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17 November 2022

Dear Members of the Audit and Finance Committee

#### Update/conclusion of pending matters– Audit Completion Report

As required by International Standards on Auditing (UK), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report dated 20 September 2022.

The outstanding matters and the conclusions we reached are detailed below:

Matter	Update/conclusion reached	Status				
Pensions	<p>We have now completed our work on pensions, and in particular, we have received the assurance letter from the auditor of Durham County Pension Fund.</p> <p>The Pension Fund auditor reported unadjusted differences totalling £6.5m between the value of investments in the Fund's draft financial statements and those provided by fund managers, the values in the draft financial statements being less than those provided by fund managers. This is not material for the Authority as your share of the unadjusted difference (based on 0.79% share of assets) would be £51,350. The impact on the financial statements is set out below:</p> <table> <tr> <td>Dr Pensions liability</td> <td>£51,350</td> </tr> <tr> <td>Cr Pension reserve</td> <td>£51,350</td> </tr> </table>	Dr Pensions liability	£51,350	Cr Pension reserve	£51,350	Complete
Dr Pensions liability	£51,350					
Cr Pension reserve	£51,350					

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We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861.

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Matter	Update/conclusion reached	Status
Including reviews of completed work, checking the final version of the financial statements and consideration of any post balance sheet events.	Our review and closure procedures have now been completed apart from a review of post balance sheet events and the management representation letter. There are no further matters to report.	Ongoing up to the date of the opinion.

### Internal Control Recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
<b>1 (high)</b>	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
<b>2 (medium)</b>	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	0
<b>3 (low)</b>	In our view, internal control should be strengthened in these additional areas when practicable.	2

We have identified 2 deficiencies relating to IT general controls at Durham County which are utilised by the Authority. However, we are satisfied that there is no significant impact on our audit approach. The management comments below are those of Durham County officers.

## **Description of deficiency – segregation of duties – Level 3**

It was identified that a segregation of duties control is not implemented within Durham County Council's change environment. The same group of IT personnel from the Finance Team have both access to develop and implement changes.

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### **Potential effects**

Lack of segregation of duties may result in data integrity and functionality provided by the application being compromised. Unauthorised/inappropriate changes may be migrated to the production environment, which may compromise system stability. This may further lead to system downtime and business disruption.

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### **Recommendation**

Management should ensure that the access to production, test and development environments is segregated. IT access to production databases should be restricted and monitored on regular basis.

IDs should be created for the programmers without having access to the production environment. Changes should be implemented in the production environment after testing by the person independent of development responsibilities to prevent any unauthorised changes being made.

A Segregation of Duties (SOD) matrix should also be maintained which lists the users and their profiles. The SOD matrix should be updated and reviewed on periodic basis.

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### **Management comments**

All changes are documented and reviewed independently of the developer by the Principal Accountant (Systems) prior to implementation and depending upon the change, the required action may be and is in many cases undertaken by another member of staff such as the applications DBA.

However, to address the weakness identified, changes will be applied to production by a staff member other than by the person who developed/requested the change. This will be recorded on the change request register. Developers require production access to assist the support team with debugging issues and working with support partners running scripts etc.

A SOD matrix will be created and maintained setting out users and the duties they are responsible for.

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## Description of deficiency – policies and procedures – Level 3

We were unable to obtain formally documented and approved policy/procedure documents around the controls for the below areas for audit verification:

- Change management (including segregation of access) – No formalised policy exists
- User access management (creation, modification, deletion, privileged access, generic account management, user access review) – No formalised policy exists
- Password management – No formalised policy exists
- Backup and Restoration – No formalised policy exists
- Incident management – No formalised policy exists

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### Potential effects

Lack of standardised procedures may weaken the overall control environment.

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### Recommendation

Management should define formal policies and procedures covering the key IT process areas in the organisation. The formalised processes and procedures should be implemented to standardise operations and monitored to identify any deviations.

A periodic review of these documents should be performed (at least once a year) to ensure their alignment to the management's intent and industry best practices.

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### Management comments

Agreed, formal policy documents will be created and maintained.

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There was one deficiency to follow up for the Authority from 2020/21 and this has been updated below.

## **Description of deficiency – Level 2**

**Backups:** Backups have been tested during the period but there was no documentation to support this. Furthermore, since this was a test of the network data only, it did not extend to applications.

**Disaster Recovery:** Disaster recovery arrangements have not been tested in the audit period but we understand they are due to be completed in late 2021.

**User accounts:** User accounts have not been reviewed in the audit period.

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## **Potential effects**

**Backup and Disaster Recovery:** Failure of IT systems or a cyber attack could result in loss of data.

**User accounts:** Inappropriate users have access to systems.

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## **Recommendation**

Backups and Disaster Recovery should be tested on a regular basis and action taken where required.

User accounts should be reviewed on a regular basis to ensure that accounts are still valid and have appropriate access rights.

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## **2021/22 Update**

### **Backups**

Each backup is checked for integrity and verified following successful completion. Any faults are reported to the ICT Manager via a daily report, including failures. Additionally, recovery tests are carried out monthly by our ICT Managed Service data centre team and outcomes are reported back to the ICT Manager.

### **Disaster Recovery**

Disaster Recovery arrangements and plans are tested annually as a minimum. Areas covered are, failure of systems, loss of key locations and cyber response. Outcomes are reported to the ICT Manager and Protective Security Group.

### **User Accounts**



User accounts are reviewed hourly via a link between the HR system (Firewatch) and active directory. New starters and leavers are automatically logged via the ICT Service Desk for action. Additionally a weekly report is sent the ICT Manager to identify discrepancies.

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## Current status of our audit work

At the time of preparing this update letter, we intend to issue an unqualified audit opinion, without modification, on the financial statements. We plan to issue our opinion on the day of the Audit and Finance Committee meeting on 30 November 2022.

At the time of preparing this update letter, the following matters remain outstanding, which as we have explained will be reported at a later date:

Audit area	Status	Description of outstanding matters
Value for money commentary		We are yet to complete our work in respect of the Authority's arrangements for the year ended 31 March 2022. However, we expect to report in our Auditor's Annual Report that there are no significant weakness in arrangements.
WGA		We have not yet received group instructions from the National Audit Office and are unable to complete our work in relation to both 2020/21 and 2021/22.

### Status

-  Likely to result in material adjustment or significant change to disclosures within the financial statements
-  Potential to result in material adjustment or significant change to disclosures within the financial statements
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will inform the Authority of any further matters when we have completed the value for money and whole of government accounts formally closing the audit of County Durham and Darlington Fire and Rescue Authority. This will be reported in our Auditor's Annual Report.

If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours faithfully

*Gavin Barker*

**Gavin Barker**  
Director