expectations.

The Head of Internal Audit Opinion was presented to the Audit Committee meeting in June 2024. This provides a **"moderate overall assurance opinion on the adequacy and effectiveness of governance, risk management, and internal control operating across the Council in 2023/24"**. The **'moderate'** assurance level is consistent with the opinion given by the Head of Internal Audit in the prior year. We have maintained an open dialogue with Internal Audit throughout the year to support our understanding of the work carried out.

Our review of the reports provided by Internal Audit, as well as discussions with internal audit officers, has not identified any weaknesses in arrangements.

The Council has an in-house Counter Fraud team. A Counter Fraud and Corruption Strategy is in place, covering the period 2022-2025 and was agreed by Audit Committee in September 2022. Counter Fraud activity has been reported throughout the year to the Audit Committee. The Protecting the Public Purse Annual Report was presented to the Audit Committee in June 2024. We have reviewed this report and did not identify any matters indicating a significant weakness in arrangements.

A Risk Management Policy and Strategy is in place with the aim "to make risk management an integral part of management and decision making, aligned with the structure, operations and processes of the Council". The policy is reviewed on an annual basis and was most recently considered by the Audit Committee in February 2024. We have confirmed, via our attendance at the Audit Committee, there has been regular reporting against the Risk Management Strategy in the year.

Further risk management arrangements are in place, including strategic risk management reports which are reported to Audit Committee on a regular basis. The most recent report was taken to Audit Committee in September 2024 and highlights the strategic risks faced by the Council. It also documents the work carried out by the Corporate Risk Management Group which supports the Audit Committee in fulfilling their risk management assurance role. Our review of these reports has not highlighted any significant weaknesses in arrangements.

How the body approaches and carries out its annual budget setting process

The annual budget setting process remains consistent year on year, and the arrangements for the 2024/25 budget setting process have largely followed the arrangements in place for 2023/24.

We have confirmed through discussion with officers and review of minutes that a robust plan and timetable are agreed and followed when setting the annual plan. An annual timetable agreed every year; most recently the timetable for 2025/26 was agreed at a Cabinet meeting on 18 September 2024. Regular reports are then brought into Cabinet before the budget is approved at Full Council in February. Annual consultation also takes place with robust consultation on any savings plans which have a front-line impact. Corporate Overview and Scrutiny Management Board also have an oversight into the MTFP and report their views as part of final budget setting. These arrangements have been in place for several years and have supported the Council's delivery of financial plans over several years.

Overall commentary on the Governance reporting criteria - continued

Financial Procedure Rules are in place and detail the requirements for setting the budget over a period of four years. Financial Management Standards support the Council's Financial Procedure Rules set out in the Council's Constitution. Financial Procedure Rules also provide the overall high-level framework for managing the Council's financial affairs and Financial Management Standards set out in more detail how these procedures will be implemented, embedding sound financial management across the Council.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

We noted that regular reporting of the financial position took place throughout the 2023/24 financial year. Quarterly forecasts of outturn reports were presented to Senior Management Teams, Corporate Management Team, Cabinet and Overview and Scrutiny Committees. The reports included details of movements in the budget between quarters and remedial measures taken. The Council continue to highlight key areas of pressure consistent with other local authorities, however the quarterly and year-end positions, have not highlighted any weakness in the Councils monitoring and reporting arrangements.

The financial statements timetable for 2023/24 was approved by the Audit Committee and was achieved. Our audit of the financial statement did not identify any matters to indicate a significant weakness in the accuracy of the financial information reported or the process for preparing the accounts. It is our experience that management takes action to address audit matters in a timely and appropriate manner.

As well as financial performance data the Cabinet received quarterly performance management reports which presented an overview of progress towards achieving the key outcomes of the corporate performance framework and highlighted key messages to inform strategic priorities and work programmes.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

The Council has a comprehensive committee structure in place, as detailed in the Council Constitution. The committee structure includes an overview and scrutiny committee. Overview and scrutiny meetings are intended to allow for challenge of decisions. We have reviewed meetings held in 2023/24 and identified no evidence to suggest this function has not been fulfilled.

Membership of the Audit Committee includes Councillors and independent co-opted members. We have attended all meetings held in the year and post year end and found meetings to be effective and well represented. The Terms of Reference of the Audit Committee are detailed in the Constitution, and we have identified no evidence to indicate they are not being delivered.

The Council publishes on its website notice of key decisions and all officer decisions made under the Officer Scheme of Delegations. The website also includes details on how decisions are made in the Council.

Minutes of the meetings are available on the Council website. We have reviewed Council minutes in the year and have not identified any evidence of a weakness in arrangements. The reports we reviewed support informed decision-making and were clear in the decision or recommendation Members were asked to consider.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour

The Council's Constitution sets out how the Council operates, how decisions are made and the rules and procedures which are followed to ensure that these are transparent.

Supporting the Constitution are Codes of Conduct for Members and Officers. The Monitoring Officer's, as set out in the Constitution is: 'The Council officer charged with ensuring that everything that the Council does is fair and lawful. The Monitoring Officer is currently the Director of Legal and Democratic Services. This is a statutory 'proper officer' role.' Based on review of minutes and discussion with officers, we are not aware of any evidence of this role not being delivered in the year.

Registers of gifts and hospitality and registers of interest are maintained for Members and officers and are available on the Council website. These are available on the Council website, and we have confirmed their existence in our audit procedures on related party disclosures. The Statement of Accounts records material related party transactions as well of senior officer pay and Member allowances. Our work on these areas identified no matters to indicate a significant weakness in arrangements.

The Standards Committee is responsible for promoting and maintaining high standards of conduct by councillors, independent members and co-opted members. It is responsible for advising and arranging relevant training relating to the requirements of the code of conduct for councillors and for:

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

- the initial assessment, investigation and determination of allegations of misconduct;
- dealing with any alleged breaches by a councillor or other relevant council codes and protocols;
- overseeing the probity aspects of internal and external audit;
- overseeing the code of conduct for employees;
- overseeing the council's confidential reporting code;
- granting exemptions on the political restriction of officer posts; and
- overseeing the council's complaints handling arrangements and performance.

The Prudential Code and Treasury Management Policy are monitored as part of the MTFP process. This includes the annual approval of the prudential indicators (for example, see appendix 14 of MTFP (15)). The Treasury Management Strategy was approved ahead of both the 2023/24 and 2024/25 financial years and sets out the Council's measures against which treasury management can be assessed. The measures include those designed to mitigate risk to the Council's finances. Treasury Management performance is reported to the Cabinet on a regular basis.

Based on the above considerations we are satisfied there is not a significant weakness in Durham's arrangements in relation to governance.

VFM arrangements

Improving Economy, Efficiency and Effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness

How financial and performance information has been used to assess performance to identify areas for improvement

The Council has a performance management framework in place and regularly reports against a series of performance indicators. The performance management framework ensures that the Council's visions and priorities (as per the Council Plan 2024-28 and the County Durham Vision 2035) are translated in to clear plans with measurable outcomes to be delivered by the directorates within the Council. Corporate performance against key performance indicators is presented to Cabinet on a quarterly basis following consideration by Corporate Management Team and various scrutiny committees. The 2023/24 Performance Management Outturn Report was taken to Cabinet meeting in July 2024, and the Q1 2024/25 Performance Management Report being shared with Corporate Overview and Scrutiny management Board in October 2024. Our review of these reports did not highlight any significant weaknesses in arrangements.

As detailed in the previous sections we confirmed there was regular financial reporting during the year. The Council's financial performance is also reported on a regular basis to Cabinet with details of the financial position along with rationale for any changes and factors to be taken into account. Reporting also includes consideration of HR implications and equality impact assessments. The Cabinet also receive regular updates on delivery of the MTFP savings

How the Council evaluates the services it provides to assess performance and identify areas for improvement

The Council's Cabinet and Scrutiny Committees received quarterly performance management reports throughout 2023/24. Reports were in a consistent format and designed to highlight the direction of travel and benchmark the Council's performance against national and regional comparatives. Per discussion with Council officers, Thematic Scrutiny and Audit Committee can also request deep dive into specific performance areas. The Overview and Scrutiny Work Programme 2024/25, agreed at the Corporate Overview and Scrutiny Management Board in June 2024, sets out the proposed work programme. The work programme reflects the refreshed Council Plan and has a strong focus on the MTFP and service improvement. We note that the work programmes are flexible and can be updated to provide scrutiny to items that arise throughout the year.

The Council's services are reviewed by several regulators including the Care Quality Commission (CQC) and Ofsted. Our review has not indicated any matters that would indicate a weakness in arrangements.

Our attendance at Audit Committee confirmed regular reporting by Internal Audit of recommendations raised and management's response. We observed the Committee challenging management on individual reviews and the actions taken in following up on recommendations.

How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The County Durham Partnership monitors performance towards implementing County Durham Vision 2035 through individual performance reporting to each thematic partnership: Health and Wellbeing Board, Safer Durham Partnership, Economic Partnership, Environment & Climate Change.

The fourteen Area Action Partnerships are designed to engage with communities and identify and address local priorities and use locality budgets to drive improvements.

The Council uses various channels of communication and feedback mechanisms, including social media (Twitter, Facebook, Instagram and YouTube) to reach out to and meet the needs of its communities. Since the pandemic, meetings have been streamed live and recordings of meetings are available on the Council website.

Where the Council commissions or procures services, how the Council ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the Council assesses whether it is realising the expected benefits

The Council has several companies / joint arrangements used to deliver the priorities of the council. Examples of these are detailed in the related party disclosures of the financial statements and include wholly owned companies such as Chapter Homes Durham Limited, as well as joint ventures such as Forest Park (Newton Aycliffe Limited) and Durham Villages Regeneration Limited. Discussions with officers have not indicated any evidence of weakness in arrangements. Review of company accounts as part of group consideration and related party disclosures is not indicative of poor financial performance impacting on the services provided on behalf of the Council. In September 2024, the Audit Committee received a report on the Company Governance Arrangements which provided overview of the companies and joint ventures the Council is involved with, along with detail of oversight of the governance arrangements for each company and the roles and responsibilities. Our review of the report has not highlighted any weaknesses in arrangements.

Based on the above considerations we are satisfied there is not a significant weakness in Durham's arrangements in relation to improving economy, efficiency and effectiveness.

Other reporting responsibilities

Other reporting responsibilities

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power 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 the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers

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 did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. At the time of preparing this report the group audit instructions have not been issued by the NAO. As a result, our whole of government accounts work has not yet been concluded.

05

Audit fees and other services

Audit fees and other services

Fees for our work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in May 2024. Having completed our work for the 2023/24 financial year, we can confirm that our fees are as follows:

Area of work	2023/24 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice	£571,098	£206,229
Additional fees in respect of applicable additional audit work and VFM	£TBC	£63,423
Total fees	£571,098	£269,652

Fees for other work

In 2023/24 the Council engaged Forvis Mazars LLP for the following non-audit services:

- Teachers' Pension Assurance - £12,000 (plus VAT).

We also anticipate that we will be engaged to carry out the Council's Housing Benefit Assurance work, however at the date of this report an engagement letter has not yet been signed.

06

Audit of Durham County Council
Pension Fund

Audit of Durham County Council Pension Fund

Summary of key information

As the auditor for Durham County Council Pension Fund ('the Pension Fund'), our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). This section of the AAR summarises how we have discharged these responsibilities and the findings from our work we have undertaken as the Pension Fund auditor for the year ended 31 March 2024.



Opinion on the Pension Fund financial statements

We anticipate issuing our audit report following the Audit Committee meeting on 29 November 2024. Our opinion on the financial statements will be unqualified.



Consistency report

We concluded that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of Durham County Council.



Wider responsibilities

We have not exercised any of these powers as part of our Durham County Council Pension Fund's 2023/24 audit.



Risks, misstatements and internal control recommendations

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix B. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Fees for our work as the Pension Fund's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in May 2024. Having completed our work for the 2023/24 financial year, we can confirm that our fees are as follows:

Area of work	2023/24 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice	£88,405	£24,303
Fee variations	TBC	£24,188
Pensions assurance letter to employer auditors	N/A	£8,250
Total fees	£88,405	£56,741

Fees for other work

We confirm that we have not undertaken any non-audit services for the Pension Fund in the year.

Appendices

Appendix A: Further information on our audit of the Council's financial statements

Appendix B: Further information on our audit of the Pension Fund financial statements

Appendix A: Further information on our audit of the Council’s financial statements

Significant risks and audit findings

As part of our audit of the Council, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Management override of controls</p> <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. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>How we addressed this risk</p> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> • accounting estimates impacting amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements <p>Audit Conclusion</p> <p>Our work has provided the required assurance, and we have no matters to report.</p>
<p>Risk of fraud in revenue recognition</p> <p>There is a presumption under the International Auditing Standard that there is a significant risk of fraud in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements.</p>	<p>How we addressed this risk</p> <p>We have addressed this risk by:</p> <ul style="list-style-type: none"> • testing fees, charges and other revenue items recorded around year end to ensure they have been recognised in the appropriate year; • testing year end receivables; and • obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger. <p>Audit Conclusion</p> <p>Our work has provided the required assurance, and we have no matters to report.</p>

Appendix A: Further information on our audit of the Council’s financial statements

Significant risks and audit findings (continued)

Risk	Our audit response and findings
<p>Valuation of net defined benefit liability</p> <p>At 31 March 2023 , the financial statements included a defined benefit liability of £470m, a significant reduction of £1,300m compared to the previous year.</p> <p>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>How we addressed this risk</p> <p>We have:</p> <ul style="list-style-type: none"> critically evaluated the Council’s arrangements relevant controls for making estimates in relation to pension entries within the financial statements; challenged the reasonableness of the Actuary’s assumptions that underpin the relevant entries made in the financial statements, using an expert commissioned by the National Audit Office; critically assessed the competency, objectivity and independence of the Actuary; liaised with the auditors of the Pension Fund to gain assurance that the overall IAS19 procedures and controls in place at the Pension Fund are operating effectively; compared assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; and agreed data in the Actuary’s valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council’s financial statements. <p>Audit Conclusion</p> <p>As at 31 March 2024 the financial statements included a defined benefit liability of £301m.</p> <p>Our work has provided the required assurance, and other than the issues highlighted in the following sections of our report, we have no other significant issues to report.</p>

Appendix A: Further information on our audit of the Council’s financial statements

Significant risks and audit findings (continued)

Risk	Our audit response and findings
<p>Valuation of land, buildings and surplus assets</p> <p>At 31 March 2023 , the financial statements included £968.6m of land and buildings and £35.2m of surplus assets.</p> <p>Although the Council employs valuation experts to provide information on valuations, there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment due to the significant judgements and number of variables involved.</p>	<p>How we addressed this risk</p> <p>We have:</p> <ul style="list-style-type: none"> critically assessed the Council’s arrangements for ensuring that land and buildings and surplus assets valuations are reasonable and not materially misstated; critically assessed the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by valuers; considered the competence, skills and experience of the valuers and the instructions issued to the valuers; substantively tested revaluations, including critically reviewing the Council’s own consideration of assets not revalued in the year and why they are not materially misstated; and performed further audit procedures on individual assets to ensure the basis of valuations is appropriate. <p>Audit Conclusion</p> <p>As at 31 March 2024 , the financial statements included £934.7m of land and buildings and £33.8m of surplus assets.</p> <p>Other than the misstatements highlighted on pages 33-35 and the internal control observations highlighted on pages 37-40, we have no other significant issues to report, and we have sufficient audit assurance regarding the valuation of land, buildings and surplus assets.</p>

Appendix A: Further information on our audit of the Council’s financial statements

Significant risks and audit findings (continued)

Risk	Our audit response and findings
<p>Valuation of land, buildings and surplus assets</p> <p>At 31 March 2023 , the financial statements included £968.6m of land and buildings and £35.2m of surplus assets.</p> <p>Although the Council employs valuation experts to provide information on valuations, there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment due to the significant judgements and number of variables involved.</p>	<p>How we addressed this risk</p> <p>We have:</p> <ul style="list-style-type: none"> critically assessed the Council’s arrangements for ensuring that land and buildings and surplus assets valuations are reasonable and not materially misstated; critically assessed the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by valuers; considered the competence, skills and experience of the valuers and the instructions issued to the valuers; substantively tested revaluations, including critically reviewing the Council’s own consideration of assets not revalued in the year and why they are not materially misstated; and performed further audit procedures on individual assets to ensure the basis of valuations is appropriate. <p>Audit Conclusion</p> <p>As at 31 March 2024 , the financial statements included £934.7m of land and buildings and £33.8m of surplus assets.</p> <p>Other than the misstatements highlighted on pages 34 and 36 of this report, we have no other significant issues to report, and we have sufficient audit assurance regarding the valuation of land, buildings and surplus assets.</p>

Appendix A: Further information on our audit of the Council’s financial statements

Other key areas of management judgement/ enhanced risks

Risk	Our audit response and findings
<p>Accounting for Private Finance Initiative (PFI) schemes</p> <p>Per the 2022/23 financial statements, the Council is deemed to control the services provided under the contracts for Sedgefield Community College (now an Academy), Shotton Hall School (now The Academy at Shotton Hall) and Shotton Hall Primary School. The accounting policies for PFI schemes and similar contracts have been applied to these arrangements.</p> <p>The method of accounting for PFI assets/liabilities is complex, therefore, this increases the risk of misstatement.</p>	<p>How we addressed this risk</p> <p>We have:</p> <ul style="list-style-type: none"> • reviewed the adopted approach for accounting for PFI arrangements; • reviewed any changes from prior years to the long-term financial model used; • critically reviewed the assumptions made by management; and • assessed the completeness and accuracy of disclosures. <p>Audit Conclusion</p> <p>Our work has provided the required assurance, and we have no matters to report.</p>
<p>Debtors’ impairment allowance</p> <p>At 31 March 2023, the Council disclosed an impairment of debtors’ allowance totalling £35.4m as an area of estimation uncertainty.</p>	<p>How we addressed this risk</p> <p>We addressed this judgement by:</p> <ul style="list-style-type: none"> • critically reviewing the Council’s calculation of its impairment of debtors’ allowance; and • assessing whether disclosures are in line with the Code of Audit Practice, including any exemptions relevant to non-contractual debt. <p>Audit Conclusion</p> <p>Our work has provided sufficient audit assurance, no issues noted.</p>

Appendix A: Further information on our audit of the Council's financial statements

Summary of uncorrected misstatements for the Council

Details of adjustment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
<p>DR CIES - Other Operating Expenditure - Losses on the disposal of non-current assets</p> <p>CR Property, Plant and Equipment (PPE) - Land and Buildings</p> <p>Our PPE disposals testing identified an error where an asset had not been written out of the asset register and the accounts. A full check of land and buildings assets relating to academy transfers in 2023/24 identified one other component that had not been written out. The total misstatement is £3,275k. Confirmed that the Council is to amend for this in 2024/25.</p>	3,275			3,275
<p>Dr: Revaluation Reserve</p> <p>Dr: PPE – Depreciation</p> <p>Cr: PPE Land and Buildings - Revaluations</p> <p>Cr: CIES – Net Cost of Services expenditure</p> <p>Our testing of PPE valuations identified that for assets that been added to the asset register under PPE Land and Buildings following an audit finding in the previous year had been wrongly included as revaluation increases to the Revaluation Reserve and depreciated, before being transferred to Investment Properties. However, these assets should have been included as additions to Investment Properties</p>		20	1,000 20	1,000
<p>Dr: CIES: Cost of services then Capital Adjustment Account* / Revaluation Reserve</p> <p>Cr: Property, Plant and Equipment</p> <p>From our work on PPE valuations, we identified several input errors to the asset register; including some instances where the valuations per the valuer's report did not agree to the asset register, and another where the valuation had been input to the asset register as a new asset rather than against the existing piece of land. No adjustments have been made to the accounts and officers propose to amend the entries in the asset register in 2024/25.</p> <p><i>* Note that any element of the valuation changes charged to the CIES cost of services is written out to the Capital Adjustment Account via the MIRS under statutory adjustments meaning there is no impact on the Council's General Fund balance.</i></p>			1,138	1,138
				Continued overleaf

Appendix A: Further information on our audit of the Council's financial statements

Summary of uncorrected misstatements for the Council (continued)

Details of adjustment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
DR Other long-term liabilities - Pensions CR Unusable Reserves - pensions reserve As part of our review of the Pension Fund Auditor's letter, we noted unadjusted misstatements equivalent to an increase in net assets total totalling £14.3m. We have extrapolated Durham Country Council's share, totalling £8.952m based on the Council's share of overall fund assets.			8,952	8,952
	3,275	20	11,110	14,365

*Our Audit Completion Report (ACR), presented to Audit Committee on 29th November 2024, also included an unadjusted misstatement of £3.947m relating to a classification issue within CIES expenditure identified from our testing of the reallocation of central support costs. We have now completed our review of the work of the pension fund auditor and noted an additional unadjusted error (shown above). As a result of this additional error, and to ensure that the misstatements identified do not exceed materiality on a gross basis, management have decided to amend for the classification issue.

Summary of uncorrected misstatements for the Council - carried forward from prior year

Details of adjustment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
Dr: CIES - Other Operating Expenditure (loss on disposal of non-current assets) Cr: Property, Plant and Equipment – Land and Buildings Dr: Unusable Reserves- Revaluation Reserve Cr: Unusable Reserves – Capital Adjustment Account Brandon Community Primary converted to an academy during 2021/22, however the land element was omitted from PPE disposals and the loss to the CIES (£1,411k net book value) and the revaluation reserve balance for this asset had also not been written out (£714k). This issue remains as unadjusted error in 2023/24 as the asset still hasn't been written out. Same as in 2022/23.	1,411		714	1,411
				714
				Continued overleaf

Appendix A: Further information on our audit of the Council's financial statements

Summary of uncorrected misstatements for the Council - carried forward from prior year (continued)

Details of adjustment ^{1,411}	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
<p>Dr: Unusable Reserves – Revaluation Reserve / Capital Adjustment Account</p> <p>Cr: PPE – Land and Buildings</p> <p>B/fwd 2021/22 and 2022/23 issue: From our testing of twenty-one PPE land assets linked to buildings revalued on an DRC basis, we identified three instances where the actual area was used in the calculation rather than the lower modern equivalent asset area due to a formula error in the valuation spreadsheet. A 100% check carried out by the valuation team, which we have checked for reasonableness, identified a further three land assets with the same formula error. As a result, PPE asset values are overstated by £1,781k.</p> <p>2023/24 update: One of these assets was revalued in 2023/24. However, the other two assets (0602S01 and 0807S01) and the three identified by DCC (0437S01, 0683S01 and 0447S01) were not revalued in 2023/24, therefore the issue remains in relation to these - total £1,015k.</p>			1,015	1,015
<p>Dr: PPE – Land and Buildings</p> <p>Cr: Unusable Reserves – Revaluation Reserve</p> <p>B/fwd 2022/23 issue: From our testing of six significant building assets valued on a DRC basis we identified errors within the valuer's supporting workings for two of them. As a result, the asset values were understated by £6,609k. These related to manual input errors for the area of one of the buildings, and the incorrect location factor and allowance for external works applied in the calculation for the second building. These are actual errors in our non-sampled items selected for testing and so no extrapolation is required. The client has not adjusted for these errors.</p> <p>2023/24 update: one of the two assets has been revalued again in 2023/24, therefore the issue identified in the previous year has been superseded. The misstatement relating to the other asset (UPRN 50055S01) due to the incorrect floor area used in the calculation remains at £5,214k.</p>			5,214	5,214
	1,411	-	6,943	8,354

Appendix A: Further information on our audit of the Council's financial statements

Summary of uncorrected disclosure misstatements

As part of our review of the work of the Pension Fund Auditor, we noted the following unadjusted disclosure error:

- **Note 39 (Defined Benefit Pension Schemes)** - The transfer in value per the Pension Fund auditor's letter to us is £7,334k. The figure in the Council's Actuary's report (based on 10 months' cash flow data) is annualised at £5,604k, resulting in a difference of £1,730k. The difference is due to the Actuary's figure being based on an estimate. Transfers in form part of the Actuary's calculation of the benefits paid figure, which is included in both the pension asset and defined benefit obligation so there is no overall impact on the net liability on the balance sheet. The benefits paid figure is included in the analysis of the pension asset and defined benefit obligation disclosed in Note 39 within the financial statements.

Appendix A: Further information on our audit of the Council’s financial statements

Internal control observations for the Council

Description of deficiency

Property valuations are inherently complex and are therefore an area of audit focus. We have noted that the Council's property valuations process is complex, involving various departments, key officers and numerous valuation firms to complete some of this work.

As part of this year's audit we noted deficiencies in the overall coordination of the process resulted in several errors and additional work for Council officers and the audit team.

Potential effects

The value of the Council's property, plant and equipment on the balance sheet may be materially misstated.

Recommendation

Ensure the overall responsibility for the PPE valuations process is clearly defined, as well as the roles and responsibilities of the various stages within it, and the instructions to external valuers are clearly documented.

Management response

Agreed and appropriate measures are being put in place. A comprehensive timetable has been agreed and covers the roles and responsibilities for the PPE Valuations. External Valuer instructions have been prepared collectively and include a clear methodology on valuations.

Description of deficiency

Our work on property valuations has highlighted several issues in relation to land valuations, and particularly the areas used in the Modern Equivalent Assets calculations.

This was due to a lack of accuracy checks which should have been carried out when the valuations were received from the external valuer. These issues could have been addressed before the figures were included in the asset register and accounts.

Potential effects

The value of the Council's property, plant and equipment on the balance sheet may be materially misstated.

Recommendation

Ensure that a review is carried out of the initial PPE valuations provided by the external valuer(s) before being input to the asset register. This would provide the Council with assurance over the approach, methodology and reasonableness of the valuations and ensure early identification of any errors or anomalies.

Management response

Agreed and appropriate measures will be implemented by CPAL with support from Finance.

Appendix A: Further information on our audit of the Council's financial statements

Internal control observations for the Council (continued)

Description of deficiency

As noted within the disclosure misstatements section, land and buildings carried at historic cost was overstated by £58,330k. This was due to assets that had been missed from the 5-year rolling programme and/or the use of incorrect valuation data.

Potential effects

The value of the Council's property, plant and equipment on the balance sheet may be materially misstated.

Recommendation

Ensure the relevant land and buildings are revalued in 2024/25 as part of the rolling programme or as ad hoc valuations, as already agreed, or are further investigated in 2024/25 as to whether the values should be impaired to nil or written out of the Council's balance sheet.

In future years, a reasonableness check should be carried out of the balance of Land & Buildings held at historic cost as shown on the report from Asset Manager.

Management response

The timetable covers both ad hoc valuations and the five- year rolling programme in agreement with Finance. Further joint working around the number of valuations, volume of DRC's and the timing of these is currently underway.

Description of deficiency

As part of our testing of property valuations we highlighted an issue in relation to an asset under construction reclassified to operational land and buildings in 2023/24. The valuation should have taken place as at the date of completion, the asset should have been reclassified as operational and depreciation charged. We have identified one other asset, a sub-asset of the same overall asset, with a similar issue. We are satisfied that the overall impact on the asset valuations and depreciation undercharged during the year are both trivial, so no amendments have been made in the accounts.

Potential effects

Valuing assets at a date prior to practical completion of capital works may results in inaccurate valuations in the Council's accounts and an understatement of depreciation during the year.

Recommendation

Ensure arrangements are in place for notifying finance and valuation teams of the practical completion of capital works so that valuations can be carried out appropriately and assets recategorised at the correct date.

Management response

The timetable now includes this process.

Appendix A: Further information on our audit of the Council’s financial statements

Internal control observations for the Council (continued)

Description of deficiency

Our testing of exit packages noted that, for 24 of the 31 items sampled, although the amount disclosed in the note is consistent with the actual amount paid to the individual, there is a difference to the amount approved. The Council has confirmed that the variance was due to the 2023/24 pay award, which was not included in the approved exit package.

Potential effects

The Council has paid amounts different to those approved which may lead to error or dispute affecting the Council's reputation due to lack of transparency.

Recommendation

Ensure all exit packages are agreed, with confirmation that any pay awards should be included where there are timing differences between the approval date and the leaving date.

Management response

All exit packages are agreed by panel or via delegated decision based on the current costing and on (when applicable), the proviso that they will be subject to change following national pay award agreements. Pay offers remain subject to change whilst negotiations are undertaken, it is therefore the council’s approach to exclude this element within the costings presented for decision / approval. To ensure that this is communicated formally, the council will now include the ‘on proviso’ wording within the reports considered.

Description of deficiency

We noted an inconsistency between the salary disclosed for a key officer on the Council's website to the value disclosed in note 28 of the draft accounts .

Potential effects

Inaccurate or inconsistent salary disclosures can harm the Council's reputation. Stakeholders may perceive this as a lack of transparency

Recommendation

Ensure public communications channels are updated with the accurate information

Management response

The value within the Accounts correctly reflected the key officer’s salary. The website has been updated and process reviewed to ensure timely updates to the website in future.

Appendix A: Further information on our audit of the Council’s financial statements

Follow up on previous year recommendations for the Council

Description of deficiency

Our testing of Capital Grants and Contributions Receipts in Advance identified that the Home Loan Recycled Fund of £1.161m was incorrectly classified as a RIA

Potential effects

Misstatement of grant income

Recommendation

Review of Capital Grants and Contributions Receipt in Advance to ensure they are appropriately classified.

Current position

Entries to correct the prior year errors have been made in the 2023/24 accounts. No similar issues have been identified from our testing in the current year.

Description of deficiency

Our testing identified a small number of variances between PPE values input to the asset register and the values one of the external valuers' reports. Although the overall net misstatement was trivial, the variances for three individual assets were non-trivial but not material.

Potential effects

PPE balances are not completely or accurately reported in the Statement of Accounts. Valuation entries in the Revaluation Reserve and/or CIES are not fairly stated.

Recommendation

A reconciliation should be carried out between amounts recorded in the asset register and the Valuer(s) reports for all assets revalued in the year.

Current position

Entries to correct these errors have been made to the asset register and accounts in 2023/24.

However, we identified that the incorrect valuations for three assets had been input to the asset register as the external valuer's overall report had not been provided to the finance team. Therefore, this recommendation remains outstanding for follow up again as part of next year’s audit.

Management response

Agreed and appropriate measures will be implemented.

Appendix A: Further information on our audit of the Council’s financial statements

Follow up on previous year recommendations for the Council (continued)

Description of deficiency

Our testing of related party transactions identified three missing declarations of interest from councillors.

Potential effects

Our testing of related party transactions identified three missing declarations of interest from councillors.

Recommendation

Ensure all completed declarations of interests forms are obtained prior to the draft accounts being prepared.

Current position

No similar issues have been identified from our testing in the current year.

Appendix B: Further information on our audit of the Pension Fund’s financial statements

Significant risks and audit findings

As part of our audit of the Pension Fund, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Significant Risk 1 – Management override of controls</p> <p><u>Description of Risk</u> This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p><u>How we addressed the risk:</u> We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> • accounting estimates impacting amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements. <p><u>Audit Conclusion:</u> Our work has provided the required assurance, and we have no matters to report.</p>

Appendix B: Further information on our audit of the Pension Fund’s financial statements

Significant risks and audit findings (continued)

As part of our audit of the Pension Fund, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Significant Risk 2 – Valuation of Level 3 Unquoted Investments</p> <p><u>Description of Risk</u></p> <p>As at 31 March 2024, the fair value of investments classified within level 3 of the fair value hierarchy was £446.445m, accounting for 12.0% of the Fund’s net investment assets. These investments are not quoted on an active market, and their value is estimated using unobservable inputs, which increases the risk of material misstatement. The values of level 3 investments are provided by fund managers.</p>	<p><u>How we addressed the risk:</u></p> <p>In addition to our standard program for investments, we performed the following additional procedures:</p> <ul style="list-style-type: none"> • compared holdings from fund manager reports to the global custodian’s report; • agreed the valuation to supporting documentation including the investment manager valuation statements and cash flows for any cash adjustments made to the investment manager valuation; • agreed the investment manager valuation to audited accounts or other independent supporting documentation, where available; • where audited accounts were available, checked that they are supported by an unmodified opinion; • reviewed the valuation methodologies for reasonableness through review of valuation policies within audited financial statements and challenge of the fund manager, where necessary; <p><u>Audit Conclusion:</u></p> <p>We compared the holdings from the fund manager reports (BCPP, CBRE, Foresight) to those received from the custodian Northern Trust. For the fund manager CBRE, we identified differences in the holdings figures compared to Northern Trust and have reported this as an internal control deficiency in Section 5 of this report. We have no other issues to report.</p> <p>We have agreed the market values of investments held by the Fund to valuations provided by the fund managers. We have identified differences amounting to £8.048m when comparing market values for the Fund and the fund manager BCPP. This has been reported in Section 6. We have no other issues to report.</p> <p>We have compared the market values communicated by the fund managers to information provided by the custodian. We have identified differences in market values provided by the fund manager CBRE and the custodian and have reported these within Section 5 of this report. We have no other issues to report.</p> <p>We have reviewed the valuation methodologies provided by each fund manager and have no issues to report.</p>

Appendix B: Further information on our audit of the Pension Fund's financial statements

Summary of uncorrected misstatements for the Pension Fund

Management has assessed the misstatements in the table below as not being material, individually or in aggregate, to the financial statements and does not plan to adjust. We only report to you unadjusted misstatements that are either material by nature or which exceed our reporting threshold.

Details of adjustment	Fund Account		Net Asset Statement	
	Dr (£'000s)	Cr (£'000s)	Dr (£'000s)	Cr (£'000s)
Dr: Pooled Private Equity			3,501	
Dr: Pooled Private Credit			2,079	
Dr: Pooled Infrastructure			2,256	
Dr: Climate Opportunities			212	
Cr: Change in Market Value of Investments		8,048		
Being an adjustment to recognise the difference in the valuation of Level 3 investment between BCPP and the Pension Fund at 31 March 2024.				

Appendix B: Further information on our audit of the Pension Fund's financial statements

Summary of uncorrected misstatements for the Pension Fund (continued)

Management has assessed the misstatements in the table below as not being material, individually or in aggregate, to the financial statements and does not plan to adjust. We only report to you unadjusted misstatements that are either material by nature or which exceed our reporting threshold.

Details of adjustment	Fund Account		Net Asset Statement	
	Dr (£'000s)	Cr (£'000s)	Dr (£'000s)	Cr (£000's)
Dr: Book cost of investments Cr: Investment income Being an adjustment to remove reversals in investment income related to prior periods and allocate costs to the book costs of investments.		4,401	4,401	
Dr: Management expenses Cr: Book cost of investments Being an adjustment for differences in the book cost debited to transaction costs rather than the book value of investments.	6,335			6,335
Dr: Change in Market Value Cr: Investment assets Being an adjustment for distributions and rebates for private market investments with the fund manager BCPP.	2,783			2,783
Aggregate Effect of Unadjusted Misstatements	9,118	4,401	4,401	9,118

Appendix B: Further information on our audit of the Pension Fund's financial statements

Deficiencies in internal control for the Pension Fund - MEDIUM

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

During the course of the audit testing on Level 3 investments, we discovered differences in the reporting of holdings values by the fund manager, CBRE, and the Custodian, Northern Trust.

Our audit work identified that the report from the Custodian (Northern Trust) discloses a share/Par (nominal) value in the report which equates to the holdings value for some investments (9 of 18 tested in our sample) and the investment cost value for other investments (9 of 18 tested in our sample). Where we compared the share/Par value to the holdings value per CBRE, no significant differences (threshold: 100,000 and/or 5%) in the holdings' value were identified. However, for 8 investments where we compared the share/Par value to the investment cost, the difference exceeded our tolerable threshold.

Potential effects

The market value of investments is derived from calculating a net asset value (NAV) per units and multiplying by the number of units (holdings) held for a particular investment. If the holdings value were to be significantly over/undervalued, the difference in the market value could increase beyond trivial limits and, if applied to several investments, could give rise to a material misstatement in the Level 3 investments balances included in the financial statements of Durham County Council Pension Fund.

NB: we performed additional audit work to calculate an indicative error in the market value of Level 3 investments if the unit holdings per the custodian Northern Trust were to be used instead of those per fund manager CBRE. This identified an indicative error of £7.217m.

Recommendation

The Pension Fund accounting team should discuss the matter further with CBRE and Northern Trust to fully understand the reason for differences in the reporting of holdings values. There should be an ongoing review of all information communicated to DCCPF by CBRE and Northern Trust to ensure consistency between information provided.

Management response

We continue to work with both CBRE and Northern Trust to review all information communicated to DCCPF.

Appendix B: Further information on our audit of the Pension Fund's financial statements

Deficiencies in internal control for the Pension Fund - MEDIUM

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

During the course of our audit testing on Level 3 investments, we discovered that there are differences in the market value reported by the fund manager, CBRE, and the custodian, Northern Trust.

£15.901m of these differences are related to two securities: Healthcare Activos and CBRE Europe Logistics. While the Fund's accounts are consistent with the balances per CBRE, it is unclear why these balances do not agree with the figures reported by Northern Trust.

Management have followed this up with CBRE and Northern Trust, and have obtained the following explanations for the differences in market values:

1. Healthcare Activos

The difference for the reported market values for this investment is due to different market value per units being used by the fund manager vs Northern Trust. CBRE have used a market value of €2.60/unit and Northern Trust have used a market value of €1.33/unit. We have assessed the financial statements of Healthcare Activos and have calculated a market price of €2.66 /unit. This is consistent with the statement from CBRE at 31 March 2024.

Northern Trust confirmed the information they received from CBRE related to listed shares and that they are receiving a market price from the Spanish stock exchange for these daily. However, it remains unclear why the figure per the Spanish stock exchange differs from those in the CBRE capital statements and Healthcare Activos' financial statements.

2. CBRE Europe Logistics

CBRE have confirmed, in May 2022, CBRE Europe Logistics Venture was formed after a merger between two other funds: CBRE Logistics Venture and CBRE European Investment Fund. The Investment Value reported by CBRE (per CBRE's capital statement) as at 31/3/2024 is €11.4m. This is consistent with the value in DCCPF's accounts. We compared the figures to those within the report from Northern Trust (Custodian) which reported a market value of €1. DCCPF have queried this matter with both CBRE and NT to establish the reason for the difference. NT explained that they needed to amend their system to reflect that the 2 assets (CBRE Europe Logistics Partners and CBRE Logistics Venture) have merged. We can confirm that, in November 2024, the Pension Fund have provided information they have received from Northern Trust which indicates Northern Trust have amended their records to reflect the market value reported by the fund manager CBRE.

Potential effects

Information relating to the market value of investments at the year-end could be materially misstated in the Fund's financial statements.

Recommendation

Management should seek to obtain a better understanding of the information provided in the reports from CBRE and Northern Trust. Management should also conduct a regular (minimum quarterly) review of information received from CBRE and Northern Trust and, where any significant differences arise in the figures communicated from CBRE and Northern Trust, discuss the matter with the organisations to establish the reasons for the differences arising.

Management response

We continue to work with both CBRE and Northern Trust to review all information received. Regular reviews will be undertaken and a detailed review will be undertaken in connection with the Healthcare Activos Audit findings.

Appendix B: Further information on our audit of the Pension Fund's financial statements

Deficiencies in internal control for the Pension Fund - LOW

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

On a monthly basis, management review the value of all investments invested with each fund manager and reallocate funds according to their investment strategy. This is recorded and monitored on a spreadsheet in the first instance before a journal is posted to move balances between different funds. During our walkthrough of the Investments key business process, we reviewed the process for preparing and reviewing the journal for rebalancing investment transactions. While the journal had been created during the audit year, it had not been posted until April 2024.

We note that, from discussion with officers, the journals were being monitored in a spreadsheet (external to the GL) and the spreadsheet was updated each month. Therefore, a monthly check/control was in place throughout the period.

Potential effects

There is a possibility the transactions are not correctly recorded in the general ledger due to omission of journals which should have been posted. This could have a material impact on the investments balances reported in the Pension Fund's financial statements.

Recommendation

Journals to be prepared and posted to the general ledger on a timely basis following the rebalancing transactions being recorded in the spreadsheet used to track the transactions.

Management response

Due to a staff shortages, this journal was posted at year end instead of earlier in the year. Moving forward, all journals will be posted as part of the monthly reconciliation process. We have reviewed our processes and determined that, in the event where there is a repeat of this staff absence, the journal will instead be prepared by the Principal Accountant and authorised by the Finance Manager.

Appendix B: Further information on our audit of the Pension Fund’s financial statements

Deficiencies in internal control for the Pension Fund - LOW

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

The December 2023 reconciliation for the fund manager CBRE was carried out by the Principal Accountant on 29 February 2024. The reconciliation directly reconciles book value of investments per general ledger to the fund manager’s reports.

Due to staff shortages, this reconciliation was undertaken as part of the year-end closedown process by senior team staff so it was not checked and authorised by another senior employee.

Potential effects

There is a possibility the transactions are misreported, and this could have a material impact on Pension Fund financial statements.

Recommendation

Monthly reconciliations, reviewed and authorised by an appropriate level employee, are to be reinstated as a monthly activity.

Management response

Due to staff long-term absence, this journal was posted as part of the year end closedown process. The reconciliation will be reinstated as a monthly exercise going forward, with clear authorisation included.

Appendix B: Further information on our audit of the Pension Fund’s financial statements

Deficiencies in internal control for the Pension Fund - LOW

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

There is an annual reconciliation of the market value of investments from fund manager statements to statements from the custodian. This reconciliation should be signed as prepared and reviewed. When we reviewed the reconciliation as part of our walkthrough of critical business processes, we observed that the reconciliation had not been signed as being prepared and reviewed as expected.

Potential effects

There is a possibility that misstatements are carried through the reconciliation as they have not been sufficiently reviewed, which may in turn lead to misstatements in the figures reported for the purchases, sales and market value of investments reported in the Pension Fund's accounts.

Recommendation

Management should ensure that an appropriate member of staff reviews the reconciliation once prepared and records evidence of this review on the reconciliation document.

Management response

Due to staff long-term absence, the reconciliation was prepared by senior team staff. Reviews of the reconciliation will be reinstated as a monthly exercise going forward with clear authorisations processes included.

Appendix B: Further information on our audit of the Pension Fund’s financial statements

Deficiencies in internal control for the Pension Fund - LOW

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

From the most recent Data Protection Policy document reviewed as part of our audit, we noted this was last reviewed in June 2021. Per the document, the next review was due on 28 June 2023. Management have confirmed the review was not completed in 2023 due to staffing shortages. We however note that the Data Protection Review Policy also states it should be reviewed at least every 3 years, so this is within expected timescales at 31 March 2024.

Potential Effects

The policy may be out of date and may not include required amendments and updates regarding the Council's approach to ensuring data protection.

Recommendation

Management should ensure the Data Protection Policy is reviewed in line with the timescales contained within the Data Protection Policy document.

Management response

The Policy review commenced in September 2024. We can confirm that the Data Management team have employed a new member of staff who will be looking to review and update a number of policies in the coming weeks, including the Data Protection Policy.

Appendix B: Further information on our audit of the Pension Fund's financial statements

Follow up on previous internal control points for the Pension Fund - MEDIUM

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

Description of deficiency

During the course of the audit testing on Level 3 investments, we discovered that there are differences in the reporting of holdings values by the fund manager, CBRE, and the Custodian, Northern Trust.

There is currently no reconciliation of the holdings values communicated by the fund managers to those reported by the custodian.

Potential effects

The market value of investments is derived from calculating a net asset value (NAV) per units and multiplying by the number of units (holdings) held for a particular investment. If the holdings value were to be significantly over/undervalued, the difference in the market value could increase beyond trivial limits and, if applied to a large number of investments, could give rise to a material misstatement in the Level 3 investments balances included in the financial statements of Durham County Council Pension Fund.

Recommendation

The Pension Fund accounting team should discuss the matter further with CBRE and Northern Trust to fully understand the reason for differences in the reporting of holdings values. There should be an ongoing review of all information communicated to DCCPF by CBRE/Northern Trust to reconcile the information provided.

Management Response

Officers will discuss with NT and CBRE our end user requirements from reporting. Further work via the Pool will also be fed back into this action.

2023/24 update

Management have contacted CBRE and Northern trust regarding the differences in holdings figures and their associated market values communicated by each party. Work performed to date has helped to establish the reasons for differences in communicated figures, particularly for CBRE European Logistics Venture and Healthcare Activos. However, there are still differences in information that need to be resolved. Consequently, this has been retained as a deficiency for the current year. Management should continue to discuss the issues with CBRE and Northern Trust and consider implementing a reconciliation to check for any differences in communicated information from Northern Trust and CBRE on a quarterly basis.

Appendix B: Further information on our audit of the Pension Fund's financial statements

Follow up on previous internal control points for the Pension Fund - MEDIUM

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

Description of deficiency

During the course of our audit work, we attempted to agree the balances for the book (holdings) value of Level 3 investment assets per the Pension Fund's records to balances per the confirmations received from the fund manager Border to Coast Pensions Partnership (BCPP) and the custodian Northern Trust. There were significant differences between the figures per BCPP and Northern Trust, so it was unclear what the correct value was for the book cost/holdings value of these investments.

Potential effects

Information relating to the market value of investments and holdings at the year-end could be materially misstated in the Pensions Fund's financial statements.

Recommendation

The Pension Fund accounting team should seek to obtain an improved understanding of the information provided in the reports from BCPP and Northern Trust. The Pension Fund should also conduct a regular review of information received from BCPP and Northern Trust and, where any significant differences arise in the figures communicated from BCPP and Northern Trust, discuss the matter with the organisations to establish the reasons for the differences arising.

Management Response

Discussion has commenced with BCPP regarding our end user reporting requirements. A wider action plan is now being developed in which both DCC and BCPP officers will discuss separately with Northern Trust the overall system reports requirement. We have also commenced networking groups with other pension authorities to identify best practice and report change requirements requests to both BCPP and Northern Trust.

2023/24 update

Management have made significant progress with this during the year, liaising with both BCPP and with partner Pension Funds to better understand any differences in holdings values (book cost) communicated by BCPP and Northern Trust. A comparison of the holdings/book cost values communicated by BCPP and those per Northern Trust for 31 March 2024 gave an indicative difference in market value of £0.614m,. This is within the trivial limits and no further issues are arising in 2023/24.

Appendix B: Further information on our audit of the Pension Fund’s financial statements

Follow up on previous internal control points for the Pension Fund - LOW

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

Description of deficiency

As part of the Pension Fund's control environment for contributions receivable, the accounting team prepare a year-end reconciliation between the cashbook and GL. This reconciliation is expected to be reviewed and authorised by a senior officer. When we obtained a copy of the reconciliation, we were unable to establish if this review had been completed by a senior officer.

Potential effects

There is a risk that the year-end reconciliation may not be accurate and the contributions receivable figure may not agree to cash book records. This could mean the figure for contributions receivable is not appropriately stated within the Fund's financial statements.

Recommendation

The accounting team should ensure the year-end reconciliation is reviewed by a senior officer and this review is evidenced on a copy of the reconciliation control document.

Management Response

Year-end process reflection is diarised for December 2023. This recommendation will be included in the discussion points.

2023/24 update

From a review of the reconciliation for the year ended 31 March 2024, the reconciliation of the cash book and the GL had been signed and approved by appropriate officers. Therefore, no issues arising in respect of this issue in 2023/24.

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